COOPERATIVE OF AMERICAN PHYSICIANS

Providing best-in-class medical professional liability protection

2013 ANNUAL REPORT

COOPERATIVE OF AMERICAN PHYSICIANS

STATEMENT OF PRINCIPLES

Through its core product, Mutual Protection Trust (MPT), the Cooperative of American Physicians, Inc. (CAP) provides the best possible medical professional liability protection and related services, maintaining the highest ethical standards in a climate of constant improvement.

Our physician members receive services which are satisfying, dependable, effective, economical, and valuable.

We continually develop knowledge and resources that meet the changing legal, societal, and medical environment.

The organization's commitment to financial integrity justifies the continuing confidence of our members.

All business is conducted in accordance with federal, state, and local regulations.

Membership decisions and the disposition of claims are reached by boards and committees of member physicians.

Our decisions are reached with information that assists us in **(1)** reducing the risks associated with operating a medical practice and **(2)** enhancing patient care.

Our employees are committed to excellence and continuous quality improvement.

Our leadership provides an atmosphere of collaboration, recognition, and fair compensation.

Our dedication to our members, employees, business partners, and the public at large is exemplified by our accountability, innovation, integrity, and a commitment to quality of the highest order.

CHAIRS' AND CEO'S MESSAGE

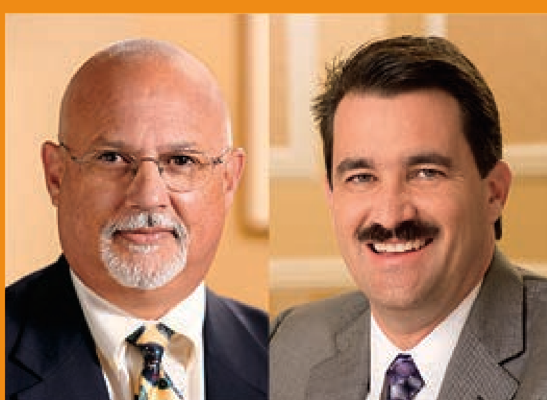
And so the Affordable Care Act commences. Marred by computer glitches and delayed mandates. Burdened by hard divisions among policymakers and mixed feelings within the populace. Boosted by the number of Americans getting new health care coverage, tempered by doubts over sustainable risk pools.

But for the health care community, there's something to be said about no longer *anticipating* monumental change but actually *participating* in it. We're no longer faced simply with the great unknown (though much is still not known) but are handling the challenges here and now.

At the Cooperative of American Physicians, 2013 brought to reality a strategy that allows us to answer the needs of a larger spectrum of health care providers than ever before. With zealous dedication to preferred physicians who cherish their independence as a given, CAP now extends its provider-centric approach to very large physician groups and even hospitals and other facilities.

Juan Carlos Cobo, MD
Chair, Mutual Protection Trust

Béla S. Kenessey, MD
President and Chair,
Cooperative of American Physicians, Inc.



With the creation of the CAPAssurance Risk Purchasing Group, CAP provides the keys for large groups and hospitals to access the benefits previously available only to physicians participating in our long-standing core product, the Mutual Protection Trust. And it is not just CAP's professional staff and services that make CAPAssurance different. It is also the financial strength of the new program's insurance partner that is getting attention in the market.

Importantly, CAPAssurance is a uniquely CAP product. We listen to what providers need and have the flexibility to tailor the risk purchasing group's product to meet the needs of large groups, hospitals, and other health care facilities. When there's a claim, claims specialists and litigation lawyers with decades of experience defending health care providers are there to respond. And to keep future claims from even happening, CAP's risk management and patient safety professionals bring new resources to the risk managers on staff at hospitals and large physician groups.

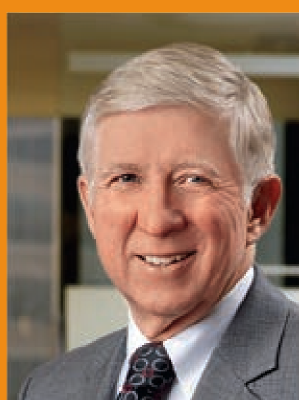
CAPAssurance also provides growth opportunities for CAP's subsidiary insurance company, the Cooperative of American Physicians Insurance Company, Inc. (CAPIC). CAPIC, domiciled in Hawaii since its creation in 2002, has provided MPT with reinsurance backing, but now is also a key component of the CAPAssurance program by providing reinsurance at various levels. CAPIC's important new role in CAPAssurance is the result of its solid financial footing coupled with a structure that allows for great flexibility. With equity at a new high level, CAPIC's continued A- (Excellent) rating from A.M. Best reflects its ability to maintain core financial discipline while meeting the needs of new practice arrangements.

At the same time, we're maintaining our focus on giving physicians and their entities that are part of the Mutual Protection Trust the tools – and the pricing – they need to provide the best medical care to their patients. Once again earning an A+ (Superior) financial rating from A.M. Best, MPT has combined high case-closure ratios and flat payments on claims to allow for an assessment that saw no increase for the membership as a whole from 2012.

In 2013, the CAP Board of Directors thanked a long-standing leader for his service and welcomed a new Board chair. After eight years as Board chair and CAP president and decades of service in other CAP roles, John Ingram, MD, retired from the Board of Directors to devote more time to his medical practice in Long Beach. Elected in July by his fellow directors as chair and CAP president, family physician Béla S. Kenessey, MD, brings his experience leading the Northern California Claims Review Committee and the Practice Management Services Committee to the task of building on CAP's strengths for the future. Elected to the Board in July is Dr. Gregory Lizer, a pediatrician in La Cañada-Flintridge. Also, elected by the directors to fill the vacancy left at year-end by the retirement of David Sievers, MD, is Sheilah Clayton, MD, a general surgeon in Pasadena.

In our annual message, we often stress the importance that California's Medical Injury Compensation Reform Act (MICRA) has on the health of our state's residents. In 2013, the ancillary attacks made in years past by MICRA's opponents in the Legislature gave way to an all-out effort by personal injury lawyers and their allies to wipe out by ballot measure California's most effective method to keep health care affordable, MICRA's $250,000 limit on noneconomic damages in lawsuits against health care providers. In making their pitch, supporters of the initiative ignore the fact that MICRA allows *unlimited* compensation for actual economic damages and instead cloak their ultimate goal of higher trial verdicts and fees with distracting provisions that only appear to promote patient safety.

James L. Weidner
Chief Executive Officer



CAP's response to these tactics has been swift and sustained and the membership's support for your organization's actions runs deep. Working as one, the health care community can thwart this latest attack on California's model legislation that balances the need to keep doctors' offices open while providing fair compensation for injuries.

Just like the long-building attack on MICRA, the challenges we all face are no longer abstract, but instead require action. The waiting is over. CAP and its members are not simply prepared for a new era, they are working hard to thrive in it.

That is something that should come as a surprise to no one.

Béla S. Kenessey, MD,
President and Chair,
Cooperative of American Physicians, Inc.

Juan Carlos Cobo, MD
Chair, Mutual Protection Trust

James L. Weidner
Chief Executive Officer

COOPERATIVE OF AMERICAN PHYSICIANS, INC.

2013 Financial Reports

COOPERATIVE OF AMERICAN PHYSICIANS, INC. (CAP) AND SUBSIDIARIES AND
MUTUAL PROTECTION TRUST (MPT)

Report to the Membership

BY THE CAP AND MPT AUDIT COMMITTEE

The consolidated financial statements of CAP, the financial statements of MPT, and related financial information included in this annual report, have been prepared by CAP and MPT, whose management is responsible for its integrity. These financial statements, which necessarily reflect estimates and judgments have been prepared in conformity with U.S. generally accepted accounting principles.

The financial statements as of and for the years ended December 31, 2013 and 2012 have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports appearing on pages 7 and 25.

CAP and MPT maintain a system of internal controls to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded.

The Audit Committee, which consists solely of members who are not employees of the Company, meets periodically with management and the independent auditors to review the scope of their activities and to discuss internal controls and financial reporting matters. The independent auditors have full and free access to the Audit Committee and meet with the Committee both with and without the presence of Company management.

This report will be filed with the Department of Corporations with a statement from the Board of Trustees that this report was prepared from the official books and records of CAP and MPT.

Glenn Weissman MD

Glenn Weissman, MD
Chair
CAP and MPT Audit Committee
March 17, 2014

Report of Independent Auditors

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

BOARD OF DIRECTORS
COOPERATIVE OF AMERICAN PHYSICIANS, INC.

We have audited the accompanying consolidated financial statements of the Cooperative of American Physicians, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Cooperative of American Physicians, Inc. and Subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Chicago, Illinois
March 17, 2014

Consolidated Balance Sheets

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	December 31 2013	December 31 2012
ASSETS		
Cash and cash equivalents	$ 7,256,000	$ 8,427,000
Fixed income securities, at fair value	29,468,000	29,363,000
Equity securities, at fair value	4,029,000	1,337,000
Income taxes receivable	289,000	252,000
Premiums receivable	2,721,000	2,781,000
Funds held by reinsured	538,000	—
Receivable from affiliated entities	1,709,000	329,000
Receivable for claims and risk management services	327,000	—
Other assets	1,420,000	781,000
	$47,757,000	$43,270,000
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Reserves for losses and loss adjustment expenses	$12,988,000	$10,513,000
Payable to affiliated entities	295,000	247,000
Dues received in advance	945,000	939,000
Deferred tax liabilities, net	25,000	192,000
Unearned premiums	700,000	33,000
Unearned claims and risk management services	126,000	—
Premiums payable	3,651,000	3,646,000
Accounts payable and other liabilities	3,672,000	2,686,000
	22,402,000	18,256,000
Commitments (see Note 8)		
Total Members' Equity:		
Members' equity	24,864,000	24,162,000
Accumulated other comprehensive income	491,000	852,000
	25,355,000	25,014,000
	$47,757,000	$43,270,000

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Years Ended December 31 2013	2012
Revenues		
Member and participant dues	$ 3,192,000	$ 3,019,000
Claims and risk management service revenues	42,923,000	25,828,000
Premiums earned	5,343,000	6,001,000
Commissions earned	1,670,000	1,316,000
Investment income, net	841,000	839,000
Ancillary service revenues	14,000	31,000
Administrative fee	60,000	60,000
Total Revenues	54,043,000	37,094,000
Expenses		
Salaries and related expenses	28,328,000	18,262,000
Other operating costs	20,024,000	12,743,000
Losses and loss adjustment expenses	4,659,000	4,040,000
Total Expenses	53,011,000	35,045,000
Income Before Income Taxes	1,032,000	2,049,000
Income Tax Expense	330,000	780,000
Net Income	702,000	1,269,000
Other Comprehensive (Loss) Income, Net		
Net unrealized (losses) gains on securities available-for-sale, net of taxes	(361,000)	322,000
Comprehensive Income	$ 341,000	$ 1,591,000

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Members' Equity

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Members' Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at January 1, 2012	$22,893,000	$ 530,000	$23,423,000
Net Income	1,269,000	—	1,269,000
Other Comprehensive Income (net of deferred income taxes of $166,000)	—	322,000	322,000
Balance at December 31, 2012	24,162,000	852,000	25,014,000
Net Income	702,000	—	702,000
Other Comprehensive Loss (net of deferred income taxes of $186,000)	—	(361,000)	(361,000)
Balance at December 31, 2013	$24,864,000	$ 491,000	$25,355,000

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Years Ended December 31	
	2013	2012
Operating Activities		
Net income	$ 702,000	$ 1,269,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on fixed income securities	310,000	316,000
Net realized investment gains	(67,000)	(38,000)
Deferred income taxes	19,000	147,000
Changes in operating assets and liabilities:		
Income taxes receivable	(37,000)	(191,000)
Premiums receivable	60,000	(2,192,000)
Funds held by reinsured	(538,000)	—
Receivable from affiliated entities	(1,380,000)	(287,000)
Receivable for claims and risk management services	(327,000)	—
Other assets	(639,000)	104,000
Reserves for losses and loss adjustment expenses	2,475,000	1,588,000
Payable to affiliated entities	48,000	(527,000)
Dues received in advance	6,000	(65,000)
Premiums received in advance	—	(2,404,000)
Unearned premiums	667,000	(2,000)
Unearned claims and risk management services	126,000	—
Premiums payable	5,000	2,380,000
Accounts payable and other liabilities	986,000	48,000
Net Cash Provided by Operating Activities	2,416,000	146,000
Investing Activities		
Purchases of fixed income and equity securities	(10,731,000)	(5,497,000)
Proceeds from sale or maturity of fixed income and equity securities	7,144,000	4,755,000
Net Cash Used In Investing Activities	(3,587,000)	(742,000)
Net Change in Cash and Cash Equivalents	(1,171,000)	(596,000)
Cash and Cash Equivalents at Beginning of Year	8,427,000	9,023,000
Cash and Cash Equivalents at End of Year	$ 7,256,000	$ 8,427,000

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 1: Organization

The Cooperative of American Physicians, Inc. (CAP) was incorporated in 1975 for the purpose of providing various services relating to the general and professional welfare of its membership, which is comprised exclusively of physicians and surgeons licensed to practice in California. On January 1, 2013, physician members of the Hawaii Association of Physicians for Indemnification (HAPI), a group of physicians and surgeons licensed to practice in Hawaii, became non-voting participants in CAP and receive certain benefits from CAP pursuant to an agreement. More recently, in the third quarter of 2013, additional non-voting participants were added through the new CAPAssurance Program, which is more fully described below.

CAP formed Mutual Protection Trust (MPT) in 1977 in accordance with California legislation enacted in 1976 permitting the formation of such interindemnity arrangements to provide medical professional liability protection for physicians. MPT is a separate legal entity governed by its Board of Trustees. Physicians covered by MPT are required to be members of CAP.

In April 2013, CAP formed CAPAssurance, A Risk Purchasing Group, a non-profit, unincorporated association established to allow large physician groups, hospitals, and facilities, access to a medical professional liability insurance product. As a risk purchasing group, CAPAssurance is not a subsidiary of CAP and is comprised of physician groups and medical facilities that purchase their liability insurance through CAPAssurance. Insurance under the program is provided by a national medical professional liability insurance company, with certain risk management, claims administration, and other policy services provided by CAP under agreements that became effective in March 2013 for hospitals and July 2013 for large physician groups (collectively the "CAPAssurance Program") (see Note 2). Physicians and medical facilities that are insured through the CAPAssurance Program can access various benefits of CAP as non-voting participants. CAP, with the CAPAssurance Program, can now better serve larger medical groups with professional liability coverage either through an insurance product or through the interindemnity arrangement provided by MPT.

In 2002, CAP formed the Cooperative of American Physicians Insurance Company, Inc. (CAPIC), a wholly owned subsidiary domiciled in the state of Hawaii under that state's captive insurance statutes. The primary purpose of CAPIC is to offer supplemental reinsurance and insurance coverage to its affiliate MPT and supplemental insurance coverage to CAP.
In December 2011, CAPIC received approval from the state of Hawaii to be re-licensed as a Class 3 risk retention captive insurance company effective January 1, 2012, and the name was changed to Cooperative of American Physicians Insurance Company, Inc., a Risk Retention Group as it relates to operations after December 31, 2011. As a risk retention group, CAPIC, in addition to its current products, offered medical professional liability insurance coverage and targeted larger physician medical groups. In the second quarter of 2013, CAP determined that larger physician medical groups could be better served through an insurance product provided by a larger national medical professional liability insurance company and managed by CAP. This made it unnecessary for CAPIC to operate as a risk retention group and so on May 23, 2013 CAPIC was re-licensed to a Class 4 sponsored captive insurance company. Under its new license, CAPIC entered into a pro-rata reinsurance agreement with the insurance company providing insurance coverage for the CAPAssurance Program and thereby participates in the underwriting results. Under the reinsurance agreement, CAPIC participates on a pro-rata basis at rates that vary based on the type of insured covered by the policies. The policy acquisition costs and claims administration expenses of the insurance company on these policies are also reimbursed by CAPIC on the same pro-rata basis per the terms of the reinsurance agreement. CAPIC amortizes these expenses over the related policy term. These expenses include certain claims administration and other policy services provided by CAP to the insurance company under the CAPAssurance Program. CAPIC is consolidated in the operations of CAP.

In 2006, CAP formed the Cooperative of American Physicians Insurance Services, Inc. (CAPIS), a wholly owned subsidiary domiciled in Delaware, and licensed as a broker-dealer by the Financial Industry Regulatory Authority. CAPIS provides CAP and its affiliate, MPT, with an alternative distribution channel for both the products offered by CAP and the medical professional liability protection services of MPT. Operations commenced in 2007 and are consolidated with the operations of CAP.

In 2007, CAP formed the CAP Physicians Insurance Agency, Inc. (CAP Agency), a wholly owned subsidiary of CAP domiciled in California, which provides access to business and other coverages for CAP members and participants. The operations of CAP Agency are consolidated with the operations of CAP. Beginning in the second quarter of 2011, CAP Agency expanded its operating capabilities under its group disability and life program through an agreement with an insurance company that became effective January 1, 2011. Under the agreement, CAP Agency assumed the agency billing obligations

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 1: Organization (continued)

that were formerly handled by another company. More recently, the group disability and life program was transferred to another insurance carrier effective January 1, 2013 and CAP Agency continues to perform the billing obligations under the new program.

In 2003, CAP entered into a patent licensing and consulting agreement, which authorizes the use of CAP's claims-paid insurance policy form and intellectual knowledge to a third party. Under this agreement, CAP receives royalty payments based on a percentage of premiums earned.

Effective January 1, 2010, CAP and MPT entered into an administrative and management services agreement whereby CAP provides membership, claim, risk management, financial, and other administrative and management services to MPT. Under the terms of the services agreement, certain employees of MPT were transferred to CAP, where they now perform services for MPT as provided for in the agreement. CAP receives monthly fees from MPT for these services. Effective January 1, 2013, MPT and CAPIC entered into a services agreement whereby CAPIC provides claims legal defense services to MPT physicians. MPT pays CAPIC monthly fees for these services that are based on actual costs incurred (see Note 6).

CAP sponsors the CAP State Political Action Committee and the CAP Federal Political Action Committee, which solicit and accept donations from members of CAP and make contributions in support of candidates for public office. CAP also maintains the Cooperative of American Physicians State Independent Expenditure Committee and the Cooperative of American Physicians Federal Independent Expenditure Committee, which participate in independent expenditure candidate campaigns. These committees are subject to laws and regulations of the State of California and the federal government.

Note 2: Summary of Significant Accounting Policies

BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements of CAP and its wholly owned subsidiaries, CAPIC, CAPIS and CAP Agency (collectively, the Company), have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). This basis of accounting requires the use of management estimates that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates. Intercompany transactions and balances have been eliminated in consolidation.

The expenses of CAP are incurred on behalf of its members and participants, MPT, and the political action committees. For certain membership benefit expenses, CAP is reimbursed by MPT. Ancillary service revenues include royalties under certain license agreements. Membership dues are $250 per member. For participants, the dues vary based on the benefits selected by such participants.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term highly liquid investments with original maturities of three months or less and are principally stated at amortized cost.

INVESTMENTS

Investments are classified as available-for-sale and are carried at fair value. Transfers between fair value hierarchy levels 1, 2, or 3 are recognized on the actual date that the circumstances that caused the transfer to occur. Unrealized gains and losses are accounted for, net of tax, as a component of accumulated other comprehensive income in members' equity. Realized gains and losses from sales transactions occurring during the year are recognized in operations using the specific identification method. Unrealized gains and losses are determined using the specific identification method. Investment income is recorded as earned. Premiums and discounts on investment securities are primarily amortized using the interest method over the estimated lives of the investments. Adjustments for other-than-temporary market declines are recorded when determination of loss is probable and is reported as a write-down of cost or amortized cost to fair value.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and fixed income securities. The Company places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to fixed income securities are limited due to the large number of such investments and their distribution across many different sectors. The Company's investments in federal agency securities are considered to have an implicit guarantee as to principal from the U.S. government and are considered to have minimal credit risk.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value amounts, defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and in these notes:

Cash and cash equivalents, premiums receivable, funds held by reinsured, receivable from affiliated entities, receivable for claims and risk management services, payable to affiliated entities, dues received in advance, premiums payable, accounts payable and other liabilities. The carrying amounts for these financial instruments as reported in the accompanying consolidated balance sheets approximate their estimated fair values.

Investments. The Company determines the fair value of its financial instruments based on the fair value hierarchy established in Accounting Standards Codification (ASC) 820, which requires an entity to disclose the use of observable inputs and minimize the use of unobservable inputs for measuring fair value. Estimates of fair value measurements for these securities are estimated using relevant inputs, including available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additionally, an Option Adjusted Spread model is used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities.

Each asset class is evaluated based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

This method of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, the Company would be required to produce an estimate of fair value using some of the same methodologies, but would have to make assumptions for market based inputs that are unavailable due to market conditions.

Because the fair value estimates of most fixed income securities are determined by evaluations that are based on observable market information rather than market quotes, most estimates of fair value for fixed income securities are based on estimates using objectively verifiable information and are included in the amount disclosed in Level 2 of the hierarchy. The value of states and municipalities, corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities is based on the observable market information and as such, is included in the Level 2 hierarchy. Level 1 is limited to unadjusted quoted prices in active markets for identical instruments and includes all equity securities.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

The following table presents investments on the accompanying consolidated balance sheet that are stated at fair value and the fair value measurements used as of December 31, 2013 and 2012:

	Total	Level 1	Level 2
DECEMBER 31, 2013			
Fixed income securities			
States and municipalities	$10,468,000	$ —	$10,468,000
Corporate	6,362,000	—	6,362,000
Residential mortgage-backed securities	6,862,000	—	6,862,000
Commercial mortgage-backed securities	3,720,000	—	3,720,000
Asset-backed securities	2,056,000	—	2,056,000
Total fixed income securities	29,468,000	—	29,468,000
Equity securities: mutual funds	4,029,000	4,029,000	—
Total fixed income and equity securities	$33,497,000	$4,029,000	$29,468,000
DECEMBER 31, 2012			
Fixed income securities			
States and municipalities	$ 9,886,000	$ —	$ 9,886,000
Corporate	6,362,000	—	6,362,000
Residential mortgage-backed securities	8,638,000	—	8,638,000
Commercial mortgage-backed securities	1,874,000	—	1,874,000
Asset-backed securities	2,603,000	—	2,603,000
Total fixed income securities	29,363,000	—	29,363,000
Equity securities: mutual funds	1,337,000	1,337,000	—
Total fixed income and equity securities	$30,700,000	$1,337,000	$29,363,000

There were no securities at December 31, 2013 or 2012 whose fair value measurements were based on Level 3: Unobservable inputs.

There were no significant transfers in and out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2013 or 2012.

REVENUES

Dues: Members' dues are recognized on January 1 of each year and earned ratably over the year. For participants, dues are recognized on a pro rata basis over the related agreement or insurance policy term.

Claims and risk management service revenues: These services are comprised primarily of services provided to MPT and to an insurance company pursuant to the CAPAssurance Program (see Notes 1 and 6). In 2012, substantially all of these revenues were for services provided to MPT. Claims and risk management services to MPT are recognized as earned, and are derived under agreements to provide certain administrative, claims legal defense, and management services. For all services except claims legal defense, revenues are determined based on actual expenses incurred plus a margin. The calculation of expense to MPT is based on the ratio of assessments, dues and revenues of MPT to total assessments, dues and revenues of the Company and MPT combined. The Company excludes revenues from this administrative and management services agreement in calculating this ratio. The claims legal defense services revenues are determined based on actual costs incurred and represent services provided by CAPIC to MPT physicians pursuant to an agreement effective January 1, 2013.

The claims and risk management services under the CAPAssurance Program are derived from agreements with an insurance company that became effective in the second and third quarters of 2013. These services consist of claims administration, risk management and certain insurance services in the areas of underwriting support, risk management, marketing, and other administrative services. The insurance company retains underwriting authority on all policies issued. Service fees are based on percentages of premiums on policies issued. If a policy is cancelled prior to its expiration date, the Company returns

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

service fees to the insurance company based on the unearned premium of the cancelled policy. These service obligations are part of other agreements that together allow the Company to offer a medical professional liability insurance product to large physician medical groups, hospitals, and medical facilities. One of these other agreements is a pro-rata reinsurance agreement between CAPIC and the insurance company. This enables the Company to participate in the underwriting results on insurance policies issued by the insurance company through the CAPAssurance Program. Accordingly, the Company will not only generate claims and risk management service revenues on policies issued by the insurance company, but will also recognize premiums earned through the reinsurance agreement and dues revenue for any physician and medical facility participants who purchase benefits from CAP.

The Company recognizes the underwriting support, risk management, marketing and other administration services under the CAPAssurance Program ("policy services") over the related policy term. Policy services are provided during the policy term, however certain of these services such as underwriting support and marketing are substantially complete at the start of a policy term. Since service fees are subject to return should the underlying policy be cancelled, the Company believes the most appropriate period for recognizing all policy services revenues is the policy term. For claims administration services, an estimated payout period of reported claims is used to recognize service fee revenue. This period is generally longer than the related policy term and is aligned with the Company's obligation to provide claims administration services on reported claims until final resolution of the claim. The allocation of service fees between claims administration and policy services is based on the premium percentages for such services as stated in the underlying agreements. The Company determined these rates to be reasonable by comparing these percentages to the recent historical experience of the insurance company and found such rates comparable. The insurance company is a leading provider of medical professional liability insurance nationwide and is considered representative of what competitive policy services cost should approximate.

Premiums: Premiums are recognized on a pro-rata basis over the policy term.

Commissions Earned: Commissions on premiums billed and commission adjustments, including policy cancellations and override commissions, are recorded when estimable or received. Supplemental commissions are received from insurance companies as additional incentive for achieving specified premium volume goals and/or the loss experience of the insurance placed by the Company. Supplemental commissions are recognized when the Company receives data from the insurance companies that allows the amounts to be reasonably estimated. Commission expense represents amounts the Company pays on business placed by insurance brokers and agents based on agreed-upon commission percentages between the Company and the insurance brokers and agents. Commission expense is recognized on the effective date of the related MPT coverage period. Commission income is reported gross of commission expense.

Royalties: Royalties are recognized as earned and is included in ancillary service revenues in the accompanying consolidated statements of comprehensive income.

RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for losses and loss adjustment expenses under contracts of insurance and reinsurance written on a claims-made form is determined from reported losses and an amount, based on an actuarial evaluation which considers past experience, for development on such losses. Such liabilities are necessarily based on estimates and, while management believes that the amount is within a reasonable range of adequacy, the ultimate liability may be in excess of, or less than, the amount provided. Changes in estimates of the liabilities resulting from their periodic review and differences between estimates and ultimate payments are reflected in current operations.

PREMIUMS RECEIVABLE AND PREMIUMS PAYABLE

The Company records premiums receivable and payable under its agency billed business using the accrual basis. Under this method, new and renewal premiums on policies produced by CAP Agency on agency billed business is recognized as a premium receivable from the physician and a premium payable to the insurance company. Cash received from agency billings reduce the premiums receivable and cash payments to the insurance company reduce the premiums payable. For business where CAP Agency is not obligated to perform billing services, premiums receivable and payable are recorded on a cash basis, under which no premium receivable or payable is recognized.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

FUNDS HELD BY REINSURED

In 2013, CAPIC entered into a pro-rata reinsurance agreement with an insurance company as part of the CAPAssurance Program (see Note 1). Under the terms of the agreement, premiums assumed, less specified policy acquisition costs and claims administration expenses, are held by the insurance company to secure incurred but unpaid obligations of CAPIC, such as incurred but unpaid claims and unearned premiums. Should the assumed premiums, net of expenses, be insufficient to secure these unpaid obligations, then additional funds will be paid to the insurance company to make up any shortfall. The amounts held by the insurance company are reported as funds held by reinsured.

RECEIVABLE FOR CLAIMS AND RISK MANAGEMENT SERVICES

The receivable for claims and risk management services represents uncollected claims, risk management and insurance services fees on insurance policies issued under the CAPAssurance Program (see Note 1). A receivable is established at the inception date of the issued policies and CAP collects these service fees based on the premium payment terms of the issued policies.

UNEARNED CLAIMS AND RISK MANAGEMENT SERVICES

Risk management and insurance services provided by CAP under the CAPAssurance Program are recognized over the underlying insurance policy periods. Claims administration services provided by CAP under this program are recognized over an estimated payout period of reported claims. Unearned claims and risk management services represents the amount of these service fees that relate to either the unexpired policy periods or the unexpired claim payout period as of the balance sheet date. (See Note 1).

CAPITAL REQUIREMENTS

CAPIC is required by the state of Hawaii to maintain capital and surplus in an amount, and in certain investments, deemed appropriate by the Hawaii State Insurance Commissioner. At December 31, 2013 and 2012, CAPIC exceeded the minimum requirement of $1,000,000.

CAPIS is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1). CAPIS computes its net capital requirements under the basic method provided for in Rule 15c3-1. Advances to affiliates, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the Securities and Exchange Commission Uniform Net Capital Rule or other regulatory bodies. At December 31, 2013 and 2012, CAPIS had net capital of $50,000 and $42,000, respectively, which was $45,000 and $37,000, respectively, in excess of the required net capital of $5,000.

INCOME TAXES

CAP and its wholly owned subsidiaries file a consolidated federal income tax return. CAP allocates income taxes to these subsidiaries based on the separate return method. Income taxes are provided for current taxes payable or refundable and the temporary differences arising from future tax consequences of events that have been recognized in the Company's financial statements or income tax returns. The effects of income taxes are measured based on enacted tax laws and rates. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized. Interest and penalties on tax amounts paid or received are included in investment income, net and other operating costs, respectively.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive (loss) income. Other comprehensive (loss) income refers to revenues, expenses, gains and losses that are not included in net income, but rather are recorded directly in members' equity. For the years ended December 31, 2013 and 2012, other comprehensive (loss) income consists solely of net unrealized (losses) gains, net of tax, on securities classified as available-for-sale. The reclassification adjustments for (losses) and gains included in other comprehensive income for 2012 realized gains and losses on securities available-for-sale were $34,000 of unrealized losses (net of tax benefit of $19,000) for the year ended December 31, 2013, and $24,000 of unrealized gains (net of tax expense of $13,000) for the year ended December 31, 2012.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

NEW ACCOUNTING STANDARDS

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11 — *Disclosures about Offsetting Assets and Liabilities.* New disclosures are required to help users of financial statements understand certain significant quantitative differences in balance sheets prepared under U.S. GAAP and International Financial Reporting Standards related to the offsetting of financial instruments. This standard is effective for annual reporting periods beginning on or after January 1, 2013. This pronouncement primarily impacts disclosures and did not have a material effect on the Company's consolidated financial statements as of and for the year ending December 31, 2013.

In February 2013, the FASB issued ASU No. 2013-02 — *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (Topic 220). The guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified from accumulated other comprehensive income to net income by component. This standard is effective prospectively for reporting periods beginning after December 15, 2013 for nonpublic entities. Early adoption is permitted. The Company adopted this guidance in 2013 and it did not have a material effect on its consolidated financial statements.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

SUBSEQUENT EVENTS

The Company has completed an evaluation of all subsequent events through March 17, 2014, which is the date the financial statements were available for issuance, and has concluded that no subsequent event occurred which would require recognition or disclosure.

Note 3: Investments

Investment securities, exclusive of cash and cash equivalents are comprised of the following:

	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2013				
Fixed income securities				
States and municipalities	$10,141,000	$ 347,000	$ (20,000)	$10,468,000
Corporate	6,302,000	111,000	(51,000)	6,362,000
Residential mortgage-backed securities	6,932,000	137,000	(207,000)	6,862,000
Commercial mortgage-backed securities	3,706,000	32,000	(18,000)	3,720,000
Asset-backed securities	2,031,000	26,000	(1,000)	2,056,000
Total fixed income securities	29,112,000	653,000	(297,000)	29,468,000
Equity securities: mutual funds	3,642,000	387,000	—	4,029,000
Total fixed income and equity securities	$32,754,000	$1,040,000	$(297,000)	$33,497,000
DECEMBER 31, 2012				
Fixed income securities				
States and municipalities	$ 9,312,000	$ 574,000	$ —	$ 9,886,000
Corporate	6,093,000	269,000	—	6,362,000
Residential mortgage-backed securities	8,336,000	302,000	—	8,638,000
Commercial mortgage-backed securities	1,818,000	58,000	(2,000)	1,874,000
Asset-backed securities	2,557,000	46,000	—	2,603,000
Total fixed income securities	28,116,000	1,249,000	(2,000)	29,363,000
Equity securities: mutual funds	1,293,000	67,000	(23,000)	1,337,000
Total fixed income and equity securities	$29,409,000	$1,316,000	$ (25,000)	$30,700,000

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 3: Investments (continued)

The amortized cost and fair value of fixed income securities available-for-sale as of December 31, 2013, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due after one year through five years	$ 9,262,000	$ 9,459,000
Due after five years through 10 years	6,103,000	6,257,000
Due after 10 years	1,078,000	1,114,000
	16,443,000	16,830,000
Mortgage-backed and asset-backed securities	12,669,000	12,638,000
	$29,112,000	$29,468,000

For the years ended December 31, 2013 and 2012, proceeds from sales of investments were $4,017,000 and $1,544,000, respectively.

The following table shows the gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
DECEMBER 31, 2013						
Fixed income securities						
States and municipalities	$ 1,607,000	$ (20,000)	$ —	$ —	$ 1,607,000	$ (20,000)
Corporate	2,221,000	(51,000)	—	—	2,221,000	(51,000)
Residential mortgage-backed securities	3,303,000	(207,000)	—	—	3,303,000	(207,000)
Commercial mortgage-backed securities	2,913,000	(18,000)	—	—	2,913,000	(18,000)
Asset-backed securities	249,000	(1,000)	—	—	249,000	(1,000)
Total fixed income securities	10,293,000	(297,000)	—	—	10,293,000	(297,000)
Equity securities: mutual funds	—	—	—	—	—	—
Total fixed income and equity securities	$10,293,000	$(297,000)	$ —	$ —	$10,293,000	$(297,000)
DECEMBER 31, 2012						
Fixed income securities						
Commercial mortgage-backed securities	$ 1,032,000	$ (2,000)	$ —	$ —	$ 1,032,000	$ (2,000)
Total fixed income securities	1,032,000	(2,000)	—	—	1,032,000	(2,000)
Equity securities: mutual funds	—	—	625,000	(23,000)	625,000	(23,000)
Total fixed income and equity securities	$ 1,032,000	$ (2,000)	$625,000	$(23,000)	$ 1,657,000	$ (25,000)

The Company reviews at least quarterly its investment portfolio for securities that may have an other-than-temporary impairment. In its impairment analysis, the Company takes into consideration numerous criteria, including the duration and extent of any decline in estimated fair value, industry factors, downgrades by rating agencies, liquidity and fundamental factors of the issuers, as well as its ability and intent to retain its investment in the issuer to allow for any anticipated recovery

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 3: Investments (continued)

in market value or maturity. If the decline is determined to be other than temporary, the investment's amortized cost is written down to estimated fair value with the unrealized loss recognized in earnings as a realized loss on investments. As of December 31, 2013 and 2012, none of the Company's investments whose estimated fair values were less than amortized costs were considered to be other-than-temporarily impaired given the severity and duration of the impairment and the credit quality of the issuers. Regarding equity securities, the Company has evaluated the near-term prospects of the securities in relation to the severity and duration of the impairment and intends to hold these securities until a recovery of fair value has occurred. The Company does not intend to sell its investments whose fair values are less than amortized cost and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost bases, which may be maturity.

Investment income, net is summarized as follows:

	Years Ended December 31	
	2013	2012
Interest income	$1,147,000	$1,149,000
Gains on sales of investments	113,000	38,000
Loss on sale of investments	(46,000)	—
Investment management fees and expenses	(63,000)	(31,000)
Net amortization of premium on fixed income securities	(310,000)	(317,000)
Investment income, net	$ 841,000	$ 839,000

Note 4: Reserves for Losses and Loss Adjustment Expenses

The activity in the reserves for losses and loss adjustment expenses is summarized as follows:

	December 31	
	2013	2012
Reserves — beginning of year	$10,513,000	$ 8,925,000
Incurred related to:		
Current year	5,570,000	5,292,000
Prior years	(911,000)	(1,252,000)
Total incurred	4,659,000	4,040,000
Paid related to:		
Current year	(320,000)	(516,000)
Prior years	(1,864,000)	(1,936,000)
Total paid	(2,184,000)	(2,452,000)
Reserves — end of year	$12,988,000	$10,513,000

For the year ended December 31, 2013, the provision for losses and loss adjustment expenses in prior years decreased $911,000, comprised of favorable development totaling $1,253,000, mainly on the 2006, 2007, 2009, 2011 and 2012 claims-made years, offset by $342,000 in adverse development on the 2008 and 2010 claims-made years. For the year ended December 31, 2012, the provision for losses and loss adjustment expenses in prior years decreased $1,252,000, comprised mainly of favorable development totaling $1,323,000 on the 2007 through 2010 claims-made years, offset partially by $172,000 in adverse development on the 2011 claims-made year. For the years ended December 31, 2013 and 2012, the favorable development was due mainly to lower than anticipated severity of incurred claims, and the adverse development was due mainly to higher than anticipated severity of incurred claims.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 5: Income Taxes

The components of the provision for income taxes are as follows for the years ended December 31, 2013 and 2012:

	Years Ended December 31	
	2013	2012
Current	$311,000	$633,000
Deferred	19,000	147,000
	$330,000	$780,000

A reconciliation of income tax expense computed at the federal statutory tax rate to total income tax expense is summarized as follows:

	Years Ended December 31	
	2013	2012
Federal income tax expense at 34%	$ 351,000	$ 697,000
Increase (decrease) in taxes resulting from:		
State income tax expense (net of federal benefit)	30,000	104,000
Employee benefit plan	22,000	—
Tax effect of PAC Committee's reimbursement for taxes	78,000	116,000
Tax-exempt investment income	(129,000)	(115,000)
Meals and entertainment exclusion	27,000	20,000
Other	(49,000)	(42,000)
Total federal income tax expense	$ 330,000	$ 780,000

The significant components of deferred income tax assets and liabilities are as follows:

	December 31	
	2013	2012
Deferred tax assets:		
Discounting of reserves for losses and loss adjustment expenses	$ 462,000	$ 434,000
Other-than-temporary impairments of other investments	17,000	17,000
Capital loss carryover	18,000	18,000
Employee benefit obligations	125,000	105,000
State taxes	5,000	17,000
Unearned premiums	48,000	2,000
Deferred commissions	14,000	19,000
Deferred tax assets	689,000	612,000
Deferred tax liabilities:		
Unrealized gain on investments	(253,000)	(439,000)
State tax on unremitted earnings of subsidiaries	(182,000)	(177,000)
Accretion of bond discount	(181,000)	(178,000)
Deferred acquisition costs	(88,000)	—
Other items	(10,000)	(10,000)
Deferred tax liabilities	(714,000)	(804,000)
Deferred tax liability, net	$ (25,000)	$(192,000)

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 5: Income Taxes (continued)

The Company has not established a valuation allowance against deferred tax assets as it has been determined that it is more likely than not that the assets will be realized.

Income taxes paid for the years ended December 31, 2013 and 2012, were $348,000 and $1,166,000, respectively. There were no penalties on tax amounts paid in either years ended December 31, 2013 or 2012.

As of December 31, 2013 and 2012, the Company had no net operating loss carryforwards.

As of December 31, 2013 or 2012, the Company had no uncertain tax positions.

Tax years 2012 and 2013 and tax years 2009 through 2013 are subject to examination by the federal and California taxing authorities, respectively. An examination that covered the 2009 through 2011 tax years by federal authorities concluded in February 2013. The result of this examination on net income was a decrease of $116,000 for additional federal tax and $27,000 in accrued interest.

Note 6: Related Party Transactions

CAP and MPT operate under an administrative and management services agreement whereby CAP provides membership, claims, risk management, financial, and other administrative and management services to MPT. Under the agreement, CAP receives monthly fees from MPT for these services that are based on actual expenses incurred by CAP plus a margin. Total revenues of $26,526,000 and $25,719,000 for the years ended December 31, 2013 and 2012, respectively, recognized from MPT for administrative and management services under the agreement are included in claims and risk management service revenues on the consolidated statements of comprehensive income. Expenses related to these agreements are included in salaries and related expenses totaling $16,972,000 and $16,606,000 for the years ended December 31, 2013 and 2012, respectively, and in other operating costs totaling $8,833,000 and $8,408,000 for the years ended December 31, 2013 and 2012, respectively.

Effective January 1, 2013, CAPIC and MPT entered into a services agreement whereby CAPIC provides claims legal defense services to MPT physicians. CAPIC receives from MPT monthly fees for these services that are based on actual costs incurred. Claims services fees recognized under this agreement were $16,266,000 for the year ended December 31, 2013. Included in the receivable from affiliated entities is $1,672,000 due from MPT for these services as of December 31, 2013.

In 2013 and 2012, CAPIC had reinsurance contracts with MPT. These contracts principally provide aggregate stop-loss and per claim excess of loss reinsurance coverage on a claims-made form for MPT for claims reported in 2013 and 2012. The aggregate stop loss coverage in both years provides for a limit of $11,000,000 in excess of an aggregate attachment of $115,200,000 and $118,470,000 for 2013 and 2012, respectively. These agreements can be terminated and commuted at the end of any calendar quarter prospectively by mutual agreement of CAPIC and MPT. Premiums paid by MPT under these agreements were $3,100,000 and $3,373,000 for the years ended December 31, 2013 and 2012, respectively. CAPIC also participates in a reinsurance contract that provides MPT coverage on a claims-made basis for multiple claims arising out of one common event. Premiums received by CAPIC under this contract were $243,000 and $224,000 for the years ended December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, total affiliate reinsurance premium income under all reinsurance contracts with MPT was $3,343,000 and $3,507,000, respectively.

CAP provides its members and participants defense coverage for medical board actions with a $25,000 limit and employer practice defense coverage with a $50,000 limit. CAPIC provides insurance coverage to CAP for these benefits. MPT reimburses CAP for a portion of the cost of this coverage. CAP paid CAPIC $2,599,000 and $2,404,000 for the years ended December 31, 2013 and 2012, respectively, for this coverage, of which MPT reimbursed CAP $1,785,000 and $2,404,000 for the same respective years.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 7: Employee Benefits

The Company sponsors a 401(k) savings plan for its employees. Employees' contributions are matched by the Company at a level that is determined by the Board of Directors. The contribution expense for the 401(k) savings plan was $699,000 and $517,000 for the years ended December 31, 2013 and 2012, respectively. Eligible employees vest in the Company's contribution over a four-year vesting schedule. The Company also sponsors a supplemental employee retirement program (SERP) for certain employees. Participants vest, on average, over a 10 year period. All of the expense related to the SERP is incurred by MPT. SERP liabilities for the Company's participants have been assumed by MPT.

The Company maintains a non-qualified deferred compensation program (NDCP) for eligible employees and Board members. Under the plan, participants can defer compensation or Board fees based on an annual election. Amounts deferred are credited with notional investment earnings on a tax deferred basis until such amounts are distributed to participants. Amounts deferred are remitted to MPT who administers the NDCP on behalf of the Company.

The Company maintains a post-retirement medical benefit plan for certain employees. Beginning at the age of 62, participants can use amounts held in a separate post-retirement account held on their behalf (by a third party trust) to fund eligible medical expenses. Amounts paid to the trust by the Company are not refundable and become the property of the trustee on behalf of participants. The trust invests funds received from the Company in universal life insurance policies covering participants, which includes a death benefit funded by the Company until the participant reaches the vesting age of 62. While the plan establishes targeted post-retirement benefit levels for participants, there is no obligation for the Company to fully fund these levels and the employees are only eligible to receive the benefits accumulated in their account. Amounts contributed to the trust by the Company were $101,000 and $93,000 for the years ended December 31, 2013 and 2012, respectively.

Note 8: Commitments

CAP and MPT occupy their home office and regional office facilities under operating leases which provide for adjustments to the lease payments based upon contractual commitments and inflationary factors. Both companies are lessees under these operating leases. Rent expense is apportioned between CAP and MPT based primarily on the number of employees. The total rent expense under these leases was $3,312,000 and $3,358,000 for the years ended December 31, 2013 and 2012, respectively. The total rent expense apportioned to CAP was $3,264,000 and $2,579,000 for the years ended December 31, 2013 and 2012, respectively. In January 2013, CAP and MPT extended the lease covering their home office facility for an additional ten years to a new expiration date of January 31, 2024. The future minimum rental commitments under these operating leases are as follows:

Years Ending December 31	Amount
2014	$ 1,182,000
2015	2,012,000
2016	1,671,000
2017	1,696,000
2018 and after	10,871,000
	$17,432,000

MUTUAL PROTECTION TRUST

2013 Financial Reports

Report of Independent Auditors

BOARD OF TRUSTEES
MUTUAL PROTECTION TRUST

We have audited the accompanying financial statements of the Mutual Protection Trust, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and net decrease in members' equity, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mutual Protection Trust at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited," has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information, except for that portion marked "unaudited," on which we express no opinion, is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

Chicago, Illinois
March 17, 2014

Balance Sheets

MUTUAL PROTECTION TRUST

	December 31 2013	2012
ASSETS		
Trust Fund Corpus, restricted:		
Fixed income securities, available-for-sale, at fair value	$141,887,000	$144,751,000
Cash and cash equivalents	1,775,000	2,012,000
Accrued interest receivable	964,000	1,148,000
Deferred tax liability	(776,000)	(2,667,000)
	143,850,000	145,244,000
Trust Fund Operating Accounts:		
Fixed income securities, available-for-sale, at fair value	63,011,000	63,067,000
Short-term investments	—	2,562,000
Cash and cash equivalents	11,657,000	14,107,000
Assessments, dues and other coverages receivable	93,917,000	90,384,000
Fixed assets, net	3,454,000	1,450,000
Deferred tax asset, net	13,537,000	12,582,000
Income taxes receivable	125,000	977,000
Other assets	21,191,000	16,314,000
	206,892,000	201,443,000
	$350,742,000	$346,687,000
LIABILITIES		
Trust Fund Operating Accounts:		
Non-assessable former members' liability	$ 37,664,000	$ 35,194,000
Unpaid claims and expenses	16,254,000	13,165,000
Deferred assessments, dues and other coverages	110,323,000	113,571,000
Payable to affiliated entity	1,672,000	—
Other liabilities	24,560,000	21,794,000
	190,473,000	183,724,000
Contingencies and commitments (see Notes 5 and 9)		
MEMBERS' EQUITY		
Trust Fund Corpus, including accumulated other comprehensive income of $1,441,000 and $4,951,000 for 2013 and 2012, respectively	143,850,000	145,244,000
Trust Fund Operations	16,419,000	17,719,000
	160,269,000	162,963,000
	$350,742,000	$346,687,000

The accompanying notes are an integral part of these financial statements.

Statements of Operations and Net Decrease in Members' Equity

MUTUAL PROTECTION TRUST

	Years Ended December 31 2013	2012
Assessments and Dues	$114,144,000	$104,991,000
Revenues		
Investment income:		
Interest income, net	5,854,000	6,604,000
Realized gains	130,000	583,000
Investment income, net	5,984,000	7,187,000
Other coverage fees	15,154,000	14,916,000
Total Assessments, Dues and Revenues	135,282,000	127,094,000
Expenses		
Claims costs:		
Indemnity expense	48,066,000	51,021,000
Defense and investigative services	35,064,000	31,878,000
Salaries and related expenses	6,533,000	6,289,000
Other operating costs	13,352,000	13,600,000
	103,015,000	102,788,000
General and administrative:		
Salaries and related expenses	12,336,000	12,592,000
Other operating costs	19,592,000	14,054,000
	31,928,000	26,646,000
Total Expenses	134,943,000	129,434,000
Excess (Deficit) of Assessments, Dues and Revenues Over Expenses Before Income Taxes	339,000	(2,340,000)
Income Tax Expense (Benefit)	33,000	(313,000)
Net Excess (Deficit) of Assessments, Dues and Revenues Over Expenses	306,000	(2,027,000)
Other Comprehensive (Loss) Income, Net		
Net unrealized (losses) gains on securities available-for-sale, net of taxes	(5,116,000)	335,000
Net Decrease in Members' Equity	$ (4,810,000)	$ (1,692,000)

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Members' Equity

MUTUAL PROTECTION TRUST

		Trust Fund Corpus				
	Trust Fund Operations	Active Members	Accumulated Other Comprehensive Income	Members' Deferred Contract Receivable	Retired Members and Voluntary Terminations	Total Members' Equity
Balance at January 1, 2012	$19,592,000	$140,651,000	$ 4,770,000	$(15,319,000)	$12,811,000	$162,505,000
Corpus Activity:						
Additions	—	6,647,000	—	(6,647,000)	—	—
Payments on deferred contracts receivable	—	—	—	7,918,000	—	7,918,000
Repayments	—	—	—	—	(5,114,000)	(5,114,000)
Contributions relinquished	—	(654,000)	—	—	—	(654,000)
Transfers of Corpus	—	(6,236,000)	—	—	6,236,000	—
Net Deficit of Assessments, Dues and Revenues over Expenses	(2,027,000)	—	—	—	—	(2,027,000)
Other Comprehensive Income (net of deferred income taxes of $181,000)	154,000	—	181,000	—	—	335,000
Balance at December 31, 2012	17,719,000	140,408,000	4,951,000	(14,048,000)	13,933,000	162,963,000
Corpus Activity:						
Additions	—	5,934,000	—	(5,934,000)	—	—
Payments on deferred contracts receivable	—	—	—	7,481,000	—	7,481,000
Repayments	—	—	—	—	(4,752,000)	(4,752,000)
Contributions relinquished	—	(613,000)	—	—	—	(613,000)
Transfers of Corpus	—	(5,006,000)	—	—	5,006,000	—
Net Excess of Assessments, Dues and Revenues over Expenses	306,000	—	—	—	—	306,000
Other Comprehensive Loss (net of deferred income taxes of $2,754,000)	(1,606,000)	—	(3,510,000)	—	—	(5,116,000)
Balance at December 31, 2013	$16,419,000	$140,723,000	$ 1,441,000	$(12,501,000)	$14,187,000	$160,269,000

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

MUTUAL PROTECTION TRUST

	Years Ended December 31 2013	2012
Operating Activities		
Net excess (deficit) of assessments, dues and revenues over expenses	$ 306,000	$ (2,027,000)
Adjustments to reconcile net excess (deficit) of assessments, dues and revenues over expenses to net cash used in operating activities:		
Depreciation	742,000	519,000
Amortization on fixed income securities	1,167,000	1,320,000
Net realized investment gains	(130,000)	(583,000)
Deferred income taxes	(90,000)	(288,000)
Changes in operating assets and liabilities:		
Accrued interest receivable	184,000	34,000
Assessments, dues and other coverages receivable	(3,533,000)	(7,256,000)
Income taxes receivable	852,000	(25,000)
Other assets	(4,877,000)	1,195,000
Non-assessable former members' liability	2,470,000	(1,189,000)
Unpaid claims and expenses	3,089,000	2,911,000
Deferred assessments, dues and other coverages	(3,248,000)	1,954,000
Payable to affiliated entity	1,672,000	—
Other liabilities	341,000	2,232,000
Net Cash Used In Operating Activities	(1,055,000)	(1,203,000)
Investing Activities		
Fixed income securities available-for-sale:		
Purchases	(54,301,000)	(48,940,000)
Sales and maturities	48,312,000	46,412,000
Net (decrease) increase in short-term investments	2,562,000	(2,562,000)
Purchases of fixed assets	(321,000)	(341,000)
Net Cash Used In Investing Activities	(3,748,000)	(5,431,000)
Financing Activities		
Additions to Trust Fund Corpus	7,481,000	7,918,000
Repayments of Trust Fund Corpus	(5,365,000)	(5,768,000)
Net Cash Provided by Financing Activities	2,116,000	2,150,000
Net Change in Cash and Cash Equivalents	(2,687,000)	(4,484,000)
Cash and Cash Equivalents at Beginning of Year		
Trust Fund Corpus	2,012,000	338,000
Trust Fund Operations	14,107,000	20,265,000
	16,119,000	20,603,000
Cash and Cash Equivalents at End of Year		
Trust Fund Corpus	1,775,000	2,012,000
Trust Fund Operations	11,657,000	14,107,000
	$ 13,432,000	$ 16,119,000

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 1: Organization

The Mutual Protection Trust (MPT) was organized in 1977 for the purpose of providing its member physicians with medical professional liability protection and related claims administration, including defense and investigative services. Only physicians licensed to practice medicine in the state of California are eligible for membership. MPT is an interindemnity arrangement structured so that its members share the cost of medical professional liability protection. California legislation enacted in 1976 permitted the formation of a trust fund, with specific provisions including the requirement to accumulate a minimum Trust Fund Corpus of $10 million. The Cooperative of American Physicians, Inc. (CAP) sponsored the organization of MPT and the initial accumulated contributions from the members were transferred to the Trust Fund Corpus. MPT is governed by a Board of Trustees.

Each member is required to pay an Initial Trust Contribution based upon the member's risk classification and other factors. These contributions are accumulated into the Trust Fund Corpus. MPT members are allowed to pay Initial Trust Contributions in installments. The amount of Trust Fund Contributions unpaid is reported as a deferred contract receivable from members and is reported as a reduction in members' equity.

In accordance with the Mutual Protection Trust Agreement (the MPT Agreement), the Trust Fund Corpus may be utilized by the Board of Trustees only for (1) investment in qualified securities, (2) return of contributions to qualified members in connection with death, retirement or termination, (3) payment of claims in an amount not exceeding 10% of the Trust Fund Corpus, with such amounts being promptly repaid to the Trust Fund Corpus by levying assessments against MPT members, (4) collateral for bonds or deposits in court necessary for the appeal of judgments in an amount not exceeding 15% of the Trust Fund Corpus, (5) distribution to MPT members in the event of the dissolution of MPT, and (6) other lawful purposes approved in accordance with the MPT Agreement. The use of the Trust Fund Corpus for any other purpose is strictly prohibited.

Initial Trust Contributions are repaid on the 10th anniversary of the membership effective date to members who have retired or who have voluntarily terminated membership in accordance with California Insurance Code Section 1280.7 and the MPT Agreement. Members who have voluntarily terminated membership through December 31, 2013 will receive the return of their Initial Trust Contributions aggregating $14,187,000, in accordance with the provisions of the MPT Agreement through the year 2023. The Initial Trust Contributions of members who have been involuntarily terminated pursuant to the provisions of the MPT Agreement that provide for no return of the Initial Trust Contribution, are recognized in operations in the year of termination since these members have relinquished the right to the return of their Initial Trust Contributions.

Assessments are determined by the Board of Trustees in accordance with California Insurance Code Section 1280.7 and the MPT Agreement and are used to fund estimated operating needs through the succeeding fiscal year. The Board of Trustees has the ability to levy additional assessments, should there be an operating shortfall in a given year (see Note 5). Assessments become an obligation of active members on the date of levy by the Board of Trustees. Results from operations may vary from year to year since actual amounts may differ from the estimates used to levy assessments.

Revenues are primarily comprised of other coverage fees and net investment income. Assessments and revenues are used to pay legally binding final judgments and settlements against MPT members, claims defense and investigative expenses and administrative expenses, and are used to fund MPT's actuarially estimated future liability for claims against non-assessable former members in accordance with the MPT Agreement and resolution of the Board of Trustees (see Note 4).

Note 2: Summary of Significant Accounting Policies

BASIS OF FINANCIAL STATEMENT PRESENTATION

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). This basis of accounting necessarily requires the use of management estimates that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of assessments, revenues and expenses during the reporting period. Actual results may differ from those estimates.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

ASSESSMENTS AND DUES

Member assessments are levied by the Board of Trustees and recognized over the period in which membership services are rendered. Member assessments levied in advance of the fiscal year to which they apply are deferred and recognized in operations in the subsequent year. In November 2013 and 2012, MPT levied $105,813,000 and $105,888,000 in member assessments, respectively. Included in the November 2013 assessment was a $2,000,000 increase in assessments in recognition of higher operating requirements in fiscal year 2013, and $103,813,000 in assessments relating to the 2014 fiscal year operating requirements. The November 2012 assessment included a $5,500,000 reduction in assessments relating to operating requirements of fiscal year 2012 and $111,388,000 in assessments related to the 2013 fiscal year. The following table reconciles the assessment levied in November 2012 to the assessments recognized in the Statements of Operations for the year ended December 31, 2013:

Assessment levied in November 2012	$111,388,000
Increase in 2013 fiscal year assessments included in the assessment levy in November 2013	2,000,000
Net adjustments to member assessments during the year	256,000
Dues recognized in 2013	500,000
Assessments and dues recognized in the Statement of Operations	$114,144,000

In addition to the assessments levied in November 2013 and 2012, the Board of Trustees also established annual dues of $190 per active member that is contributed, based on an election made by the member, to the CAP State Political Action Committee or to another political action committee established to support medical liability reform. Amounts contributed to these political action committees are not owned by MPT and are therefore not recognized in assessments and dues, and any contributions to these funds are not recognized as expenses. These funds are included in other liabilities as a payable to CAP's political action committees. In the November 2013 and 2012 assessments and dues, the Board of Trustees directed that $250,000 and $500,000 of annual dues, respectively, remain in MPT and are to be used to offset operating costs in fiscal 2014 and 2013, respectively. Accordingly, the fiscal 2013 dues amount of $500,000 is included in the table above. In addition to the annual dues of $190, the November 2013 assessments and dues also included a special dues amount totaling $4,964,000 intended to replace $5,000,000 in operating cash used in 2013 for certain public affairs activities. This expense, which is included in general and administrative other operating costs, was incurred to support activities that preserve medical professional liability tort limits in California. Similar to annual dues, this special dues will be recognized in operations in the subsequent year. Included in deferred assessments, dues and other coverages as of December 31, 2013 and 2012, is $5,214,000 and $500,000, respectively, in annual and special dues that are deferred and will be recognized in operations in the subsequent year.

REVENUES

Other coverage fees are recognized when billed and earned as revenue over the period in which services are rendered. The billing for other coverage fees typically occurs in the first quarter of the calendar year.

NET DECREASE IN MEMBERS' EQUITY

Net decrease in members' equity consists of net excess (deficit) of assessments, dues and revenues over expenses and other comprehensive (loss) income. MPT does not report total comprehensive (loss) income since its statutory authority precludes the Board of Trustees from assessing MPT's members for anything other than operating needs. Assessments are not revenues as they are levied by the Board of Trustees solely to support such operating needs. Accordingly, there is no net income (loss), or total comprehensive income (loss). Any excess of assessments, dues and revenues over expenses are the property of MPT members (see Note 1). Other comprehensive (loss) income refers to losses and gains that are not included in net excess (deficit) of assessments, dues and revenues over expenses, but rather are recorded directly in members' equity. For the years ended December 31, 2013 and 2012, the net decrease in members' equity consists of net excess (deficit) of assessments, dues and revenues over expenses and unrealized (losses) gains on securities classified as available-for-sale. The reclassification adjustments for (losses) gains included in other comprehensive (loss) income for realized gains and losses on securities available-for-sale were $50,000 of unrealized losses (net of the tax benefit of $27,000) for the year ended December 31, 2013 and $80,000 of unrealized gains (net of the tax expense of $43,000) for the year ended December 31, 2012.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term highly liquid investments with original maturities of three months or less and are principally stated at amortized cost.

SHORT-TERM INVESTMENTS

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

INVESTMENTS

Investments are limited to those qualifying under California law as defined in Section 16430 of the Government Code.

Investments are classified as available-for-sale and are carried at fair value. Transfers between fair value hierarchy levels 1, 2, or 3 are recognized on the actual date of the circumstances that caused the transfer to occur. Unrealized gains and losses are accounted for, net of tax, as a component of other comprehensive income in members' equity.

Investments in the Trust Fund Corpus and Trust Fund Operating Accounts are designated as available-for-sale and are carried at fair value.

Investment income is recorded as earned. Premiums and discounts on investment securities are primarily amortized using the interest method over the estimated lives of the investments. Realized gains and losses from sales transactions occurring during the year, are recognized in operations using the specific identification method. Unrealized gains and losses are determined using the specific identification method. Adjustments for other-than-temporary market declines are recorded when determination of loss is probable and is reported as a write-down of amortized cost to fair value.

FIXED ASSETS

Fixed assets are stated at cost, less accumulated depreciation of $7,982,000 and $7,240,000 as of December 31, 2013 and 2012, respectively. Included in this category is capitalized software costs, which represent costs directly related to obtaining, developing or upgrading internal use software. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are generally as follows:

Asset Description	Asset Life
Software	5 years
Computer equipment	5 years
Document imaging	5 years
Leasehold improvements	5 years
Furniture and equipment	8 years

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject MPT to concentrations of credit risk consist principally of temporary cash investments and fixed income securities; assessments, dues and other coverages receivable; and other assets. MPT places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to fixed income securities are limited due to the large number of such investments and their distribution across many different industries and geographic regions. MPT's investments in federal agency securities are considered to have an implicit guarantee as to principal from the U.S. government and are considered to have minimal credit risk. Credit risk concentration in assessments, dues and other coverages receivable is considered minimal due to the large number of physicians totaling over 11,700 that comprise the total receivable.

Within other assets, financial instruments that potentially subject MPT to concentrations of credit risk are assets that support MPT's employee benefit plan obligations. Substantially all of these employee benefit plan assets are comprised of mutual funds and cash values in company-owned life insurance policies. Such cash values are also invested in mutual funds. Concentrations of credit risk are mitigated through both the large number of mutual funds used, and the diversification within each mutual fund among many different equity and fixed income positions across many companies and security issuers (see Note 7).

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value amounts, defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used by MPT in estimating the fair value disclosures for financial instruments in the accompanying financial statements and in these notes:

Cash and cash equivalents, short-term investments, assessments, dues and other coverages receivable. The carrying amounts for these financial instruments as reported in the accompanying balance sheets approximate their estimated fair values.

Investments. MPT determines the fair value of its investments based on the fair value hierarchy established in Accounting Standards Codification (ASC) 820, which requires an entity to disclose the use of observable inputs and minimize the use of unobservable inputs for measuring fair value. Estimates of fair value measurements for these securities are estimated using relevant inputs, including available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additionally, an Option Adjusted Spread model is used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities.

Each asset class is evaluated based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions.

This method of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, MPT would be required to produce an estimate of fair value using some of the same methodologies, but would have to make assumptions for market-based inputs that are unavailable due to market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

Because the fair value estimates of most fixed income securities are determined by evaluations that are based on observable market information rather than market quotes, most estimates of fair value for fixed income securities are based on estimates using objectively verifiable information and are included in the amount disclosed in Level 2 of the hierarchy. The value of U.S. treasuries, U.S. agencies, states and municipalities, corporate bonds and residential mortgage-backed securities is based on the observable market information and as such, is included in the Level 2 hierarchy. Level 1 is limited to unadjusted quoted prices in active markets for identical instruments.

All investments on the accompanying balance sheet are stated at fair value and are considered Level 2 investments as of December 31, 2013 and 2012.

There were no transfers in and out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2013 and 2012. There were no securities at December 31, 2013 or 2012 whose fair value measurements were based on Level 3: Unobservable inputs.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

UNPAID CLAIMS AND EXPENSES AND NON-ASSESSABLE FORMER MEMBERS' LIABILITY

MPT reports its liability consistent with California Insurance Code Section 1280.7 and the MPT Agreement. Such liability at each year-end, as detailed in Note 4, represents the unpaid amount of the following items:

1. Accrued liability for claims defense and investigative expenses for all open claims under MPT management;

2. Total liability for legally binding final settlements and judgments against members who are current in the payment of all amounts due under the MPT Agreement and former members who have met the requirements for retirement, termination with tail coverage, transfer of membership or who are deceased; and

3. Actuarially estimated future liability for claims reported and claims incurred but not reported against former MPT members who are no longer assessable because of retirement, transfer of membership, voluntary or involuntary termination with tail coverage or death (collectively referred to as non-assessable former members' liability). Also included in this liability is an estimate for claims administration and other adjusting expenses that will be incurred in administering the claims for such non-assessable former members.

INCOME TAXES

MPT files its federal income tax return as a mutual insurance company and files its California income tax return under the provision of the California Bank and Corporation Tax Law as a business trust. Income taxes are provided on the basis of items included in the determination of income for financial reporting purposes regardless of the period when such items are reported for tax purposes. Deferred tax assets and liabilities are recorded to reflect the tax consequences in future years of temporary differences between the tax bases of assets and liabilities and the corresponding bases used for the financial statements. A valuation allowance is recorded to reduce deferred tax assets to an amount that represents management's best estimate of the amount that more likely than not will be realized. The income tax effect on unrealized investment gains and losses on the Trust Fund Corpus investments is accounted for as deferred income taxes and is included as a separate component of the Trust Fund Corpus. Interest and penalties on tax amounts paid or received are included in investment income, net and general and administrative other operating costs, respectively (see Note 8).

NEW ACCOUNTING STANDARDS

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11 — *Disclosures about Offsetting Assets and Liabilities.* New disclosures are required to help users of financial statements understand certain significant quantitative differences in balance sheets prepared under U.S. GAAP and International Financial Reporting Standards related to the offsetting of financial instruments. This standard is effective for annual reporting periods beginning on or after January 1, 2013. This pronouncement primarily impacts disclosures and did not have a material effect on MPT's financial statements as of and for the year ending December 31, 2013.

In February 2013, the FASB issued ASU No. 2013-02 — *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (Topic 220). The guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified from accumulated other comprehensive income to net income by component. This standard is effective prospectively for reporting periods beginning after December 15, 2013 for nonpublic entities. Early adoption is permitted. MPT adopted this guidance in 2013 and it did not have a material effect on its financial statements.

RECLASSIFICATIONS

In 2013 MPT changed its accounting policy related to the accounting for cash and cash equivalents, and short-term investments. Certain reclassifications have been made to the prior year financial statements for this change in accounting policy.

SUBSEQUENT EVENTS

MPT has completed an evaluation of all subsequent events through March 17, 2014, which is the date the financial statements were available for issuance, and has concluded that no subsequent event occurred which would require recognition or disclosure.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 3: Investments

Fixed income securities, exclusive of cash and cash equivalents are comprised of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2013				
Trust Fund Corpus, restricted:				
Fixed income securities, available-for-sale				
U.S. Agencies	$ 3,985,000	$ 81,000	$ —	$ 4,066,000
States and municipalities	24,291,000	2,368,000	—	26,659,000
Corporate	37,792,000	949,000	(256,000)	38,485,000
Residential mortgage-backed securities	71,875,000	1,000,000	(1,952,000)	70,923,000
Commercial mortgage-backed securities	1,726,000	28,000	—	1,754,000
Total fixed income securities	$139,669,000	$4,426,000	$(2,208,000)	$141,887,000
Trust Fund Operating:				
Fixed income securities, available-for-sale				
U.S. Agencies	$ 505,000	$ 10,000	$ —	$ 515,000
Corporate	19,734,000	693,000	(41,000)	20,386,000
Residential mortgage-backed securities	43,006,000	352,000	(1,248,000)	42,110,000
Total fixed incomes securities	$ 63,245,000	$1,055,000	$(1,289,000)	$ 63,011,000
DECEMBER 31, 2012				
Trust Fund Corpus, restricted:				
Fixed income securities, available-for-sale				
U.S. Agencies	$ 6,365,000	$ 215,000	$ —	$ 6,580,000
States and municipalities	24,380,000	3,042,000	—	27,422,000
Corporate	35,307,000	1,714,000	—	37,021,000
Residential mortgage-backed securities	67,331,000	2,313,000	(64,000)	69,580,000
Commercial mortgage-backed securities	3,749,000	399,000	—	4,148,000
Total fixed income securities	$137,132,000	$7,683,000	$ (64,000)	$144,751,000
Trust Fund Operating:				
Fixed income securities, available-for-sale				
U.S. Agencies	$ 3,510,000	$ 30,000	$ —	$ 3,540,000
Corporate	17,660,000	1,139,000	—	18,799,000
Residential mortgage-backed securities	39,661,000	1,086,000	(19,000)	40,728,000
Total fixed income securities	$ 60,831,000	$2,255,000	$ (19,000)	$ 63,067,000

The amortized cost and fair value of fixed income securities available-for-sale as of December 31, 2013, by contractual repayment date of principal, are shown on the following page. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 3: Investments (continued)

	Amortized Cost	Fair Value
Trust Fund Corpus, restricted		
Due in one year or less	$ 2,799,000	$ 2,845,000
Due after one year through five years	53,658,000	55,892,000
Due after five years through 10 years	9,611,000	10,473,000
	66,068,000	69,210,000
Residential mortgage-backed securities	71,875,000	70,923,000
Commercial mortgage-backed securities	1,726,000	1,754,000
	$139,669,000	$141,887,000
Trust Fund Operating		
Due in one year or less	$ 1,391,000	$ 1,413,000
Due after one year through five years	16,753,000	17,313,000
Due after five years through 10 years	2,095,000	2,175,000
	20,239,000	20,901,000
Residential mortgage-backed securities	43,006,000	42,110,000
	$ 63,245,000	$ 63,011,000

For the years ended December 31, 2013 and 2012, proceeds from sales of investments were $8,627,000 and $13,986,000, respectively.

The following table shows the gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2013:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
DECEMBER 31, 2013						
Trust Fund Corpus, restricted:						
Fixed income securities						
Corporate	$11,571,000	$ (256,000)	$ —	$ —	$11,571,000	$ (256,000)
Residential mortgage-backed securities	42,556,000	(1,858,000)	877,000	(94,000)	43,433,000	(1,952,000)
Total fixed income securities	$54,127,000	$(2,114,000)	$877,000	$(94,000)	$55,004,000	$(2,208,000)
Trust Fund Operating:						
Fixed income securities						
Corporate	$ 3,030,000	$ (41,000)	$ —	$ —	$ 3,030,000	$ (41,000)
Residential mortgage-backed securities	28,561,000	(1,150,000)	877,000	(98,000)	29,438,000	(1,248,000)
Total fixed income securities	$31,591,000	$(1,191,000)	$877,000	$(98,000)	$32,468,000	$(1,289,000)

There were no securities that have been in a continuous unrealized loss position for longer than twelve months as of December 31, 2012.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 3: Investments (continued)

MPT reviews at least quarterly its investment portfolio for securities that may have an other-than-temporary impairment. In its impairment analysis, MPT takes into consideration numerous criteria, including the duration and extent of any decline in estimated fair value, industry factors, downgrades by rating agencies, liquidity and fundamental factors of the issuers, as well as its ability and intent to retain its investment in the issuer to allow for any anticipated recovery in market value or maturity. If the decline is determined to be other than temporary, the investment's amortized cost is written down to estimated fair value with the unrealized loss recognized in operations as a realized loss on investments.

As of December 31, 2013 and 2012, none of the investments whose estimated fair values were less than amortized costs were considered to be other-than-temporarily impaired given the severity and duration of the impairment and the credit quality of the issuers.

MPT does not intend to sell its investments whose fair values are less than amortized costs and it is not more likely than not that MPT will be required to sell the investments before recovery of the amortized cost bases, which may be maturity.

Investment income, net is summarized as follows:

	Years Ended December 31	
	2013	2012
Interest income	**$ 7,333,000**	$ 8,223,000
Gross gains on sales of investments	**130,000**	583,000
Investment management fees and expenses	**(312,000)**	(299,000)
Net amortization of premium on fixed income securities	**(1,167,000)**	(1,320,000)
Investment income, net	**$ 5,984,000**	$ 7,187,000

Note 4: Unpaid Claims and Expenses and Non-Assessable Former Members' Liability

Unpaid claims and expenses for assessable members are comprised of the following:

	December 31	
	2013	2012
Accrued indemnity	**$13,265,000**	$10,394,000
Accrued defense and investigative services	**2,989,000**	2,771,000
	$16,254,000	$13,165,000

MPT has assumed claims liability by providing tail coverage to certain former members who are no longer liable for assessments (non-assessable former members) including those who are retired, transferred, terminated or deceased. Members voluntarily terminating have no tail coverage from MPT unless they remain liable for assessments or pay a tail coverage fee.

Under California Insurance Code Section 1280.7, members involuntarily terminated by MPT's peer review process are entitled to receive tail coverage without liability for future assessments upon release of the right to a return of their Initial Trust Contributions.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 4: Unpaid Claims and Expenses and Non-Assessable Former Members' Liability (continued)

The liability for claims of non-assessable former members reflects an estimate of future payments for claims reported as of each year-end, an estimate of the related defense and investigative expenses, an estimate for claims administration and other adjusting expenses, and a provision for claims incurred but not reported. Since this liability is based upon estimates, and while management believes that amounts recorded are adequate, the ultimate liability may differ from the amounts provided in the financial statements. The methodologies for making such estimates and for establishing the resulting liabilities are continually reviewed by management and the independent actuaries of MPT. Adjustments to the estimates are included in operations in the period they are determined. The actuarially estimated liability for claims of non-assessable former members is as follows:

	December 31 2013	2012
Claims reported:		
Members retired	**$ 3,545,000**	$ 3,714,000
Members voluntarily terminated, transferred and deceased	**5,952,000**	6,235,000
Members involuntarily terminated	**15,048,000**	15,043,000
Claims incurred but not reported	**10,471,000**	7,750,000
Claims administration and other adjusting expenses	**2,648,000**	2,452,000
	$37,664,000	$35,194,000

The following summarizes the years in which the actuarially estimated liability for claims reported and claims incurred but not reported for non-assessable former members are estimated to be paid:

Years Ending December 31	Amount
2014	$11,074,000
2015	8,357,000
2016	5,712,000
2017	3,957,000
2018	3,064,000
2019 and after	5,500,000
	$37,664,000

Cash and investments in MPT's Trust Fund Operations accounts have been retained sufficient to fund the total estimated future liability for claims against non-assessable former members of $37,664,000 at December 31, 2013. Such funds may be used for other purposes only upon approval of the Trustees, and it is the Board's intention to replenish any such funds through the regular assessment process.

Note 5: Contingencies

MPT is liable for unpaid claims and expenses only as required by California Insurance Code Section 1280.7 and the MPT Agreement. Any future liability beyond the amount reported in the financial statements for unpaid claims and expenses of the MPT members will become the liability of MPT only to the extent that final settlements or judgments exist against MPT members who are current in all payments due to MPT, or when an MPT member becomes a former member and qualifies for non-assessable former member status.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 5: Contingencies (continued)

MPT's independent actuaries have estimated the aggregate liability of the assessable members for all actual claims and expenses, which are not the current liability of MPT, to be $134,471,000 (net of reinsurance of $10,575,000 as discussed below) and $136,317,000 (net of reinsurance of $8,498,000 as discussed below) as of December 31, 2013 and 2012, respectively. This liability is MPT's estimate of future payments for all claims reported as of each year-end and the related defense and investigative expenses. Additional occurrences may become reported claims in subsequent periods. Actuarial studies have estimated that this liability for unpaid claims and expenses will require funding through future assessments, which are affected by the amount of investment earnings, over a period of up to seventeen years. In the highly unlikely event this contingent liability becomes due in its entirety within the next 12 months, management believes there will be sufficient available liquidity within its Trust Fund Operations' cash and cash equivalents, fixed income securities, reinsurance recoveries, and available lines of credit to fully fund this contingent liability prior to making any unanticipated assessment of the membership.

MPT has entered into reinsurance contracts with major global reinsurance companies and its affiliate, Cooperative of American Physicians Insurance Company, Inc. (CAPIC, a wholly-owned subsidiary of CAP), which provide coverage on a claims-made basis for case losses in excess of a $1,000,000 retention for which MPT is obligated. Coverage also has been purchased that applies to: a) multiple cases arising from the same occurrence; and b) indemnity and defense costs that exceed, on a claims-made basis, an aggregate limit. MPT is contingently liable with respect to ceded reinsurance, if any, should any reinsurer be unable to meet its obligations under those agreements. MPT also maintains a contract with a major reinsurance company that is designed to protect MPT from a sudden and unexpected level of loss, defense and investigative payments within a calendar year that could lead to an unanticipated assessment. Up to $20,000,000 of reinsurance protection is available in the event that calendar year loss and defense and investigative payments, net of underlying reinsurance recoveries, exceed an actuarially determined attachment point. Premiums are variable based on loss experience. The initial adjustable premium of $5,000,000 is held by MPT on a contingent basis, and is released to the reinsurer should the calendar year attachment point be exceeded. The attachment point is set at a level where the likelihood of the reinsurance being triggered is remote. Due to the limited transfer of risk evident in the contract, in accordance with ASC 340-30, *Other Assets and Deferred Costs — Insurance Contracts that do not Transfer Insurance Risk,* the deposit method of accounting is used. The contingent adjustable premium of $5,000,000 is included in Trust Fund Operations fixed income securities as of December 31, 2013 and 2012, respectively. There is also an annual non-adjustable margin premium of $350,000 that has been expensed in each of the years ended December 31, 2013 and 2012. This contract was terminated at January 1, 2014. MPT also has reinsurance contracts with major London-based reinsurance companies and CAPIC, which provides coverage on a claims-made basis for multiple claims arising out of one common, systemic event. Limits of $7,000,000 are available to MPT on a claims-made basis over a $3,000,000 retention. Premiums paid under this contract were $694,000 and $640,000 for the years ended December 31, 2013 and 2012, respectively (see Note 6).

In December 2010, an audit was performed by a municipal taxing authority of certain business tax returns filed by MPT covering the tax years 2008, 2009, and 2010. In January 2011, the results of the audit indicated that the taxing authority objected to the method employed by MPT in preparing the tax returns. MPT has objected to the audit's findings, and believes that there are alternative methods allowed for under the regulations that more appropriately reflect MPT's business tax obligations. In September 2012, MPT exhausted its administrative remedies with the taxing authority and was unsuccessful in its protest to the audit's findings. The taxing authority closed its audit for the years in question and MPT paid the taxing authority $498,000 in additional taxes. In July 2013, the taxing authority audited MPT's business tax returns for tax years 2011, 2012, and 2013. The taxing authority adjusted these tax years using the same methodology used in the earlier audit, resulting in additional taxes of $288,000. MPT has included in other liabilities an estimate of $319,000 and $503,000 as of December 31, 2013 and 2012, respectively, in additional business tax expense for the 2011 and 2012 tax years and for additional legal expenses that may result should MPT be unsuccessful in its relief efforts.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 6: Related Party Transactions

Effective January 1, 2010, MPT and CAP entered into an administrative and management services agreement whereby CAP provides membership, claims, risk management, financial, and other administrative and management services to MPT. Under the agreement, CAP receives monthly fees from MPT for these services that are based on actual expenses incurred by CAP plus a margin. Fees of $26,526,000 and $25,719,000 were incurred by MPT for administrative and management services under the agreement for the years ended December 31, 2013 and 2012, respectively.

Effective January 1, 2013, MPT and CAPIC entered into a services agreement whereby CAPIC provides legal defense services to MPT physicians. MPT pays CAPIC monthly fees for these services that are based on actual costs incurred. Fees incurred under this agreement were $16,266,000 for the year ended December 31, 2013. Included in the payable to affiliated entity is $1,672,000 payable to CAPIC for these services as of December 31, 2013.

In 2013 and 2012, MPT had reinsurance contracts with CAPIC. These contracts principally provide aggregate stop-loss and per claim excess of loss reinsurance coverage on a claims-made form for MPT for claims reported in 2013 and 2012. The aggregate stop-loss coverage in both years provides for a limit of $11,000,000 in excess of an aggregate attachment of $115,200,000 and $118,470,000 for 2013 and 2012, respectively. These agreements can be terminated and commuted at the end of any calendar quarter prospectively by mutual agreement of CAPIC and MPT. Premiums paid by MPT under these agreements were $3,100,000 and $3,373,000 for the years ended December 31, 2013 and 2012, respectively. MPT also maintains reinsurance coverage on a claims-made basis for multiple claims arising out of one common event. CAPIC participates in this contract along with other non-affiliated reinsurance companies. Premiums paid by MPT to CAPIC under this contract were $243,000 and $224,000 for the years ended December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, total affiliate reinsurance premium expense under all reinsurance contracts with CAPIC was $3,343,000 and $3,507,000, respectively, and is included in Claims: Other Operating Costs.

Note 7: Employee Benefits

MPT sponsors a 401(k) savings plan for its employees. Employees' contributions are matched by MPT at a level that is determined by the Board of Trustees. The contribution expense for the 401(k) savings plan was $21,000 and $272,000 for the years ended December 31, 2013 and 2012, respectively. Eligible employees vest in MPT's contribution over a four-year vesting schedule. MPT also sponsors a supplemental employee retirement program (SERP) for certain employees. Participants vest, on average, over a 10-year period. SERP liabilities, which are included in other liabilities, totaled $5,518,000 and $5,990,000 at December 31, 2013 and 2012, respectively. The benefit related to this program was ($774,000) and ($15,000) for the years ended December 31, 2013 and 2012, respectively. The significant increase in benefit in 2013 was due primarily to an increase in the discount rate used to determine the present value of SERP obligations as of December 31, 2013. MPT maintains a non-qualified deferred compensation program (NDCP) for eligible employees and Board members. Under the plan, participants can defer compensation or Board fees based on an annual election. Amounts deferred are credited with notional investment earnings on a tax deferred basis until such amounts are distributed to participants. Liabilities of the NDCP, which are included in other liabilities, totaled $10,942,000 and $8,884,000 at December 31, 2013 and 2012, respectively.

MPT funds its SERP and NDCP obligations principally through life insurance policies on the participants and eligible participants. Mutual fund investments are also used to fund these obligations. The life insurance policy assets supporting these benefit plan obligations are carried at their cash surrender value, which approximates fair value, and are included in other assets, totaling $13,113,000 and $11,617,000 at December 31, 2013 and 2012, respectively. The mutual fund assets are carried at fair value, totaling $4,611,000 and $2,808,000 at December 31, 2013 and 2012, respectively.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 7: Employee Benefits (continued)

MPT maintains a post-retirement medical benefit plan for certain employees. Beginning at the age of 62, participants can use amounts contributed to a separate post-retirement account held on their behalf (by a third party trust) to fund eligible medical expenses. Amounts paid to the trust by MPT are not refundable and become the property of the trustee on behalf of participants. The trust invests funds received from MPT in universal life insurance policies covering participants, which includes a death benefit funded by MPT until the participant reaches the vesting age of 62. While the plan establishes targeted post-retirement benefit levels for participants, there is no obligation for MPT to fully fund these levels and the employees are only eligible to receive the benefits accumulated in their account. Amounts contributed to the trust by MPT were $21,000 and $90,000 for the years ended December 31, 2013 and 2012.

Note 8: Income Taxes

The components of the income tax expense (benefit) are as follows:

	Years Ended December 31	
	2013	2012
Current	$123,000	$ (25,000)
Deferred	(90,000)	(288,000)
Total	$ 33,000	$(313,000)

A reconciliation of income tax expense (benefit) computed at the federal statutory tax rate to total income tax benefit is summarized as follows:

	Years Ended December 31	
	2013	2012
Federal income tax expense (benefit) at 35%	$ 119,000	$ (819,000)
(Decrease) increase in taxes resulting from:		
State income tax expense (benefit) (net of federal benefit/expense)	417,000	(327,000)
Non-deductible public affairs activities	1,769,000	—
Life insurance proceeds	—	(280,000)
Change in valuation allowance	(2,283,000)	1,073,000
Employee benefit plans	1,000	24,000
Other	10,000	16,000
Total federal income tax expense (benefit)	$ 33,000	$ (313,000)

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 8: Income Taxes (continued)

The significant components of deferred income tax assets and liabilities are as follows:

	December 31 2013	December 31 2012
Trust Fund Corpus, restricted:		
Deferred tax liability attributable to net unrealized investment gains	$ (776,000)	$ (2,667,000)
Trust Fund Operating:		
Deferred tax assets attributable to:		
Initial trust contributions	46,169,000	45,332,000
Discounting of non-assessable former members' claim and other liability	2,326,000	2,502,000
Net operating loss carryforward	15,393,000	17,676,000
Employee benefit obligations	7,846,000	8,194,000
California EZ credit	129,000	129,000
Capital loss carryover	282,000	339,000
Deferred tax asset attributable to net unrealized investment losses	82,000	—
Other	328,000	146,000
Deferred tax assets before valuation allowance	72,555,000	74,318,000
Valuation allowance	(15,393,000)	(17,676,000)
Deferred tax assets after valuation allowance	57,162,000	56,642,000
Deferred tax liabilities attributable to:		
Discounting of assessable members' contingent claim liability	(42,253,000)	(41,961,000)
Deferred tax liability attributable to net unrealized investment gains	—	(783,000)
Accretion of bond discount	(1,372,000)	(1,316,000)
Deferred tax liabilities	(43,625,000)	(44,060,000)
Deferred tax asset, net	$ 13,537,000	$ 12,582,000

ASC 740, *Income Taxes,* requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Realization of the deferred income tax asset is dependent on MPT generating sufficient taxable excess of assessments and revenues over expenses in future years as the deferred income tax charges become currently deductible for tax reporting purposes. MPT evaluates the need for a valuation allowance taking into consideration all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences.

As of December 31, 2013 there remains federal net operating loss carryforwards totaling $39,047,000 which expire beginning in 2026 to be applied to future tax years. The net operating loss carryforward resulted primarily from a change in accounting method for incurred losses that was permitted by the Internal Revenue Service in 2008 on 2006 and subsequent tax years. As of December 31, 2013 there remains a state net operating loss carryforward totaling $19,538,000 that will expire beginning in 2028 to be applied to future tax years. MPT has determined that it is not more likely than not that the deferred tax assets related to the net operating losses will be recognized. Accordingly, MPT has established a valuation allowance against these deferred tax assets. The valuation allowance decreased by $2,283,000 in 2013 and increased by $1,073,000 in 2012.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 8: Income Taxes (continued)

MPT believes that it is more likely than not the results of future operations and various tax planning strategies will generate sufficient taxable income in the periods necessary to realize the remaining $13,537,000 in deferred tax assets, net. Additional valuation allowance benefits or charges could be recognized in the future due to changes in management's expectations regarding the realization of tax benefits.

Income taxes refunded for the year ended December 31, 2013 was $729,000. There were no income tax amounts paid or refunded in the year ended December 31, 2012. There were no tax penalties recognized for the years ended December 31, 2013 or 2012.

Tax years 2010 through 2013 and tax years 2009 through 2013 are subject to examination by the federal and California taxing authorities, respectively. There are no income tax examinations currently in progress.

As of December 31, 2013 or 2012, MPT had no uncertain tax positions.

Note 9: Commitments

MPT and CAP occupy their home office and regional office facilities under operating leases which provide for adjustments to the lease payments based upon contractual commitments and inflationary factors. Both companies are lessees under these operating leases. Rent expense is apportioned between MPT and CAP based primarily on the number of employees. The total rent expense under these leases was $3,312,000 and $3,358,000 for the years ended December 31, 2013 and 2012, respectively. The total rent expense apportioned to MPT was $48,000 and $779,000 for the years ended December 31, 2013 and 2012, respectively. The significant decrease in rent expense in 2013 is due mainly to the transfer at January 1, 2013 of certain employees to an affiliate entity. In January 2013, MPT and CAP extended the lease covering their home office facility for an additional ten years to a new expiration date of January 31, 2024. The future minimum rental commitments under these operating leases are as follows:

Years Ending December 31	Amount
2014	$ 1,182,000
2015	2,012,000
2016	1,671,000
2017	1,696,000
2018 and after	10,871,000
	$17,432,000

MPT maintains a line of credit in the amount of $20,000,000, which bears interest at the bank prime rate or a borrowing rate based upon the London Interbank Offered Rates plus a margin for any portion outstanding. The line of credit includes a sub-feature for letters of credit which may be used to collateralize appeal bonds obtained by MPT. There were no letters of credit outstanding under this sub-feature at December 31, 2013 or 2012.

MPT obtains surety bonds for use as collateral for judgments on appeal. MPT indemnifies the surety company for any recoveries made against the appeal bond. Fees are paid based upon the amount and duration of the appeal bond. No amounts were outstanding on appeal bonds at December 31, 2013 or 2012.

Supplementary Financial Information

MUTUAL PROTECTION TRUST

	As of and For the Years Ended				
	2013	2012	2011	2010	2009
RESULTS OF OPERATIONS					
(In millions)					
Total Assessments, Dues and Revenues	**$135.3**	$127.1	$118.0	$118.0	$122.2
Expenses					
Indemnity Expense	**$ 48.1**	$ 51.0	$ 43.4	$ 50.7	$ 48.7
Defense and Investigative	**35.1**	31.9	30.7	30.6	31.8
Other	**51.8**	46.5	44.7	42.6	41.2
Total Expenses	**$135.0**	$129.4	$118.8	$123.9	$121.7
Excess (Deficit) of Assessments, Dues and Revenues Over Expenses, net of income taxes	**$ 0.3**	$ (2.0)	$ 1.8	$ (5.4)	$ 0.7
FINANCIAL POSITION					
Cash and Invested Assets	**$218.3**	$226.5	$226.1	$216.4	$220.2
Total Assets	**$350.7**	$346.7	$340.3	$327.3	$324.4
Members' Equity	**$160.3**	$163.0	$162.5	$154.5	$156.0
MEMBERSHIP AND CLAIMS (Unaudited)					
Active Members at Year End	**11,789**	11,726	11,533	11,067	10,559
Services for Reported Claims					
Cases Opened	**1,234**	1,198	1,291	1,139	1,271
Cases Closed	**1,170**	1,190	1,228	1,209	1,183
Cases Under Management	**1,493**	1,429	1,421	1,358	1,428
Per Active Member (In thousands)					
Total Assessments, Dues and Revenues	**$ 11.5**	$ 10.8	$ 10.2	$ 10.7	$ 11.6
Indemnity Expense	**4.1**	4.3	3.8	4.6	4.6
Defense and Investigative	**3.0**	2.7	2.7	2.8	3.0
Other Expenses	**4.4**	4.0	3.8	3.8	3.9
Total Expenses	**$ 11.5**	$ 11.0	$ 10.3	$ 11.2	$ 11.5

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