AMERICAN PHYSICIANS SERVICE GROUP INC
Form DEFM14A
October 19, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

AMERICAN PHYSICIANS SERVICE GROUP, INC.

(Name of registrant as specified in its charter)

N/A

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

x Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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1301 S. Capital of Texas Highway, Suite C-300

Austin, Texas 78746

October 18, 2010

To Our Shareholders:

We cordially invite you to attend the special meeting of shareholders of American Physicians Service Group, Inc., a Texas corporation (the Company), at our offices, 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746, on November 29, 2010 at 1:00 p.m. (local time).

At the special meeting, we will ask you to consider and vote upon a proposal to approve the Merger (as defined below) and adopt the Agreement and Plan of Merger (the Merger Agreement), dated as of August 31, 2010, by and among the Company, ProAssurance Corporation, a Delaware corporation (ProAssurance), and CA Bridge Corporation, a Texas corporation and wholly-owned subsidiary of ProAssurance (Merger Sub). Under the terms of the Merger Agreement, Merger Sub will merge with and into the Company with the Company continuing as the surviving corporation and wholly-owned subsidiary of ProAssurance (the Merger). Merger Sub was formed by ProAssurance solely for the purpose of entering into the Merger Agreement and consummating the Merger and other transactions contemplated thereby. If the Company s shareholders approve the Merger and adopt the Merger Agreement and the Merger is completed, you will be entitled to receive $32.50 in cash, less any applicable withholding taxes, for each share of Company common stock you own at the time of the Merger (unless you object to the Merger and are entitled to and have properly exercised your dissenters rights under Texas law with respect to the Merger, including by voting against the Merger and delivering your written objection to the Company).

After careful consideration, the Company s board of directors by unanimous vote has determined that the Merger Agreement is advisable and in the best interests of the Company and its shareholders. **Accordingly, the Company s board of directors unanimously recommends that you vote FOR the approval of the Merger and adoption of the Merger Agreement**. The board s recommendation is based, in part, upon the unanimous recommendation of a special committee of the board of directors consisting of three independent directors. The board of directors established the special committee to review and assess, and to assist the board of directors in reviewing and assessing, the terms and conditions of the Merger and to consider alternative transaction opportunities to determine whether or not the Merger is fair to, and in the best interests of, the Company and its shareholders and to recommend to the board of directors what action, if any, should be taken.

The accompanying Proxy Statement provides you with detailed information about the special meeting, the background of and reasons for the proposed Merger, the terms of the Merger Agreement and other important information. Please give this material your careful attention. You may also obtain more information about the Company from documents the Company has filed with the Securities and Exchange Commission (the SEC).

Your vote is very important regardless of the number of shares you own. The Merger cannot be completed unless holders of a majority of the outstanding shares entitled to vote at the special meeting of shareholders vote for the approval of the Merger and adoption of the Merger Agreement. We would like you to attend the special meeting. However, whether or not you plan to attend the special meeting, it is important that your shares be represented. **Accordingly, please submit your proxy at your earliest convenience by following the instructions on your proxy card as soon as possible and returning the proxy card in the envelope provided, or by voting over the telephone or over the Internet as instructed in these materials**.

If you hold shares through a bank, broker or other nominee, you should follow the procedures provided by your bank, broker or nominee. **If you do not vote or instruct your bank, broker or nominee how to vote, it will have the same effect as a vote AGAINST the approval of the Merger and adoption of the Merger Agreement**. If you complete, sign and submit your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of approval of the Merger and adoption of the Merger Agreement and approval of any adjournment of the special meeting. Remember, failing to vote has the same effect as a vote AGAINST the approval of the Merger and adoption of the Merger Agreement.

If you have questions or need assistance voting your shares, please call Morrow & Co., LLC, our proxy solicitation agent, at (800) 276-3011 (shareholders) or (203) 658-9400 (banks and brokers), or contact us directly by calling Marc J. Zimmermann, Chief Financial Officer, or William H. Hayes, Secretary, at (512) 328-0888.

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Thank you for your continued support and we look forward to seeing you on November 29, 2010.

Sincerely,

/s/ Kenneth S. Shifrin

Kenneth S. Shifrin

Chairman and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved of the Merger, passed upon the merits or fairness of the Merger or passed upon the adequacy or accuracy of the disclosure in the enclosed documents. Any representation to the contrary is a criminal offense.

The Proxy Statement is dated October 18, 2010, and is first being mailed to shareholders of the Company on or about October 20, 2010.

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1301 S. Capital of Texas Highway, Suite C-300

Austin, Texas 78746

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON NOVEMBER 29, 2010

October 18, 2010

To the Shareholders of American Physicians Service Group, Inc.:

A special meeting of the shareholders of American Physicians Service Group, Inc., a Texas corporation (the Company), will be held at our offices, 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746 on November 29, 2010 at 1:00 p.m. (local time), for the following purposes:

(1) to consider and vote upon a proposal to approve the Merger (as defined below) and adopt the Agreement and Plan of Merger (the Merger Agreement), dated as of August 31, 2010, by and among the Company, ProAssurance Corporation, a Delaware corporation (ProAssurance), and CA Bridge Corporation, a Texas corporation and wholly-owned subsidiary of ProAssurance (Merger Sub), as it may be amended from time to time, pursuant to which Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation and wholly-owned subsidiary of ProAssurance (the Merger); and

(2) to consider and vote upon a proposal to, if necessary or appropriate, adjourn the special meeting to solicit additional proxies if there are insufficient votes at the time of the meeting to approve the Merger and adopt the Merger Agreement.

In accordance with the Company s bylaws, the board of directors has fixed 5:00 p.m. Central Standard Time on October 15, 2010 as the record date for the purposes of determining shareholders entitled to notice of and to vote at the special meeting and at any reconvened meeting after an adjournment or postponement thereof. A list of the Company s shareholders will be available at our principal executive offices at 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746, during ordinary business hours for at least ten days prior to the special meeting and at the special meeting. All shareholders of record are cordially invited to attend the special meeting in person.

The approval of the Merger and adoption of the Merger Agreement requires the affirmative vote of a majority of the outstanding shares of the Company s common stock entitled to vote thereon as of the record date. Whether or not you plan to attend the special meeting, we urge you to vote your shares as promptly as possible prior to the special meeting to ensure that your shares will be represented at the special meeting if you are unable to attend. **Accordingly, please submit your proxy at your earliest convenience in one of the following ways**:

- **using the toll-free number shown on your proxy card;**
- **using the Internet website shown on your proxy card; or**
- **completing, signing, dating and returning the enclosed proxy card in the postage-paid envelope.**

If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be voted FOR the approval of the Merger and adoption of the Merger Agreement. If you fail to return a valid proxy card and do not vote in person at the special meeting, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and, if a quorum is present, it will have the same effect as a vote AGAINST the approval of the Merger and adoption of the Merger Agreement. Any shareholder attending the special meeting may vote in person by ballot, even if he or she has returned a proxy card; such vote by ballot will revoke any proxy previously submitted. However, if you hold your shares through a bank, broker or other nominee, you must provide a legal proxy issued from such custodian in order to vote your shares in person at the special meeting.

If you plan to attend the special meeting, please note that space limitations make it necessary to limit attendance to shareholders. Each shareholder may be asked to present valid picture identification, such as a driver s license or passport. Shareholders holding stock in brokerage accounts (street name holders) will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras (including cellular telephones with photographic capabilities),

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recording devices and other electronic devices will not be permitted at the special meeting. The special meeting will begin promptly at 1:00 p.m. (local time).

Shareholders who do not vote in favor of the approval of the Merger and adoption of the Merger Agreement will have the right to seek appraisal of the fair value of their shares if the Merger is completed, but only if they submit a written objection to the Merger to the Company before the vote is taken on the Merger Agreement and they comply with all applicable requirements of Texas law, which are summarized in the accompanying Proxy Statement. We urge you to read the entire Proxy Statement carefully.

PLEASE DO NOT SURRENDER YOUR STOCK CERTIFICATES OR BOOK-ENTRY SHARES AT THIS TIME. IF THE MERGER IS COMPLETED, YOU WILL BE SENT INSTRUCTIONS REGARDING THE SURRENDER OF YOUR STOCK CERTIFICATES OR BOOK-ENTRY SHARES.

By Order of the Board of Directors,

/s/ W. H. Hayes

W. H. Hayes

Secretary

Austin, Texas

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SUMMARY

This summary highlights selected information from the Proxy Statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire Proxy Statement and its annexes. The Agreement and Plan of Merger, dated as of August 31, 2010 (the Merger Agreement), by and among American Physicians Service Group, Inc., a Texas corporation (APS or the Company), ProAssurance Corporation, a Delaware corporation (ProAssurance), and CA Bridge Corporation, a Texas corporation and wholly-owned subsidiary of ProAssurance (Merger Sub), is attached as Annex A to this Proxy Statement. We encourage you to read the Merger Agreement because it is the legal document that governs the parties agreement pursuant to which Merger Sub will be merged with and into the Company (the Merger). Each item in this summary includes a page reference directing you to a more complete description of that item. In this Proxy Statement, the terms Company, APS, we, our, ours, and us refer to American Physicians Service Group, Inc., unless the context otherwise requires.

The Parties to the Merger

(See The Parties to the Merger beginning on page 19)

The Company, incorporated in 1974, is an insurance holding company with subsidiaries that provide medical professional liability insurance for physicians and other healthcare providers. The Company has been publicly traded on the NASDAQ Capital Market since 1983 under ticker symbol AMPH .

ProAssurance was incorporated in 2001 as the successor to Medical Assurance, Inc. in connection with its merger with Professionals Group, Inc. ProAssurance is a holding company for property and casualty insurance companies focused on professional liability insurance. Through its subsidiaries, ProAssurance sells professional liability insurance primarily to physicians, dentists, other healthcare providers and healthcare facilities and is one of the largest writers of professional liability insurance in the United States. ProAssurance has been publicly traded on the New York Stock Exchange (NYSE) since 2001 under ticker symbol PRA .

Merger Sub is a newly formed Texas corporation and a wholly-owned subsidiary of ProAssurance, and was organized solely for the purpose of entering into the Merger Agreement. Merger Sub has not engaged in any business except activities incidental to its organization and in connection with the transactions contemplated by the Merger Agreement.

The Merger

(See The Merger Effects of the Merger beginning on page 34 and The Merger Agreement The Merger beginning on page 43)

If the Merger is approved and the Merger Agreement is adopted by our shareholders and the other conditions to closing are satisfied, Merger Sub will merge with and into the Company. When the Merger becomes effective (the Effective Time), the separate corporate existence of Merger Sub will cease, and the Company will continue as the surviving corporation. The surviving corporation will be a wholly-owned subsidiary of ProAssurance. Following completion of the Merger, the Company s common stock will be delisted from the NASDAQ Capital Market and will no longer be publicly traded. The surviving corporation will be a privately held corporation, and you will cease to have any ownership interest in the surviving corporation or any rights as a shareholder therein.

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Stock Consideration (See The Merger Effects of the Merger Effect on Common Stock and Other Equity-Based Awards beginning on page 35, The Merger Agreement Stock Consideration to be Received in the Merger beginning on page 43 and Dissenters Rights of Appraisal beginning on page 59)	At the Effective Time, each outstanding share of Company common stock (other than shares held by (i) the Company, (ii) any subsidiary of the Company or (iii) shareholders who vote against the approval of the Merger and adoption of the Merger Agreement and who are entitled to and properly demand dissenters rights in accordance with Texas law) will be converted into the right to receive $32.50 in cash, without interest and less any applicable withholding taxes (the Stock Consideration).
Treatment of Company Options (See The Merger Effects of the Merger Effect on Common Stock and Other Equity-Based Awards beginning on page 35, The Merger Interests of the Company s Directors and Executive Officers in the Merger Treatment of Company Options, Deferred Stock and 401(k) Match Shares beginning on page 36 and The Merger Agreement Treatment of Company Options, Deferred Stock and 401(k) Match Shares beginning on page 44)	Immediately prior to the Effective Time, each option to acquire Company common stock (each a Company Option) issued under the Company s 2005 Amended and Restated Incentive and Non-Qualified Stock Option Plan (the Stock Option Plan) will fully and immediately vest and as of the Effective Time each Company Option will be converted into the right to receive an amount in cash equal to (i) the total number of shares of Company common stock previously subject to such Company Option multiplied by (ii) the amount by which $32.50 exceeds the exercise price per share of Company common stock previously subject to such Company Option, less any applicable withholding taxes.
Treatment of Deferred Stock (See The Merger Effects of the Merger Effect on Common Stock and Other Equity-Based Awards beginning on page 35, The Merger Interests of the Company s Directors and Executive Officers in the Merger Treatment of Company Options, Deferred Stock and 401(k) Match Shares beginning on page 36 and The Merger Agreement Treatment of Company Options, Deferred Stock and 401(k) Match Shares beginning on page 44)	Immediately prior to the Effective Time, each share of Company common stock (Deferred Stock) held under, or to be issued pursuant to, the American Physicians Service Group, Inc. Affiliated Group Deferred Compensation Master Plan (the Deferred Compensation Plan) will fully and immediately vest and as of the Effective Time each share of Deferred Stock will be converted into the right to receive an amount in cash equal $32.50 per share, less any applicable withholding taxes.
Treatment of Shares Held in the 401(k) Plan (See The Merger Effects of the Merger Effect on Common Stock and Other Equity-Based Awards beginning on page 35, The Merger Interests of the Company s Directors and Executive Officers in the Merger Treatment of Company Options, Deferred Stock and 401(k) Match Shares beginning on page 36 and The Merger Agreement Treatment of Company Options, Deferred Stock and 401(k) Match Shares beginning on	Prior to the Effective Time, each participant in the APS 401(k) Profit Sharing Plan (the 401(k) Plan) will fully and immediately vest in any unvested shares of Company common stock held for the account of such participant under the 401(k) Plan (such shares, together with all other shares of Company common stock held for the accounts of participants under the 401(k) Plan are referred to herein as the 401(k) Match Shares). Stock Consideration deliverable with respect to the 401(k) Match Shares will be distributed to the trustee of the 401(k) Plan and will be allocated thereunder in accordance with the terms of the 401(k) Plan (the 401(k) Consideration and together with the Stock Consideration, the Option Consideration and the Deferred Compensation Consideration, the Merger Consideration).

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The Special Meeting of Shareholders

(See Questions and Answers About the Special Meeting and the Merger beginning on page 13 and The Special Meeting of Shareholders beginning on page 19)

Place, Date and Time. The special meeting of shareholders will be held at the Company s offices, 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746, on November 29, 2010 at 1:00 p.m. (local time).

Purpose. You will be asked to consider and vote upon (i) a proposal to approve the Merger and adopt the Merger Agreement, pursuant to

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which Merger Sub will merge with and into the Company, and (ii) a proposal to, if necessary or appropriate, adjourn the special meeting to solicit additional proxies if there are insufficient votes at the time of the meeting to approve the Merger and adopt the Merger Agreement.

Record Date and Quorum. You are entitled to vote at the special meeting if you owned shares of Company common stock as of 5:00 p.m. Central Standard Time on October 15, 2010, the record date for the special meeting. As of the record date there were 6,732,462 shares of Company common stock outstanding and entitled to vote, held by approximately 3,272 holders of record. The presence in person or by proxy of a majority of the holders of a majority of the outstanding shares entitled to vote at the special meeting constitutes a quorum for the purpose of considering the proposals.

Vote Required For Approval of the Merger and Adoption of the Merger Agreement. The approval of the Merger and adoption of the Merger Agreement requires the affirmative vote of a majority of the outstanding shares of Company common stock entitled to vote thereon. **The failure to vote has the same effect as a vote AGAINST the approval of the Merger and adoption of the Merger Agreement**. Because the Company redeemed all issued and outstanding shares of its Series A redeemable preferred stock (the Preferred Stock) on September 24, 2010, before the record date for the special meeting of shareholders to vote on the Merger, no vote of the Preferred Stock is required.

Vote Required For Adjournment. If a quorum does not exist, a majority of the shareholders present in person or represented by proxy at the special meeting may adjourn the special meeting. If a quorum exists, the affirmative vote of a majority of the votes cast by the shareholders entitled to vote thereon and represented in person or by proxy at the meeting may adjourn the special meeting.

Who Can Vote at the Special Meeting. At the special meeting, you may vote all of the shares of Company common stock you owned of record as of the record date. You may vote any shares you hold of record in person by ballot at the special meeting, even if you have returned a proxy card, and your vote by ballot will revoke any proxy previously submitted. If you hold your shares through a bank, broker or other nominee, you must provide a legal proxy issued from such custodian in order to vote your shares in person at the special meeting.

***Procedure for Voting*. You may vote your shares by attending the special meeting and voting in person or you may submit a proxy in one of the following ways:**

- **using the toll-free number shown on your proxy card;**
- **using the Internet website shown on your proxy card; or**

completing, signing, dating and returning the enclosed proxy card in the postage-paid envelope.

You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must advise us, in writing,

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at American Physicians Service Group, Inc., 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746, Attn: William H. Hayes, Secretary, that you are revoking your proxy and deliver a new proxy dated after the date of the earlier proxy being revoked, or submit a later-dated proxy by telephone or the Internet at or before the special meeting, before your shares of Company common stock have been voted at the special meeting, or attend the special meeting and vote your shares in person. Merely attending the special meeting without voting will not constitute a revocation of your earlier proxy.

If your shares are held in street name by your bank, broker or other nominee, please follow the directions provided by your bank, broker or other nominee in order to instruct your bank, broker or other nominee as to how to vote your shares. **If you do not instruct your bank, broker or other nominee to vote your shares, it will have the same effect as a vote AGAINST the approval of the Merger and adoption of the Merger Agreement**.

Timing and Likelihood of Closing

(See The Merger Agreement Closing Conditions beginning on page 52 and The Merger Agreement Termination beginning on page 54)

We are working toward completing the Merger as quickly as possible, and we anticipate that it will be completed by year-end 2010, assuming the satisfaction or waiver of all of the conditions to the Merger. However, because the Merger is subject to various conditions, including approval of the Merger and adoption of the Merger Agreement by our shareholders and receipt of certain insurance and other regulatory approvals, the exact timing of the completion of the Merger and the likelihood of the consummation thereof cannot be predicted. If any of the conditions in the Merger Agreement are not satisfied or waived, including the conditions described below under The Merger Agreement Closing Conditions, the Merger Agreement may be terminated as described in The Merger Agreement Termination and the Merger will not be completed.

Determinations and Recommendations of the Special Committee and the Board of Directors

(See The Merger Reasons for the Merger; Recommendation of the Merger beginning on page 26)

Special Committee. On April 12, 2010, our board of directors established a special committee composed of three independent directors for the purpose of reviewing and assessing, and assisting the board of directors in reviewing and assessing, the terms and conditions of the Merger and considering alternative transaction opportunities to determine whether or not the Merger is fair to and in the best interests of the Company and its shareholders and to recommend to the board of directors what action, if any, should be taken. The special committee was given authority to:

oversee the negotiation process with respect to the proposed Merger;

communicate as frequently as necessary with management, the board of directors and the Company s legal and financial advisors with respect to the negotiation of and relevant terms regarding the proposed Merger;

consider alternative transaction opportunities to determine whether or not the proposed Merger is fair to, and in the best interests of, the Company and its shareholders; and

recommend to the board of directors of the Company what action, if any, should be taken with respect to the proposed Merger.

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Members of the special committee received no compensation for their service as members of the special committee other than (i) the compensation normally provided to directors for attendance of board and board committee meetings in accordance with the Company s remuneration policies and (ii) reimbursement for reasonable out-of-pocket costs and expenses incurred in connection with service on the special committee.

On July 30, 2010, the special committee unanimously recommended that the board of directors of the Company approve the Merger on the terms and conditions substantially as set forth in the Merger Agreement.

Board of Directors. On August 4, 2010, the board of directors of the Company unanimously:

determined that the Merger Agreement, the Merger, in accordance with the terms of the Merger Agreement, and all other transactions contemplated by the Merger Agreement are advisable and in the best interests of the Company and its shareholders;

determined that the consideration to be received by the Company s shareholders in the Merger is fair and in the best interests of the Company s shareholders;

approved, authorized and adopted in all respects, the form, terms and provisions of the Merger Agreement, which had previously been presented to each member of the board of directors, with such further changes, revisions or modifications thereto as the officers executing the same shall, as evidenced by their execution thereof, deem appropriate;

authorized and directed officers of the Company to execute and enter into, deliver and perform the Merger Agreement;

directed that once executed and delivered, the Merger Agreement be submitted to the shareholders of the Company for their consideration at a special meeting; and

resolved that the consummation of the Merger on the terms set forth in the Merger Agreement are advisable and in the best interests of the Company and its shareholders and recommended that the Company s shareholders approve the

Merger and adopt the Merger Agreement.

The board of directors further authorized the special committee to continue to monitor the progress of the Merger Agreement and to recommend, if the special committee deemed necessary, that the board of directors reconsider its approval of the Merger.

Our board of directors recommends that the Company s shareholders vote FOR the approval of the Merger and adoption of the Merger Agreement and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

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Interests of the Company s Directors and Executive Officers in the Merger

(See The Merger Interests of the Company s Directors and Executive Officers in the Merger beginning on page 36)

In considering the recommendation of the board of directors with respect to the Merger Agreement, you should be aware that some of the Company s directors and executive officers have interests in the Merger that are different from, or in addition to, the interests of our shareholders generally. These interests include the treatment of Company Options, Deferred Stock and unvested 401(k) Match Shares held by, as well as indemnification and insurance arrangements with, directors and executive officers and change in control severance benefits that may become payable to certain executive officers if the Merger is consummated. In addition, ProAssurance has agreed to offer to amend the employment agreements of certain of our executive officers on or before the Effective Time such that the executive officers would continue their employment with the surviving corporation. The special committee and the board of directors were aware of these interests and considered them, among other matters, in making their determinations regarding the Merger Agreement and the Merger.

Share Ownership of the Company s Directors and Executive Officers

See Security Ownership by Certain Beneficial Owners and Management beginning on page 58)

As of October 15, 2010, the record date, the Company s directors and executive officers held and were entitled to vote, in the aggregate, 539,151 shares of Company common stock representing approximately 8.0% of the outstanding shares of Company common stock.

Opinion of Financial Advisor

(See The Merger Opinion of Financial Advisor beginning on page 29, Annex B)

Macquarie Capital (USA) Inc. (Macquarie Capital) was engaged to act as financial advisor to the board of directors of the Company in connection with the evaluation of the proposed Merger and potential alternatives. On August 4, 2010, Macquarie Capital rendered its oral opinion, subsequently confirmed in writing, to the board of directors of the Company to the effect that, as of such date, and based on and subject to various factors, assumptions, qualifications and limitations described in the written opinion, the Merger Consideration to be received in the Merger by holders of shares of Company common stock (other than ProAssurance and its affiliates) was fair, from a financial point of view, to such holders.

The full text of the written opinion, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B to this Proxy Statement. Holders of shares of Company common stock are encouraged to read the opinion carefully in its entirety. Macquarie Capital s opinion was provided to the board of directors of the Company in connection with its evaluation of the Merger Consideration provided for in the Merger Agreement from a financial point of view. The opinion of Macquarie Capital does not address any other aspect of the Merger and does not constitute a recommendation as to how any shareholder should vote or act in connection with the Merger. The summary of the opinion of Macquarie Capital set forth in this Proxy Statement is qualified in its entirety by reference to the full text of such opinion.

Regulatory Approvals

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), and the rules promulgated thereunder by the Federal Trade Commission (the FTC), the Merger may not be completed until notification and report forms have been filed with the

(See The Merger Regulatory Approvals beginning on page 42

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	FTC and the Antitrust Division of the Department of Justice (the DOJ) and the applicable waiting period has expired or been terminated. The Company and ProAssurance filed their respective notification and report forms under the HSR Act with the FTC and the Antitrust Division of the DOJ on September 14, 2010 and early termination of the applicable waiting period was granted on September 24, 2010.
	Because the Company s insurance subsidiary, American Physicians Insurance Company, is domiciled in the State of Texas, the parties are required to obtain approval of the Texas Department of Insurance prior to the consummation of the Merger. The parties filed an application for approval of the change of control of the Company with the Texas Department of Insurance on September 1, 2010.
Material United States Federal Income Tax Consequences (See The Merger Material United States Federal Income Tax Consequences beginning on page 40)	The Merger will be a taxable transaction for U.S. federal income tax purposes. If you are a U.S. Holder (as defined under The Merger Material United States Federal Income Tax Consequences) for U.S. federal income tax purposes, your receipt of cash (whether as Merger Consideration or pursuant to the proper exercise of dissenters rights) in exchange for your shares of Company common stock generally will cause you to recognize a capital gain or loss measured by the difference, if any, between the cash you receive in the Merger and your adjusted tax basis in your shares of Company common stock. For U.S. federal income tax purposes, if you are a Non-U.S. Holder (as defined below under The Merger Material United States Federal Income Tax Consequences) generally you will not be subject to U.S. federal income tax on your receipt of cash (whether as Merger Consideration or pursuant to the proper exercise of dissenters rights in exchange for your shares of Company common stock) unless you have certain connections to the United States. Under U.S. federal income tax law, you may be subject to information reporting on cash received in the Merger unless an exemption applies. Backup withholding may also apply with respect to the amount of cash received in the Merger unless you provide proof of an applicable exemption or a correct taxpayer identification number, and otherwise comply with the applicable requirements of the backup withholding rules. Tax matters are very complicated. The tax consequences of the Merger to you will depend upon your particular circumstances. You should consult your own tax advisor for a full understanding of how the Merger will affect your federal, state, local, foreign and other taxes.
Dissenters Rights of Appraisal (See Dissenters Rights of Appraisal beginning on page 59 and Annex C)	The Texas Business Organizations Code, (the TBOC), provides you with rights of dissent and appraisal in connection with the Merger. This means that if you are not satisfied with the amount you are receiving in the Merger, you are entitled to have the fair value of your shares of Company common stock determined by a Texas court and to receive payment based on that valuation. The ultimate amount you receive as a dissenting shareholder in an appraisal proceeding may be more or less than, or the same as, the amount you would have received in the Merger. To exercise your rights of dissent and appraisal, you must deliver a written objection to the Merger before the Merger Agreement is voted on at the special meeting and you must vote against the approval of the Merger and adoption of the Merger Agreement. Your failure to follow exactly the procedures specified under Texas law will result in the loss of your rights of dissent and appraisal.

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See Dissenters Rights of Appraisal beginning on page 59 and the text of Subchapter H of Chapter 10 of the Texas Business Organizations Code reproduced in its entirety as Annex C to this Proxy Statement, which relates to your rights of dissent and appraisal. We encourage you to read these provisions carefully and in their entirety.

Conditions to the Merger

(See The Merger Agreement Closing Conditions beginning on page 52)

The obligation of each party to consummate the Merger is subject to the satisfaction or waiver of a number of conditions, including the following:

the Merger Agreement and the transactions contemplated by the Merger Agreement must have been approved and adopted by the requisite affirmative vote of the shareholders of the Company entitled to vote thereon;

all approvals of governmental authorities required to consummate the transactions contemplated by the Merger Agreement, including all required approvals of governmental authorities regulating the business of insurance under insurance laws, shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired, without the imposition of any condition which in the reasonable judgment of ProAssurance is materially burdensome on ProAssurance or its subsidiaries;

the waiting period under the HSR Act shall have expired or notice of early termination of the waiting period shall have been received;

the Company, ProAssurance and Merger Sub must have performed in all material respects all material obligations that each is required to perform at or prior to the closing date under the Merger Agreement;

the respective representations and warranties of the Company and ProAssurance in the Merger Agreement must be true and correct on and as of the closing date in the manner described in the Merger Agreement;

ProAssurance shall have received a certificate signed on behalf of the Company by the Chief Executive Officer and the Chief Financial Officer of the Company confirming that the Company has performed in all material respects all material obligations required to be performed by it under the Merger Agreement at or prior to the Closing Date;

the Company shall have received a certificate signed on behalf of ProAssurance by the Chief Executive Officer and the Chief Financial Officer of ProAssurance confirming that ProAssurance and Merger Sub have performed in all material respects all material obligations required to be performed by it under the Merger Agreement at or prior to the Closing Date;

the condition (financial or otherwise), business, net worth, operations, assets, properties, liabilities or results of operations of the Company and the subsidiaries of the Company, taken as a whole, shall not have suffered a Material Adverse Effect;

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no legal, administrative, arbitral or other written inquiry, proceeding, claim or action shall have been initiated by any securities regulator or SRO alleging violations of securities laws by the Company, any subsidiary of the Company or any director or officer of the Company or any subsidiary of the Company, which action has not been dismissed with prejudice;

the holders of not more than twenty-five percent (25%) of all the outstanding shares of Company common stock shall have exercised their right to dissent and obtain payment for their shares under applicable law with respect to, or as a result of, the Merger; and

the Company shall have redeemed all issued and outstanding shares of Preferred Stock before the record date for the special meeting of shareholders to vote on the Merger.

See The Merger Agreement Representations and Warranties beginning on page 45 for an explanation of the term Material Adverse Effect.

Negotiations with Other Parties

(See The Merger Agreement Negotiations wit