

AMERICAN PHYSICIANS SERVICE GROUP INC

Form S-4 POS

April 02, 2007

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As filed with the Securities and Exchange Commission on April 2, 2007

Registration No. 333-137012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE

AMENDMENT NO. 1

TO

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

AMERICAN PHYSICIANS SERVICE GROUP, INC.
(Exact Name of Co-registrant as Specified in Its Charter)

Texas
(State or Other Jurisdiction of Incorporation or Organization)

8741
(Primary Standard Industrial Classification Code Number)

75-1458323
(I.R.S. Employer Identification No.)

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

Austin, Texas 78746-6550

AMERICAN PHYSICIANS INSURANCE COMPANY
(Exact Name Of Co-registrant as Specified in Its Charter)

Texas
(State or Other Jurisdiction of Incorporation or Organization)

6331
(Primary Standard Industrial Classification Code Number)

75-1517531
(I.R.S. Employer Identification No.)

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

Austin, Texas 78746-6550

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(512) 328-0888

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Co-Registrant's Principal Executive Offices)

(800) 252-3628

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Co-Registrant's Principal Executive Offices)

Copies to:

KENNETH S. SHIFRIN

American Physicians Service Group, Inc.

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

Austin, Texas 78746-6550

(512) 328-2892

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Co-Registrant's Agent for Service)

TIMOTHY L. LAFREY

Akin Gump Strauss Hauer & Feld LLP

300 West Sixth Street, Suite 2100

Austin, Texas 78701

(512) 499-6200

Fax: (512) 499-6290

NORRIS C. KNIGHT, JR., M.D.

American Physicians Insurance Company

1002 Texas Boulevard, Suite 407

Texarkana, Texas 75501

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Co-Registrant's Agent for Service)

CLARKE HEIDRICK

Graves, Dougherty, Hearon & Moody, P.C.

401 Congress Avenue, Suite 2200

Austin, TX 78701

Tel: (512) 480-5600

Fax: (512) 480-5836

Approximate date of commencement of proposed sale to public: As soon as practicable after the registration statement becomes effective and the effective date of the proposed merger of APSG ACQCO, Inc., a wholly owned subsidiary of American Physicians Service Group, Inc., referred to as APSG, with and into American Physicians Insurance Company, referred to as APIC, as described in the enclosed joint proxy statement/prospectus.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Explanatory Note: This registration statement on Form S-4 (Registration No. 333-137012) was originally filed by APSG and American Physicians Insurance Exchange, or APIE, with the Securities and Exchange Commission on August 31, 2006, as Amended by Amendment No. 1, filed October 16, 2006, Amendment No. 2, filed November 17, 2006, Amendment No. 3, filed December 20, 2006, and Amendment No. 4, filed January 26, 2007. Pursuant to the transactions described herein, effective April 1, 2007, APIE converted from a Texas reciprocal insurance exchange into a Texas stock insurance company and changed its name to American Physicians Insurance Company. This Post-Effective Amendment No. 1 is being filed for the purpose of APIC adopting this registration statement.

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Title of Each Class of Securities To Be Registered (1)	Amount To Be Registered (1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration fee
APSG Common Stock (\$0.10 par value)	2,380,952 shares	N/A	\$30,143,000(2)	\$3,225
APSG Series A Redeemable Preferred Stock (\$1.00 par value)	10,295 shares	N/A	\$10,295,000(3)	\$1,102
APIC Common Stock (\$1.00 par value)	10,000,000 shares	N/A	\$30,143,000(4)	\$3,225
APIC Series A Redeemable Preferred Stock (\$1.00 par value)	10,295 shares	N/A	\$10,295,000(5)	\$1,102

- (1) Consists of up to 2,380,952 shares of common stock, par value \$.10 per share and up to 15,000 shares of Series A redeemable preferred stock, par value \$1.00 per share, of American Physicians Service Group, Inc., or APSG, that may be issued in connection with the merger described in this document; also consists of 10,000,000 shares of common stock, par value \$1.00 per share, and up to 15,000 shares of Series A redeemable preferred stock, par value \$1.00 per share, of American Physicians Insurance Company, or APIC, that may be issued in connection with the conversion described in this document. The number of shares of APSG common stock to be issued in the merger is based on an exchange ratio to be calculated at the effective time of the merger. The number of shares listed here is an estimate made solely for the purpose of calculating the amount of registration fee pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended. It is based on the greatest number of shares of APSG common stock that could be issued in the merger in exchange for the 10,000,000 shares of APIC common stock to be issued pursuant to the conversion described herein, before APSG would have a unilateral option right to terminate the merger agreement. This estimate uses an exchange ratio of 0.238 shares of APSG common stock for each share of APIC common stock. The number of shares of APSG and APIC Series A redeemable preferred stock to be issued in the conversion and merger described in this document will be calculated based upon the value of unreturned surplus evidenced by the outstanding balance on APIC's books as of the closing date of the conversion. The numbers of shares listed here are estimates made solely for the purpose of calculating the amount of registration fee pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended. They are based upon one-thousandth of \$10,295,000, the book value of the unreturned surplus recorded on APIC's books as of September 30, 2006.
- (2) Estimated solely for the purpose of calculating the amount of registration fee pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended. Since there is no market for APIC's common stock, the proposed maximum aggregate offering price is based upon (i) \$30,143,000, the book value of the APIC common stock as of September 30, 2006 to be converted into, and exchanged for, APSG common stock in the merger, less (ii) \$0, the cash consideration payable by APSG to the holders of APIC's common stock, pursuant to Rule 457(f)(3) under the Securities Act of 1933, as amended.
- (3) Estimated solely for the purpose of calculating the amount of registration fee pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended. Since there is no market for APIC's preferred stock, the proposed maximum aggregate offering price is based upon \$10,295,000, the book value of the APIC Series A redeemable preferred stock as of September 30, 2006 to be converted into, and exchanged for, APSG Series A redeemable preferred stock in the merger, pursuant to Rule 457(f)(3) under the Securities Act of 1933, as amended.
- (4) Estimated solely for the purpose of calculating the amount of registration fee pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended. Since there is no market for APIC's common stock, the proposed maximum aggregate offering price is based upon \$30,143,000, or the value of APIC's shareholders' equity as of September 30, 2006.
- (5) Estimated solely for the purpose of calculating the amount of registration fee pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended. Since there is no market for APIC's preferred stock, the proposed maximum aggregate offering price is based upon \$10,295,000, the book value of refundable surplus deposits as of September 30, 2006 that will be evidenced by the APIC preferred shares.

The registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said section 8(a), may determine.

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PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

American Physicians Service Group, Inc., referred to as APSG, its wholly owned subsidiary, APSG ACQCO, Inc., referred to as Merger Sub, and American Physicians Insurance Exchange, referred to as APIE, have agreed on a merger transaction in which, immediately after APIE converts from a Texas reciprocal insurance exchange to a Texas stock insurance company and changes its name to American Physicians Insurance Company, or APIC, Merger Sub will merge with and into APIC, with APIC continuing as the surviving company and wholly owned subsidiary of APSG. Before we can complete the conversion and the merger, we must obtain the approval of APSG shareholders and APIE subscribers. We are sending you this joint proxy statement/prospectus to ask you to vote in favor of the conversion, the merger and other matters. The merger agreement and plan of conversion are attached as Annex A and Annex B, respectively, to this joint proxy statement/prospectus and are incorporated into this joint proxy statement/prospectus by reference.

At the effective time of the conversion, APIE subscribers and other eligible insureds who were as of June 1, 2006 and are at the effective time of the conversion either premium paying policyholders or former subscribers who have earned or paid for an extended reporting endorsement (tail coverage) within the last three years, which we collectively refer to as the APIE policyholders, will receive their portion of 10,000,000 shares of APIC common stock pursuant to a conversion formula based upon both the total number of APIE subscribers and the relative earned premium attributable to the APIE policyholders over the three-year period prior to June 1, 2006. Also pursuant to the conversion, each holder of refundable deposit certificates representing unpaid surplus contributions which have not been fully refunded will receive one share of Series A redeemable preferred stock of APIC for every \$1,000 of unreturned surplus evidenced by the outstanding balance on APIE's books as of the closing date of the conversion. Fractional shares of APIC Series A redeemable preferred stock will be issued as necessary.

At the effective time of the merger, each share of common stock of APIC that would be issued in the conversion will be converted into, and exchanged for, the right to receive that number of shares of APSG common stock based upon an exchange ratio to be calculated upon the occurrence of certain events. The exchange ratio will be equal to a purchase price of \$39,000,000 minus the net present value of payments that must be made by APSG to comply with the mandatory redemption features of the APSG Series A redeemable preferred stock issued in exchange for the APIE refundable deposit certificates determined on the basis of a constant discount rate of 5.35%, divided by \$14.28, divided by 10,000,000.

Your vote is very important. The merger is an integral aspect of the plan of conversion. We cannot complete the merger unless the APSG common shareholders vote to approve the issuance of APSG common stock and the APIE subscribers vote to approve the plan of conversion and the merger. Approval of each of the proposals set forth above is a prerequisite to the consummation of the conversion and the merger. None of the actions contained in these proposals will become effective unless both the conversion and the merger are approved. The merger will become effective as soon as the certificate of merger is filed with the Secretary of State of the State of Texas. This will be filed as soon as practicable after the transactions are approved by the APSG shareholders and the APIE subscribers, and after all closing conditions to the merger agreement has been satisfied or, where permissible, waived. APIE policyholders and holders of refundable deposit certificates representing unpaid surplus contributions will not be entitled to any dissenters' rights of appraisal under applicable Texas law, nor will holders of refundable deposit certificates representing unpaid surplus contributions who are not subscribers have an opportunity to vote on the conversion and merger.

The APSG common stock is listed on the Nasdaq Small Cap Market under the symbol AMPH. There is no public market for the Series A redeemable preferred stock of APSG or the common stock and Series A redeemable preferred stock of APIC.

This document is a prospectus relating to the shares of APSG common stock and APSG Series A redeemable preferred stock to be issued in the merger and the shares of APIC common stock and APIC Series A redeemable preferred stock to be issued in the conversion, and a joint proxy statement for APSG and APIE to solicit proxies for their respective special meetings of shareholders and subscribers, respectively. It contains answers to frequently asked questions and a summary of the important terms of the merger agreement and the plan of conversion and the related transactions, followed by a more detailed discussion.

Before casting your vote, please take the time to review carefully this joint proxy statement/prospectus, including the section entitled Risk Factors beginning on page 24.

This joint proxy statement/prospectus is dated February 5, 2007 and is first being mailed to APSG shareholders on or about February 14, 2007 and APIE subscribers on or about February 5, 2007.

Sincerely,

Kenneth S. Shifrin

Norris C. Knight, Jr., M.D.

Chairman and Chief Executive Officer

Chairman

American Physicians Service Group, Inc.

American Physicians Insurance Exchange

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE COMMON STOCK OR SERIES A REDEEMABLE PREFERRED STOCK OF APSG OR APIC TO BE ISSUED IN THE MERGER OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS JOINT PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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AMERICAN PHYSICIANS SERVICE GROUP, INC.

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

Austin, Texas 78746

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

OF AMERICAN PHYSICIANS SERVICE GROUP, INC.

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

NOTICE IS HEREBY GIVEN that a special meeting of holders of common stock of American Physicians Service Group, Inc., a Texas corporation, referred to as APSG, will be held at 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746 on March 22, 2007 at 10:00 am local time, for the following purposes:

1. To consider and vote upon a proposal for the APSG shareholders to approve the issuance of APSG common stock to the persons entitled to receive common stock, as a result of the conversion of American Physicians Insurance Exchange, or APIE, into a Texas stock insurance company called American Physicians Insurance Company, or APIC, immediately followed by the merger of a wholly owned subsidiary of APSG with and into APIC, with APIC becoming a wholly owned subsidiary of APSG as a result of the transactions contemplated by the Merger Agreement and Plan of Merger, dated June 1, 2006, as amended;
2. To consider and vote upon a proposed amendment to APSG's 2005 Incentive and Non-Qualified Stock Option Plan to increase the number of shares of common stock that may be granted under the plan from 350,000 to 650,000;
3. To consider and vote upon a proposed amendment to APSG's 2005 Incentive and Non-Qualified Stock Option Plan to eliminate the exchange provision allowing APSG to exchange or buy out any previously granted stock option at any time; and
4. To transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on February 7, 2007 are entitled to notice of and to vote at the special meeting or at any adjournments or postponements thereof. Each share of APSG common stock is entitled to one vote at the special meeting. Approval of each of the above proposals requires the affirmative vote of a majority of the common shares outstanding, in person or by proxy, at a meeting of shareholders where a quorum exists. A quorum will exist where a majority of the shares of APSG common stock issued and outstanding and entitled to vote are represented in person or by proxy at the special meeting. Abstentions and broker non-votes will be counted for purposes of determining whether a quorum exists. Approval of the proposal to approve the issuance of APSG common stock is a prerequisite to the consummation of the merger. None of Proposals 1, 2 or 3 above will become effective unless the issuance of common shares in Proposal 1 above is approved and effective. Holders of APSG common stock are not entitled to dissenters' rights. A list of the shareholders entitled to vote will be open for examination by shareholders at APSG's offices at 1301 S. Capital of Texas Highway, Suite C-300, Austin Texas, during ordinary business hours during the ten-day period prior to the special meeting and also at the special meeting.

The board of directors of APSG has determined that the terms of the merger agreement and the transactions contemplated by it are fair to and in the best interest of APSG and its shareholders. Accordingly, the members of APSG's board of directors have approved the merger agreement and the transactions contemplated by it, declared their advisability, and recommends that APSG shareholders vote at the special meeting to approve Proposal 1 above relating to the issuance of APSG common stock as a result of the transactions contemplated by the merger agreement. The board of directors also recommends that the shareholders vote to approve Proposals 2 and 3 above relating to the amendments of the 2005 Incentive and Non-Qualified Stock Option Plan, and Proposal 4.

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Your vote is important. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy or voting instruction card to ensure that your shares will be represented at the special meeting if you are unable to attend. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

By order of the Board of Directors
W. H. HAYES
Secretary

February 5, 2007

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AMERICAN PHYSICIANS INSURANCE EXCHANGE

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

Austin, Texas 78746

NOTICE OF SPECIAL MEETING OF SUBSCRIBERS

OF AMERICAN PHYSICIANS INSURANCE EXCHANGE

To the subscribers of American Physicians Insurance Exchange:

NOTICE IS HEREBY GIVEN that a special meeting of subscribers of American Physicians Insurance Exchange, a Texas reciprocal insurance exchange, referred to as APIE, will be held at 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746 on March 22, 2007 at 8:00 am local time, for the following purposes:

1. To consider and vote upon a proposal for the APIE subscribers to approve and adopt the Plan of Conversion of APIE, as amended, which includes the form of the articles of incorporation, referred to herein as the certificate of formation, of APIC, in which APIE will be converted from a Texas reciprocal insurance exchange into a Texas stock insurance company called American Physicians Insurance Company, or APIC;
2. To consider and vote upon a proposal for the APIE subscribers to approve and adopt the Merger Agreement and Plan of Merger, dated June 1, 2006, as amended; and
3. To transact such other business as may properly come before the special meeting or any adjournments or postponements thereof.

Only APIE subscribers who were subscribers of record both as of June 1, 2006 and on March 22, 2007, are entitled to vote at the special meeting or at any adjournments or postponements thereof. Each APIE subscriber is entitled to one vote at the special meeting. Approval of each of Proposals 1 and 2 set forth above requires the affirmative vote of at least two-thirds of the subscribers. Approval of each of Proposals 1 and 2 set forth above is a prerequisite to the consummation of the conversion and the merger. The merger is an integral aspect of the plan of conversion. None of the actions contained in Proposals 1 or 2 will become effective unless both the conversion and the merger are approved. APIE subscribers are not entitled to dissenters' rights under applicable Texas law. A list of the subscribers entitled to vote will be open for examination by subscribers at APIE's offices at American Physicians Insurance Exchange; Attn: Sharon Stripling; 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746, during ordinary business hours during the ten-day period prior to the special meeting and also at the special meeting.

The board of directors of APIE has determined that the terms of the plan of conversion and the merger agreement and the transactions contemplated by them are fair to and in the best interest of APIE, its subscribers, policyholders and holders of refundable deposit certificates. Accordingly, the members of APIE's board of directors have approved the plan of conversion, including the form of the certificate of formation of APIC included therein, and the merger agreement, and the transactions contemplated by them, declared their advisability, and recommends that APIE subscribers vote at the special meeting to approve all of the proposals described above.

Your vote is important. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy or voting instruction card to ensure that you will be represented at the special meeting if you are unable to attend. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

By order of the Board of Directors
GREGORY M. JACKSON, M.D.
Secretary

February 5, 2007

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ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about APSG and APIE from documents that are not included in or delivered with this joint proxy statement/prospectus. See **Where You Can Find More Information** on page 156. This information is available to you without charge upon written or oral request.

APSG files reports, proxy statements and other information with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as amended. You may read and copy any reports, statements or other information that APSG files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E. Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information about issuers that file electronically with the SEC. The address of the SEC's internet site is www.sec.gov.

Copies of the APSG documents may also be obtained without charge from APSG on the internet at www.amph.com, under the Investor Relations section, or by contacting American Physicians Service Group, Inc., 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746, (512) 328-0888.

If you wish to obtain any of these documents from APSG, you should, to ensure timely delivery, make your request no later than March 15, 2007.

APIE is subject to the laws and regulations of the State of Texas applicable to reciprocal insurance exchanges and, in accordance therewith, files financial reports and other public information with the Texas Department of Insurance. The publicly available financial reports and other information regarding APIE can be inspected at the offices of the Texas Department of Insurance at Financial Monitoring Section, Hobby Building Tower 3, 3rd Floor, 333 Guadalupe Street, Austin, Texas 78701, during normal business hours.

APIE filed a Plan of Conversion to convert to a stock insurance company with the Commissioner of Insurance of the State of Texas that describes the conversion and merger and contains other information required by the Texas Insurance Code, including such information requested by the commissioner and other public materials submitted to the commissioner concerning the application.

Copies of certain APIE documents, including financial reports, the merger agreement, the plan of conversion and other public information, are available at no cost upon request by contacting APIE at American Physicians Insurance Exchange; Attn: Sharon Stripling; 1301 S. Capital of Texas Highway, Suite C-300, Austin, Texas 78746, (800) 252-3628, or may be obtained on the internet at www.apie.us. Such documents include the bylaws, as amended, of APIE, the proposed amended and restated bylaws of APIC and the articles of incorporation, referred to herein as the certificate of formation, of APIC.

If you wish to obtain any of these documents from APIE, you should, to ensure timely delivery, make your request no later than March 15, 2007.

All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.

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QUESTIONS AND ANSWERS ABOUT THE CONVERSION AND MERGER

Set forth below are commonly asked questions and answers about the conversion and the merger, including parenthetical page references to the more complete discussion in this document of the questions answered in this section. For a more complete description of the legal and other terms of the conversion and merger, please read carefully this entire document and the other available information referred to in **Where You Can Find More Information** on page 156.

Q: Why are APSG and APIE proposing the merger? (see pages 115 to 117)

A: APSG believes that the merger will create positive opportunities that outweigh potential negative consequences. In reaching its decision to approve the merger, the APSG board of directors considered positive and negative factors which could have an impact on the APSG shareholders, including the following:

APSG Positive Merger Attributes:

Common Goals and Objectives. It is the natural evolution of two companies founded simultaneously with similar goals and purposes of providing services to physicians.

Increased Financial Strength. The combined APSG/APIE entity will have greater revenues, assets and equity than the separate companies, which should make it more visible in the public markets, increase its borrowing, buying, marketing and recruitment power, and enhance its ability to compete in a consolidating industry.

Growth Potential. The merger is consistent with plans to grow APSG within its areas of existing expertise.

Smooth Transition. With a thirty year history of managing the operations of APIE and with a close working relationship with its directors, a smooth transition, without corporate culture differences or risk and expense associated with a typical due diligence analysis, is likely.

Shareholder Value. As shown in the Unaudited Pro Forma financial statements as of and for the period ending September 30, 2006 and the notes thereto on pages 139 through 149, diluted net income per share is \$0.53 before the merger and \$2.66 afterward. Book value per share is \$9.92 before the merger and \$11.99 afterward. The unaudited pro forma condensed consolidated financial statements are presented for illustrative purposes only and are based on the estimates and assumptions set forth in the notes accompanying those statements, which should be read in conjunction with these unaudited pro forma condensed consolidated financial statements. The companies may have performed differently had they always been combined. You should not rely on this information as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the merger.

APSG Negative Merger Attributes:

Market Price Fluctuations. The market price of APSG common stock may fluctuate, and sales of APSG common stock, including sales of shares issued in the merger, could lower the market price of APSG common stock.

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Earnings Volatility. While the board believes that the merger will increase shareholder value, it considered the potential negative year-to-year impact that could result from earnings volatility between years. Presently, APSG collects a base management fee from APIE which is not dependent on APIE's profitability. This partly insulates APSG from the years in which APIE could have lower earnings. Similarly, APSG's profit sharing in the earnings of APIE are capped at 3% of earned premium. This prevents APSG from recognizing additional profits in years when APIE's earnings are above the cap. After the merger, APSG will consolidate the net income or loss of APIC and thus, without the above limits on APIC's minimum or maximum performance, APSG's earnings will be impacted by the full range of APIC's earnings.

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Uncertainties in APIE Estimates. The estimate of loss and loss adjustment expense reserves and reinsurance premiums and reserves at APIE are inherently uncertain and could materially affect the value of APIE. APIE periodically reviews its established reserves and may adjust reserves based on the results of these reviews. These adjustments could be significant. If APIE changes its estimates, these changes are reflected in results of operations during the period in which they are made and could negatively impact APSG results of operations.

A: In reaching its decision to approve the conversion and the merger, the APIE board of directors considered positive and negative factors which could have an impact on the APIE policyholders, including the following:

APIE Positive Merger Attributes:

Common Goals and Objectives. It is the natural evolution of two companies founded simultaneously with similar goals and purposes of providing services to physicians.

Increased Financial Strength. The combined APSG/APIE entity will have greater revenues, assets and equity than the separate companies, which should make it more visible in the public markets, increase its borrowing, buying, marketing and recruitment power, and enhance its ability to compete in a consolidating industry.

Increased Access to Capital. The conversion and merger will allow APIE to continue to prosper through the ability to access capital through public markets, in terms of the ability to increase the Company's net worth, in addition to what is being generated by its stand-alone financial performance.

Growth Potential. Growth opportunities would be enhanced for APIE due to its improved financial strength and ability to access capital for additional underwriting capacity.