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)**	**AMERICAN PHYSICIANS INSURANCE COMPANY** **(Exact Name Of Co-registrant as Specified in Its Charter)**
Texas **(State or Other Jurisdiction of Incorporation or Organization)**	**Texas** **(State or Other Jurisdiction of Incorporation or Organization)**
8741 **(Primary Standard Industrial Classification Code Number)**	**6331** **(Primary Standard Industrial Classification Code Number)**
75-1458323 **(I.R.S. Employer Identification No.)**	**75-1517531** **(I.R.S. Employer Identification No.)**
1301 S. Capital of Texas Highway, Suite C-300 **Austin, Texas 78746-6550**	**1301 S. Capital of Texas Highway, Suite C-300** **Austin, Texas 78746-6550**

(512) 328-0888	**(800) 252-3628**
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Co-Registrant s Principal Executive Offices)	**(Address, Including Zip Code, and Telephone Number, Including Area Code, of Co-Registrant s Principal Executive Offices)**

Copies to:

KENNETH S. SHIFRIN	**NORRIS C. KNIGHT, JR., M.D.**
American Physicians Service Group, Inc.	**American Physicians Insurance Company**
1301 S. Capital of Texas Highway, Suite C-300	**1002 Texas Boulevard, Suite 407**
Austin, Texas 78746-6550	**Texarkana, Texas 75501**
(512) 328-2892	
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Co-Registrant s Agent for Service)	**(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Co-Registrant s Agent for Service)**
TIMOTHY L. LAFREY	**CLARKE HEIDRICK**
Akin Gump Strauss Hauer & Feld LLP	**Graves, Dougherty, Hearon & Moody, P.C.**
300 West Sixth Street, Suite 2100	**401 Congress Avenue, Suite 2200**
Austin, Texas 78701	**Austin, TX 78701**
(512) 499-6200	**Tel: (512) 480-5600**
Fax: (512) 499-6290	**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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CALCULATION OF REGISTRATION FEE

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 APIE 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 APIE 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 APIE 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/APIC 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.

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/APIC 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.

Ownership. Each subscriber will receive publicly traded common stock as part of the combination, in contrast to the illiquid nature of subscriber membership interests in a reciprocal exchange. In addition, APIE policyholders, collectively will own approximately 43% of APSG s common stock upon closing.

A.M. Best and Other Rating Agencies. The conversion and merger will allow the company to pursue and eventually achieve meaningful ratings with A.M. Best and other rating agencies. APIC s ability to achieve a meaningful A.M. Best rating will further enhance its ability to write insurance for more medical professionals, including those who may be required to purchase insurance from a Best rated carrier.

Continued Physician Involvement. The current physician members of APIE s board of directors will continue to be very involved in an advisory capacity in all areas of the insurance business including claims, underwriting, and risk management. Four members of the board of directors of APIE, Dr. Knight, Dr. Peche, Dr. Shoberg and Dr. Pierce, will serve on the board of directors of APIC, at the discretion of APSG. Additionally, two members of the APIE board of directors, Dr. Norris Knight and Dr. William Peche, will join the APSG board of directors after the merger.

Tax Free Status. APSG and APIE each expect that the conversion and the merger should be tax free pursuant to Section 368(a) of the Internal Revenue Code to APSG, APIC, APIE and the APIE policyholders. However, the holders of the refundable deposit certificates may recognize gain or loss on the exchange of those certificates for APIC Series A redeemable preferred shares. Regardless, the receipt of APSG Series A redeemable preferred stock for APIC Series A redeemable preferred stock should not be a separately taxable exchange. Additionally, in the merger, holders of APIC common stock should recognize gain or loss attributable to their receipt of cash instead of fractional shares of APSG common stock (fractional shares of APSG Series A redeemable preferred shares will be issued to holders of APIC Series A redeemable preferred stock in the merger, as necessary).

APIE has received a qualified opinion from Deloitte Tax LLP relating to the material United States federal income tax consequences of the conversion and merger, which are described in detail under Material United States Federal Income Tax Consequences of the Conversion and Merger. Please review carefully the information under the caption Material United States Federal Income Tax

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Consequences of the Conversion and Merger beginning on page 134 for a description of the material United States federal income tax consequences of the merger. Tax matters are very complicated and the tax consequences of the conversion and the merger to you will depend on the facts of your particular situation. You should consult your own tax and legal advisors for a full understanding of the tax consequences of the conversion and the merger to you.

Fairness. In its opinion letter, dated August 22, 2006, Raymond James & Associates, Inc. opined to the APIE board of directors that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in the opinion, the consideration to be received by the APIE policyholders pursuant to the conversion and the merger was fair, from a financial point of view. The APIE policyholders consist of (i) subscribers, who are physicians holding medical professional liability insurance contracts underwritten by APIE; (ii) non-physician health care providers who, in the discretion of the APIE board of directors, have the right to obtain professional liability insurance through APIE, such as certified registered nurse anesthetists, physicians assistants and nurse midwives; and (iii) certain former subscribers who have obtained an extended reporting endorsement (tail coverage). Raymond James opinion does not address the fairness of consideration to be received by holders of refundable deposit certificates.

APIE Negative Merger Attributes:

Market Price Fluctuations. Due to potential fluctuations in the market value of APSG common stock prior to the completion of the merger, APIE policyholders cannot be sure of the number of APSG shares that will be issued in the merger.

Inability to Benefit from APSG Stock Price Appreciation. APIE policyholders ability to benefit from increases in the value of APSG common stock prior to closing of the merger is limited. The exchange ratio under the merger agreement is subject to adjustments that limit the range in the value of APSG common stock to be received by APIE policyholders in the merger. Therefore, the opportunity for APIE policyholders to benefit from any increase in the market value of APSG common stock between the announcement of the merger and the closing of the merger will be limited, which would not have been the case if the consideration had been based on a fixed exchange ratio.

Thinly Traded Stock. APSG common stock is currently thinly traded and it may be difficult for APIE policyholders to sell the common stock they receive in the merger.

Q: How will the conversion and the merger affect APIE s policyholders and holders of refundable deposit certificates? What will APIC holders of common stock and Series A redeemable preferred stock receive for their shares? (see pages 105 to 107 and pages 123 to 125)

A: Under the terms of the plan of 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 will receive shares of APIC common stock based on a conversion formula. 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.

Immediately after the conversion is effective, under the terms of the merger, APIC holders of common stock will receive shares of APSG common stock in exchange for shares of APIC common stock they receive in the conversion based upon an exchange ratio to be calculated prior to the consummation of the merger in accordance with the merger agreement. APIC holders of Series A redeemable preferred stock will receive one share of APSG Series A redeemable preferred stock in exchange for each share of APIC Series A redeemable preferred stock they receive in the conversion. Following the merger, APIC common shareholders will own approximately 43% of the issued and outstanding common stock of APSG.

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Q: Why is APSG proposing changes to its 2005 Incentive and Non-Qualified Stock Option Plan? (see pages 152 to 154)

A: As part of the conversion and merger APSG is granting options to purchase 148,000 shares of its common stock as an inducement to attract and retain physician members of the advisory board and board of directors of APIC and APSG. The issuance of these options will substantially deplete the options available under its 2005 Incentive and Non-Qualified Stock Option Plan, referred to as the 2005 Incentive Plan. The APSG board of directors has long believed that having key employees and directors participate in the ownership of APSG aligns them with its shareholders, enhances their motivation and results in longer retention. Accordingly, the APSG shareholders are being asked to make additional shares available under the 2005 Incentive Plan so that APSG can continue to grant options to attract and retain personnel necessary to carry out its business objectives. The board further believes that option holders should share the same risks and rewards as all other shareholders and is taking this opportunity to remove a provision from the 2005 Incentive Plan that allows the board to alter the terms of the individual option agreements. Though that provision had never been used by the board, provisions of that type in stock option plans have come to be viewed by some investors as giving special advantages to option holders not enjoyed by other shareholders and the board believes that it should be eliminated.

Q: What will happen at the APSG special meeting? (see pages 99 to 101)

A: At the APSG special meeting, APSG shareholders will vote on:

- the issuance of shares of APSG common stock as a result of the merger;

- an 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; and

- an 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.

Q: What will happen at the APIE special meeting? (see pages 102 to 104)

A: At the APIE special meeting, APIE subscribers will vote on a proposal to approve and adopt the plan of conversion, which includes the form of the certificate of formation of APIC and a proposal to approve and adopt the merger agreement and the transactions contemplated by the plan of conversion and merger agreement. Neither the proposal to approve the conversion nor the proposal to approve the merger will take effect unless both proposals are approved. The plan of conversion is contingent upon approval of the merger, and the merger is contingent upon approval of the plan of conversion. 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.

Q: Will APSG shareholders receive any shares in the merger? (see pages 123 to 125)

A: No. APSG shareholders will continue to hold the APSG common stock they owned prior to the effective time of the merger.

Q: Where will my shares be traded after the merger? (see page 72 and 125)

A: APSG common stock is traded on the Nasdaq Small Cap Market under the symbol AMPH. APSG Series A redeemable preferred stock will not be traded. The shares of APSG common stock and Series A redeemable preferred stock will be subject to a 180-day lock-up period commencing on the closing of the merger during which time the common and preferred shares issued by APSG in the merger will be held in escrow or subject to similar arrangements such that the shares cannot be traded for 180 days.

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Q: When do you expect the merger to be completed?

A: We expect to complete the merger promptly following the APSG special meeting of shareholders and the APIE special meeting of subscribers and after all regulatory approvals have been obtained.

Q: How do I vote at my meeting? (see pages 99 to 104)

A: ***APSG Shareholders.*** After carefully reading this document and the information incorporated by reference, indicate on the enclosed proxy how you want to vote, sign it and mail it in the enclosed return envelope as soon as possible so that your shares will be represented at the APSG shareholder meeting. To ensure that we obtain your vote, please vote as instructed on your proxy card, even if you plan to attend the shareholder meeting in person. If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the proposals submitted to APSG shareholders. You may revoke your proxy on or before the day of the shareholder meeting by following the instructions beginning on page 101. You then may either change your vote or attend the shareholder meeting and vote in person.

APIE Subscribers. After carefully reading this document and the information incorporated by reference, indicate on the enclosed proxy how you want to vote, sign it and mail it in the enclosed return envelope as soon as possible so that you will be represented at the APIE subscriber meeting. To ensure that we obtain your vote, please vote as instructed on your proxy card, even if you plan to attend the subscriber meeting in person. If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the proposals submitted to APIE subscribers. You may revoke your proxy on or before the day of the subscriber meeting by following the instructions on page 103 to 104. You then may either change your vote or attend the subscriber meeting and vote in person.

Q: What happens if I abstain from voting, or do not submit a proxy or vote? (see pages 99 to 104)

A: ***APSG Shareholders.*** Approval of all of the APSG proposals, including the proposal to approve the issuance of the APSG common stock pursuant to the merger, requires the affirmative vote, in person or by proxy, of a majority of the issued and outstanding shares of common stock on the record date at a meeting where a quorum exists. An abstention or failure to submit a properly executed proxy card will have the effect of a negative vote on such proposal. Broker non-votes will also have the effect of a negative vote on any proposal.

APIE Subscribers. Approval of the APIE proposals to adopt the plan of conversion and the merger agreement requires the affirmative vote, in person or by proxy, of at least two-thirds of the subscribers. An abstention or failure to submit a properly executed proxy card will have the effect of a negative vote on the proposals submitted to the APIE subscribers.

Q: What should I do if I want to change my vote? (see pages 99 to 104)

A: You can change your vote at any time before your proxy card is voted at your meeting of shareholders or subscribers. You can do this in one of three ways:

you can send a written notice to the company of which you are a shareholder or subscriber stating that you revoke your proxy;

you can complete and submit a later dated proxy card to that company; or

you can attend your special meeting and vote in person.

However, your attendance alone will not revoke your proxy and if you have instructed a broker to vote your shares, you must follow the procedure your broker provides to change those instructions.

Q: What vote does my board of directors recommend? (see pages 108 and 117)

A: The APSG board of directors recommends that its shareholders vote at the special meeting to approve all of the proposals, including the issuance of the APSG common stock as a result of the transactions contemplated by the merger agreement.

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The APIE board of directors recommends that its subscribers vote at the special meeting to approve all of the proposal including the proposal to adopt the plan of conversion, which includes the form of the certificate of formation of APIC, and the proposal to adopt the merger agreement, and the transactions contemplated by the plan of conversion and merger agreement. Neither the proposal to approve the conversion nor the proposal to approve the merger will take effect unless both proposals are approved. The plan of conversion is contingent upon approval of the merger, and the merger is contingent upon approval of the plan of conversion.

Q: What votes are required to approve the proposals? (see pages 100 and 103)

A: ***APSG Shareholders***. Approval of each of the APSG proposals, including the proposal to approve the issuance of the APSG common stock pursuant to the merger, requires the affirmative vote, in person or by proxy, of a majority of the shares of APSG common stock issued and outstanding on the record date at a meeting where a quorum exists. A quorum exists where a majority of the shares entitled to vote are present in person or by proxy at the meeting. If you abstain from voting on a proposal, your abstention will have the effect of a negative vote on such proposal. Broker non-votes will also have the effect of a negative vote on any proposal.

APIE Subscribers. Approval of each of the proposal to adopt the plan of conversion and the proposal to adopt the merger agreement submitted to the APIE subscribers requires the affirmative vote, in person or by proxy, of two-thirds of the APIE subscribers who were subscribers of record both as of June 1, 2006 and on March 22, 2007. If you abstain from voting on the proposals, your abstentions will have the effect of a negative vote.

Q: If my broker holds my APSG shares in street name, will my broker vote them for me without my instructions? (see page 100)

A: No. Your broker will not be allowed to vote your APSG shares without instructions from you. You should instruct your broker to vote your shares, following the procedure your broker provides.

Q: Should I send in my APIE refundable deposit certificates now? (see page 106)

A: No. If you are a holder of APIE refundable deposit certificates, the certificates will be deemed converted into, and exchanged for, shares of APSG Series A redeemable preferred stock upon the effectiveness of the merger and no further action will be required by you.

Q: Are APSG shareholders or APIE subscribers entitled to appraisal rights? (see page 125)

A: No. Neither APSG shareholders nor APIE subscribers, policyholders or holders of refundable deposit certificates are entitled to dissenter s rights of appraisal.

Q: Are the conversion and merger taxable? (see pages 134 to 137)

A: APSG and APIE each expect that the conversion and the merger should be tax free pursuant to Section 368(a) of the Internal Revenue Code to APSG, APIC, and APIE. The conversion should be tax free to persons solely receiving APIC common stock but it may be taxable to persons receiving APIC Series A redeemable preferred stock in the conversion. Regardless, the receipt of APSG Series A redeemable preferred stock for APIC Series A redeemable preferred stock should not be a separately taxable exchange. In the merger, holders of APIC common stock should recognize gain or loss attributable to the receipt of cash instead of fractional shares of APSG common stock (fractional shares of APSG Series A redeemable preferred shares will be issued to holders of APIC Series A redeemable preferred stock in the merger, as necessary).

APIE has received a qualified opinion from Deloitte Tax LLP relating to the material United States federal income tax consequences of the conversion and merger, which are described in detail under Material United States Federal Income Tax Consequences of the Conversion and Merger. Please review carefully the information under the caption Material United States Federal Income Tax Consequences of the Conversion and Merger beginning on page 134. Tax matters are very complicated and the tax consequences of the conversion and the merger to you will depend on the facts of your particular situation.

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You should consult your own tax and legal advisors for a full understanding of the tax consequences of the conversion and the merger to you.

Q: Is the merger contingent on shareholder approval of all the APSG proposals? (see page 100)

A: No. The only vote required by the APSG shareholders to effect the merger is the approval regarding the issuance of APSG common stock.

Q: Are the conversion and merger contingent on APIE subscriber approval of the APIE proposals to approve the conversion and merger? (see page 103)

A: Yes. The merger is an integral aspect of the plan of conversion. If two-thirds of APIE subscribers do not approve both the conversion and merger, neither the conversion nor the merger may be consummated.

Q: Is the consummation of the merger contingent on the approval of any party other than the APSG shareholders and APIE subscribers? (see page 138)

A: In addition to shareholder and subscriber approval, the Texas Department of Insurance must have approved the plan of conversion and the merger. APSG and APIE currently expect this condition to be satisfied prior to or promptly after the special meetings.

Q: Are there any risks in the merger that I should consider? (see pages 24 to 34)

A: Yes. There are risks associated with all business combinations, including the proposed merger. We have described these risks and other risks in more detail under Risk Factors beginning on page 24.

Q: Where can I find more information about the companies? (see page 156)

A: APSG files periodic reports and other information with the Securities and Exchange Commission, or the SEC. 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*.

APIE 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.

In addition, you may obtain some of this information directly from the companies. For a more detailed description of the information available, please see Where You Can Find More Information on page 156.

Q: Who can help answer my questions?

A: If you have more questions about the conversion and merger, please call William H. Hayes of APSG at (512) 328-0888 or Sharon Stripling of APIE at (800) 252-3628.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 about APSG that are subject to risks and uncertainties. All statements other than statements of historical fact included in this document are forward-looking statements. Forward-looking statements may be found in, among other places, Questions and Answers About the Conversion and Merger, Summary, The Companies, APSG Management s Discussion and Analysis of Financial Condition and Results of Operation of APSG, Risk Factors and elsewhere in this document regarding the financial position, business strategy, possible or assumed future results of operations, and other plans and objectives for the future operations of APSG and APIC, and statements regarding integration of the businesses of APSG and APIE and general economic conditions.

Forward-looking statements are subject to risks and uncertainties and include information concerning cost savings from the merger. Although we believe that in making such statements our expectations are based on reasonable assumptions, such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected.

Except for their respective obligations to disclose material information under U.S. federal securities laws, neither APSG nor APIE undertakes any obligation to release publicly any revisions to any forward-looking statements, to report events or circumstances after the date of this document, or to report the occurrence of unanticipated events.

Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as would, should, plans, likely, expects, anticipates, intends, believes, estimates, thinks, may, and similar expressions, are forward-looking stateme following important factors, in addition to those discussed under Risk Factors and elsewhere in this document, could affect the future results of operations of APSG and APIC after the merger, and could cause those results to differ materially from those expressed in or implied by such forward-looking statements:

general economic conditions, either nationally or in APSG s or APIC s market area, that are worse than expected;

changes in the health care industry which could have a material impact on APSG s operations;

regulatory and legislative actions or decisions that adversely affect business plans or operations;

inflation and changes in the interest rate environment, the performance of financial markets and/or changes in the securities markets that adversely affect the fair value of investments or operations;

uncertainties inherent in the estimate of loss and loss adjustment expense reserves and reinsurance; and changes in the availability or cost of reinsurance;

significantly increased competition among insurance providers;

failure of APSG s trading system resulting in trading and service interruptions, potential loss of revenues or possible litigation; and

APSG s loss of key executives, personnel, accounts or customers.

Risks that could adversely affect the proposed merger of APSG and APIC include but are not limited to the following:

the market price of APSG common stock may fluctuate;

APSG common stock is currently thinly traded and it may be difficult for APIE policyholders to sell the common stock they receive in the merger;

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- governmental consents needed to complete the merger may not be obtained, may be delayed or may be granted with burdensome conditions;

- failure to complete the merger could negatively impact the share price of APSG common stock and the future business and financial results of APSG and APIE; and

- the shareholders of APSG may fail to approve the merger, or the subscribers of APIE may fail to approve the conversion and merger.

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SUMMARY

This summary primarily highlights selected information from this document and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the terms of the merger, you should read carefully this entire document and the other available information referred to under Where You Can Find More Information on page 156. We encourage you to read the merger agreement, the legal document governing the merger, which is included as Annex A to this document and incorporated by reference herein. We also encourage APIE subscribers to read the plan of conversion, the legal document governing the conversion, which is included as Annex B to this document and incorporated by reference herein. We have included page references parenthetically to direct you to more complete descriptions of the topics presented in this summary.

The Companies

(see pages 35 to 98)

American Physicians Service Group, Inc.

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

Austin, Texas 78746

(512) 328-0888

APSG, through its subsidiaries, provides services that include management services to APIE, and brokerage and investment services to individuals and institutions.

APS Facilities Management, Inc., dba APMC Insurance Services, Inc., or FMI, a wholly owned subsidiary of APSG, as the attorney-in-fact for APIE provides management services to APIE under the terms of a management agreement. The management agreement provides for full management by FMI of the affairs of APIE under the direction of APIE s board of directors. Subject to the direction of the APIE board, FMI, sells and issues policies, investigates, settles and defends claims, and otherwise manages APIE s day to day operations. FMI pays certain salaries and personnel related expenses, rent and office operations costs and information technology costs, as provided in the management agreement. APIE is responsible for the payment of all claims, claims expenses, peer review expenses, directors fees and expenses, legal, actuarial and auditing expenses, its taxes, outside agent commissions and certain other specific expenses.

The management agreement with FMI obligates APIE to pay management fees to FMI based on APIE s earned premiums before payment of reinsurance premiums. The management fee percentage is 13.5% of earned premium. In addition, any pre tax profits of APIE will be shared equally with FMI (profit sharing) so long as the total amount of profit sharing does not exceed 3% of earned premiums. FMI provides these management services only to APIE. APSG s revenues from this segment were 46%, 48% and 36% of its total revenues in 2005, 2004 and 2003, respectively, and 48% of its total revenues in the first nine months of 2006.

Brokerage and investment services are provided by APSG s financial services subsidiaries which provide investment and investment advisory services to institutions and individuals throughout the United States. Financial service revenues are primarily earned on commissions received on both exchange and over-the-counter fixed income securities transactions. In addition, revenues are recorded from fees earned through investment banking transactions, namely, by assisting public and private corporations in raising funds in the capital markets. APSG s revenues from this segment were 54%, 52% and 64% of its total revenues in 2005, 2004 and 2003, respectively, and 52% of its total revenues in the first nine months of 2006.

APSG was organized in October 1974 under the laws of the State of Texas. Its principal executive office is in Austin, Texas at the address listed above and its website is *www.amph.com*. APSG makes available free of

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charge on its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

American Physicians Insurance Exchange

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

Austin, Texas 78746

(800) 252-3628

APIE was organized as a reciprocal insurance exchange under the laws of the State of Texas in 1975 for the purpose of providing its policyholders (health care providers) with liability and other insurance coverage. A reciprocal insurance exchange is an association of persons cooperating through an attorney-in-fact for the purpose of insuring themselves and each other. It is so called because policyholders effectively exchange insurance contracts and thereby insure each other. From inception of APIE through March 1992, as periodically determined and approved by the APIE s board of directors, subscribers desiring to purchase insurance through APIE were required from time to time to make contributions to APIE s surplus through refundable deposits. Subscribers who made refundable deposits received certificates setting forth the terms of the return of refundable deposits. APIE was initially capitalized through deposits made by subscribers and historically used such deposits to offset significant underwriting losses. See Information about APIE Refundable Surplus on page 76. These exchanges generally have a need for few, if any, paid employees and, instead, are required to enter into a contract with an attorney-in-fact that provides all management and administrative services for the exchange. FMI is the attorney-in-fact for APIE. The APIE board of directors provides direction to FMI in the management of APIE s operations. The board of directors is elected by the subscribers pursuant to APIE s bylaws, which provide that each subscriber has an equal vote in the election of directors, regardless of the amount of premiums paid by the subscriber. See Management of APIE beginning on page 94.

APIE specializes in writing medical professional liability insurance for healthcare providers. It writes insurance in Texas primarily through purchasing groups and has not been required to file rates and policy forms for business written through purchasing groups. A purchasing group is a non-profit corporation that has as one of its purposes the purchase of liability insurance on a group basis and obtains coverage only for its group members who are physicians in similar or related specialities with respect to medical professional liability. Federal law, 15 USC Sec. 3905, et. seq, authorized the use of purchasing groups for liability insurance. Texas law, Tex. Ins. Code art. 21.54 Sec. 6, provides that an insurer shall be exempt from any law of the state that prohibits providing or offering liability insurance to a purchasing group or its members advantages based on their loss and expense experience not afforded to other persons with respect to rates, policy forms, coverages, or other matters. The Texas Department of Insurance has never required APIE to file rates or forms for business written through purchasing groups.

The policyholders insured by APIE consist of (i) subscribers, who are physicians holding medical professional liability insurance contracts underwritten by APIE; (ii) non-physician health care providers who, in the discretion of the APIE board of directors, have been allowed to obtain professional liability insurance through APIE, such as certified registered nurse anesthetists, physicians assistants and nurse midwives; and (iii) certain former subscribers who have obtained an extended reporting endorsement (tail coverage). Subscribers pay, in addition to their annual insurance premiums, a contribution to APIE s surplus. The surplus contributions made from 1975 to 1992 were refundable. The subscribers who made refundable deposits during this time received certificates reflecting their contribution. Under the terms of these certificates, the deposits do not become refundable until the later of (i) the expiration of a 24-month waiting period from the date of the deposit, or (ii) such time as the APIE board of directors determines that APIE has a surplus that exceeds minimum surplus amounts determined by the board of directors to be necessary for APIE s operations and pursuant to any

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agreements with the Texas Department of Insurance. Partial refunds of refundable deposits were made by APIE in 1989, 1990, 1995 and 1999. Effective September 3, 2004, as amended on October 11, 2005, TDI issued a consent order approving a partial refund program for Refundable Deposit Holders and, under the terms of the order, aggregate refund payments were made by APIE of $250,000 in 2004 and $200,000 in 2005. APIE has not refunded any refundable deposits under the partial refund program to date in 2006. As of September 30, 2006, the total balance of refundable deposits outstanding was $10,295,000.

The Conversion

(see pages 105 to 108)

Pursuant to the plan of conversion, upon the effectiveness of the conversion, APIE will convert from a Texas reciprocal insurance exchange into a Texas stock insurance company called American Physicians Insurance Company, or APIC.

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, 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 date of the closing. Fractional shares of APIC Series A redeemable preferred stock will be issued as necessary.

The Merger

(see pages 109 to 126)

Pursuant to the merger agreement, immediately following the conversion of APIE to APIC, APSG ACQCO, Inc., a newly formed, wholly owned subsidiary of APSG, will merge into APIC with APIC becoming a wholly owned subsidiary of APSG.

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. As required by the terms of the Merger Agreement, the $14.28 conversion price was based on the average closing price of APSG s common stock for the twenty consecutive trading days immediately prior to the June 7, 2006 announcement of the merger. Under the plan of conversion and merger agreement, the net present value of these redemption payments will be based on a discounted present value of the outstanding balance of unreturned surplus on APIE s books as of the effective time of the merger. As of September 30, 2006, the outstanding balance was $10,295,000 and the net present value of this amount was determined to be $9,204,000. The exchange ratio may be adjusted, as of the effective time of the merger, in the event the market price for APSG s common stock fluctuates over or under a certain range. The merger agreement contains an adjustment provision whereby the exchange ratio will be adjusted, as of the effective time of the merger, in the event the market price of the APSG common stock for the twenty consecutive trading days ending on the business day immediately prior to the effective time of the merger, or the closing market price, is more than 15% higher or lower than $14.28, or is greater than $16.42 or less than

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$12.14. If the closing market price of APSG common stock is more than 25% higher or lower than $14.28, either party has the unilateral right, but does not have to, terminate the merger agreement altogether. If neither party chooses to terminate, the merger consideration shall be calculated as set forth in this joint proxy statement/prospectus. For example, and purely by way of illustration, if the merger became effective as of October 10, 2006, then the closing market price would be $16.65, or the average closing price of APSG s common stock for the twenty consecutive trading days ending on the business day immediately prior to October 10, 2006, or 16.6% higher than $14.28. Since the closing market price is more than 15% higher than $14.28, then the exchange ratio will be equal to $39,000,000, the aggregate purchase price, minus $9,204,000, 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, multiplied by 115%, divided by $16.65, the closing market price, divided by 10,000,000. Therefore, in this scenario, holders of APIC common shares would receive 0.205 shares of APSG common stock for each share of APIC common stock. The following is a table showing the number of shares of APSG common shares that could be issued in the merger based on various hypothetical closing market prices of APSG common stock:

Percentage of $14.28	Closing Market Price of APSG Common Shares	Exchange Ratio (# of APSG common shares per APIC common share)	Number of APSG Common Shares to be Issued	% Ownership of APSG Common Shares by APIC Common Shareholders
75%	$ 10.71	0.236	2,364,762	46.0%
80%	$ 11.42	0.222	2,217,740	44.4%
85%	$ 12.14	0.209	2,086,555	42.9%
100%	$ 14.28	0.209	2,086,555	42.9%
115%	$ 16.42	0.209	2,086,555	42.9%
120%	$ 17.14	0.200	1,999,148	41.9%
125%	$ 17.85	0.192	1,919,630	40.9%

Since the number of APSG common shares to be issued pursuant to the merger is based on the closing market prices of APSG stock up until the close of the business day prior to the merger s effective time, the actual value of the merger consideration and the number of shares to be issued will not be determined prior to the time that the APSG shareholders and the APIE subscribers will vote on the proposed transaction. Therefore, the actual number of APSG common shares issued in the merger may differ from the examples provided in this joint proxy statement/prospectus. However, APIE policyholders may call APSG at (800) 252-3628 to find out an estimated number of shares of APSG common stock that would be issued for each share of APIC common stock, based on the average closing market price of APSG common stock on the twenty trading days prior to the day of such call. Each share of Series A redeemable preferred stock of APIC that would be issued in the conversion will be converted into, and exchanged for, the right to receive one share of APSG Series A redeemable preferred stock. See The Merger Merger Consideration on page 123 in this joint proxy statement/prospectus. The shares of APSG common stock and Series A redeemable preferred stock issued in the merger will be subject to a 180-day lock-up period in which the holders of such shares are prohibited from transferring their shares. See The Merger Merger Consideration on page 123 and The Merger Federal Securities Laws Consequences; Stock Transfer Restrictions on page 125.

After the merger is completed, APIC common shareholders will own approximately 43% of APSG. Also, at the effective time of the merger, the current members of the APIE board of directors will receive options to purchase an aggregate 148,000 shares of APSG common stock at $13.94 per share as consideration for their anticipated service as advisory directors or directors of APIC and APSG. Dr. Norris Knight and Dr. William Peche, each members of the APIE board of directors, will be appointed as members of the APSG board of directors . See Interests of Certain Persons in the Merger Consideration to the APIE Board of Directors on page 151.

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The members of the APIE board of directors will receive additional compensation from APIC for serving as directors or advisory directors of APIC following the merger as provided under the terms of an Advisory Services Agreement between APIC and API Advisory, LLC. Under the terms of the Advisory Services Agreement, compensation for the directors is $2,500 for each board meeting attended in person and $250 per hour if attended by telephone with the same rates applicable to each committee of the board. API Advisory, LLC will be reimbursed for its out of pocket costs incurred in connection with the provision of the services, plus any amount paid to directors for board and committee meetings, medical director, or executive secretary if those are not paid directly by APIC. See Interests of Certain Persons in the Merger Advisory Services Agreement on page 151.

A summary chart showing the post-merger structure, including the relationship between APSG, APIC and API Advisory LLC, as well as other APSG subsidiaries, is shown below. All subsidiaries of APSG will be 100% wholly owned by APSG after the merger. There is no ownership interest of API Advisory LLC by APSG, APIC or any other APSG subsidiary. Under the terms of the Advisory Services Agreement, API Advisory LLC will provide APIC with advisory and consulting services. Its relationship with APIC will be that of an independent contractor, not an attorney-in-fact, subsidiary, partner or other type of relationship.

The Merger Agreement

Merger Consideration

The agreed purchase price for the acquisition of APIE pursuant to the merger is $39,000,000. In the merger, recipients of shares of APIC common stock and Series A redeemable preferred stock received pursuant to the conversion will receive shares of APSG common stock and Series A redeemable preferred stock, respectively, for each share of APIC common stock and Series A redeemable preferred stock that they own immediately prior to the effective time of the merger pursuant to an exchange ratio to be calculated prior to the effectiveness of the merger. APIC common shareholders will receive cash for any fractional shares which they would otherwise receive in the merger. Fractional shares of APSG Series A redeemable preferred stock will be issued in the merger, as necessary.

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Conditions to the Completion of the Merger

Each party s obligation to effect the merger is subject to the satisfaction or waiver of various conditions which include, in addition to other customary closing conditions, the following:

- the receipt of the requisite approval of the APSG shareholders and APIE subscribers;
- the approval from the Texas Department of Insurance;
- the declaration of the effectiveness by the SEC of this registration statement on Form S-4 registering the APIC and APSG common and Series A redeemable preferred stock issuable to APIE policyholders, with no stop orders suspending the effectiveness thereof having been issued;
- no preliminary injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental regulatory or administrative agency or commission, nor any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, will be in effect that would make the conversion or the merger illegal or otherwise prevent the consummation thereof;
- the accuracy of each party s representations and warranties and compliance by each party with its agreements contained in the merger agreement;
- the execution of the Advisory Services Agreement between APIC and API Advisory, LLC;
- the election by the APSG board of directors of Norris C. Knight, Jr., M.D. and William J. Peche, M.D. to join the APSG board of directors;
- the receipt of reasonable assurances from the tax advisors of APSG and APIE that the conversion and the merger should qualify as tax free reorganizations under Section 368(a) of the Internal Revenue Code; and
- the completion of the conversion.

Fiduciary Duties

The merger agreement contains detailed provisions prohibiting APIE from seeking an alternative transaction. These no solicitation provisions prohibit APIE from taking any action to solicit a takeover proposal. These provisions also prohibit APIE from recommending or participating in negotiations with respect to any acquisition of APIE or any merger, consolidation or business combination involving APIE, although this prohibition is subject to some exceptions, which also apply to APSG, including exceptions that permit the directors of APIE and APSG to comply with their respective fiduciary duties, after following specified procedures. In specified circumstances, the merger agreement permits the board of directors of APIE or APSG to accept an alternative takeover proposal such board of directors determines to be superior to the merger, and to terminate the merger agreement in such event by paying a termination fee of $1,500,000 and reimbursing the transaction expenses incurred by the other party in connection with the merger.

Termination

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger in the following manners:

(1) by mutual written consent of APSG and APIE;

(2) by either party if there has been a breach of any representation, warranty, or covenant contained in the merger agreement on the part of the other party in any material respect and the breaching party has not cured the breach within 10 days following receipt of written notice;

(3) by either party if the closing price of APSG common stock for the twenty consecutive trading days ending on the business day immediately prior to the closing date of the merger is greater than $17.85 or less than $10.71;

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(4) prior to the approval by the APSG shareholders of the issuance of the APSG common stock, by either APIE (if APIE has not breached its no solicitation obligations) or APSG if the board of directors of the terminating party authorizes a superior proposal and pays the other party the applicable termination fee of $1,500,000 and reimburses the other party s expenses;

(5) by either party if any judgment, order, decree, statute, law, ordinance, rule, regulation or other legal restraint or prohibition that would make the merger illegal or otherwise prevent the consummation thereof is in effect and has become final and nonappealable; and

(6) automatically without any action by APIE or APSG in the event the merger has not been consummated by March 31, 2007.

If either party chooses to terminate the merger agreement, both APSG and APIE will convene board meetings to consider their options and the possibility of resolicitation. Also, although the merger agreement prohibits APIE from seeking an alternative takeover proposal, in specified circumstances, the merger agreement permits the board of directors of APIE or APSG to accept an alternative takeover proposal such board of directors determines to be superior to the merger, and to terminate the merger agreement in such event by paying a termination fee of $1,500,000 and reimbursing the transaction expenses incurred by the other party in connection with the merger. In deciding whether to exercise such termination rights due to fiduciary duties, the APIE board and the APSG board will consider factors such as the purchase price offered, the consideration offered (cash, stock, debt, etc.) differences in the proposal (including the representations and warranties and the covenants) and differences in the philosophy of the company making the alternative takeover proposal.

Expenses

The parties have agreed that all costs and expenses incurred in connection with the merger agreement and the transactions contemplated thereby, including the conversion, will be paid by the party incurring such expenses, whether or not the merger is consummated. If the merger agreement is terminated and the termination fee is payable as a result thereof, in addition to the payment of the termination fee of $1,500,000, the terminating party will pay the non-terminating party, or reimburse such party for, all out-of-pocket fees and expenses incurred by the non-terminating party (including the fees and expenses of its counsel, financial advisor and financing sources) in connection with the merger agreement and the transactions contemplated thereby, without limitation.

The Advisory Services Agreement

Pursuant to the merger agreement, at the effective time of the merger, APIC will enter into an Advisory Services Agreement with API Advisory, LLC, or API Advisor, an entity to be formed by the current members of the APIE board of directors. API Advisor will be owned solely and equally by the nine current members of the APIE board of directors. Neither APIC nor APSG shall have any ownership in API Advisor. The new agreement will allow APIC to retain physician involvement in APIC, continue APIE s philosophy of physicians working for physicians, and ensure the provision of consulting services to APIC by advisors with a strong working relationship with APIE. The members of the APIE board of directors will provide advisory services to APIC similar to the services they currently provide to APIE through their membership on the APIE board of directors and the committees of the board of directors. Under the terms of the Advisory Services Agreement, API Advisor will provide APIC with advisory and consulting services. Its relationship with APIC will be that of an independent contractor, not an attorney-in-fact, subsidiary, partner or other type of relationship. API Advisor will provide up to nine persons to serve on an advisory board of directors of APIC, which will meet concurrently with the APIC board of directors. The advisory board will provide advice and counsel to the APIC board on matters coming before the APIC board, but advisory board members do not have the right to vote on matters brought before the APIC board. APSG may elect one or more directors of the advisory board to the APIC board of directors. API Advisor will assign directors on the advisory board to participate on one or more committees of APIC. APIC will compensate the members of the advisory board and the committees directly based on meeting

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attendance and is expected to be commensurate with their current compensation for service on the APIE board of directors and committees. Under the terms of the API Advisory Services agreement, initial compensation for the advisory directors are $2,500 for each board meeting attended in person and $250 per hour, if attended by telephone, respectively with the same rates applicable to each committee of the board. Total compensation paid to the APIE board of directors in 2005 and for the nine months ended September 30, 2006 was approximately $362,000 and $272,000. In addition, API Advisor will retain, compensate and provide a medical director to APIC. The medical director, who is currently paid an annual salary of $185,000, will be subject to the operational authority of the chief operating officer and the board of APIC. APIC will pay the medical director and one administrative assistant directly. API Advisor will be reimbursed its out of pocket costs incurred in connection with the provision of the services, plus any amount paid to directors, medical director, or executive secretary if those are not paid directly by APIC. Total compensation paid to the APIE medical director in 2005 and for the first nine months ended September 30, 2006 was $210,000 and $150,300; respectively. Under the agreement, APSG shall maintain customary officers and directors liability insurance with an endorsement naming the persons designated by API Advisor to provide advisory and consulting services to APIC as additional insureds thereunder, with respect to their services as advisory directors of APIC. See the Merger Agreement Advisory Services Agreement on page 133 and Interests of Certain Persons in the Merger Advisory Services Agreement on page 151.

The Special Meetings and Voting

APSG. A special meeting of APSG shareholders 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. At the meeting, you will be asked:

(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 the proposals 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

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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.

APIE. A special meeting of APIE subscribers 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. At the meeting, you will be asked:

(1) To consider and vote upon a proposal for the APIE subscribers to approve and adopt the Plan of Conversion of APIE, as amended, 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, which includes the form of the certificate of formation of 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 on June 1, 2006 and at 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 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. 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.

Mutual Conditions

Approval by the APSG shareholders of the proposal to issue the APSG common stock in the merger and approval by the APIE subscribers to approve and adopt the plan of conversion, which includes the form of the certificate of formation of APIC, and the merger agreement are mutual conditions to the conversion and merger. APIE will not be converted to a stock insurance company unless the merger is consummated and vice versa.

Matters to be Considered in Deciding How to Vote

Board of Directors Recommendations to Shareholders and Subscribers (see pages 116 and 117)

APSG. The board of directors of APSG has approved and adopted the merger agreement and the transactions contemplated by it, declared its advisability, and recommends that APSG shareholders vote at the special meeting to approve the issuance of APSG common stock as a result of the transactions contemplated by the merger agreement. See The Merger Background of the Merger beginning on page 109. In addition, the APSG board of directors recommends that APSG shareholders vote to approve both amendments to APSG s 2005 Incentive and Non-Qualified Stock Option Plan, including the increase in the number of shares of common stock that may be granted under the plan, which will not become effective unless the merger is consummated, and the elimination of the exchange provision allowing APSG to exchange or buy out any previously granted stock option at any time,

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which will become effective if approved by the affirmative vote of a majority of the APSG common shares outstanding, regardless of whether the issuance of APSG common shares is approved and effective.

APIE. The board of directors of APIE has approved the plan of conversion and the merger agreement, declared the plan of conversion and the merger agreement advisable, determined that the plan of conversion and the merger agreement and the transactions contemplated by them are fair to and in the best interests of APIE and its subscribers, policyholders and holders of refundable deposit certificates, and recommends that APIE subscribers vote at the special meeting in favor of the adoption of the plan of conversion and the merger agreement. See The Conversion Background to the Conversion beginning on page 105 and The Merger Background of the Merger beginning on page 109.

Opinion of APIE Financial Advisor (see pages 117 to 123)

In its opinion letter, dated August 22, 2006, Raymond James & Associates, Inc. opined to the APIE board of directors that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in the opinion, the receipt of APSG common stock by the APIE policyholders, pursuant to the plan of conversion and merger agreement, is fair, from a financial point of view, to the APIE policyholders. See The Merger Opinion of APIE s Financial Advisor beginning on page 117.

Material United States Federal Income Tax Consequences of the Conversion and Merger (see pages 134 to 137)

The conversion should qualify as a tax free reorganization under Section 368(a) of the Internal Revenue Code, with respect to APIE and APIC. The conversion should be tax free to persons solely receiving APIC common stock but it may be taxable to persons receiving APIC Series A redeemable preferred stock in the conversion. For a full description of the material tax consequences of the conversion, see Material United States Federal Income Tax Consequences of the Conversion and Merger beginning on page 134.

The merger should qualify as a tax free reorganization under Section 368(a) of the Internal Revenue Code. Recipients of APIC common stock and Series A redeemable preferred stock in the conversion generally should not recognize any gain or loss for U.S. federal income tax purposes as a result of the exchange of their APIC common stock and Series A preferred stock for APSG common stock and Series A preferred stock in the merger, except that they should recognize gain or loss attributable to their receipt of cash instead of fractional shares of APSG common stock (fractional shares of APSG Series A redeemable preferred stock will be issued in the merger, as necessary). Holders of APSG common stock should not recognize any gain or loss for U.S. federal income tax purposes as a result of the merger. For a full description of the material tax consequences of the merger, see Material United States Federal Income Tax Consequences of the Conversion and Merger beginning on page 134.

Tax matters are very complicated and the tax consequences of the conversion and the merger to you will depend on the facts of your particular situation. You should consult your own tax and legal advisors for a full understanding of the tax consequences of the conversion and the merger to you.

Dissenter s Rights of Appraisal (see page 125)

Holders of APSG common stock are not entitled to dissenters rights of appraisal in connection with the merger. APIE policyholders and holders of APIE refundable deposit certificates are not entitled to dissenters rights of appraisal under applicable Texas law in connection with the conversion or the merger.

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Accounting Treatment (see page 123)

APSG intends to account for the merger under the purchase method of business combinations with APSG having been deemed to have acquired APIC. This means that the assets and liabilities of APIC will be recorded, as of the completion of the merger, at their fair values and added to those of APSG.

Regulatory Matters (see page 138)

As a Texas reciprocal insurance exchange, the conversion and merger must be approved by the Commissioner of the Texas Department of Insurance. APIE has filed an Application to Convert to a Stock Insurance Company with the Commissioner and APIE policyholders, holders of refundable deposit certificates and other interested persons have the right to provide the Commissioner with comments on the plan of conversion and the merger. On September 13, 2006, the Commissioner held a hearing to consider the fairness of the exchange of the APIE policyholders interests for shares of APIC common stock and the rights to repayment from APIE s refundable surplus for shares of APIC Series A redeemable preferred stock, and to consider the testimony presented and information filed by interested parties, APSG and APIE. APIE provided advance written notice of the September 13, 2006 hearing to each APIE policyholder and each holder of a refundable deposit certificate. In addition, public notice of the hearing was made through publication by the Commissioner in the Texas Register. The duly noticed hearing was held on September 13, 2006 in the public hearings room of the Texas Department of Insurance in Austin, Texas. In his opening remarks, the Commissioner indicated for the record that the Texas Department of Insurance would not make a decision on fairness at the conclusion of the hearing, but would solicit input on fairness and allow Texas Department of Insurance staff to ask questions of the representatives of the parties and any other persons who chose to speak. The Commissioner accepted testimony from representatives of the APIE board of directors and their legal counsel. The Commissioner questioned these representatives at some length concerning the rationale for the conversion and the merger and the determination and allocation of the purchase price. The Commissioner also questioned representatives of APIE s investment advisor, Raymond James & Associates, Inc., concerning the process u