

AMERICAN PHYSICIANS SERVICE GROUP INC  
Form DEF 14A  
April 23, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

..

Preliminary Proxy Statement

..

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

Definitive Proxy Statement

..

Definitive Additional Materials

..

Soliciting Material Pursuant to §240.14a-12

**American Physicians Service Group, Inc.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

x

No fee required.

..

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1)

Title of each class of securities to which transaction applies:

---

(2)

Aggregate number of securities to which transaction applies:

---

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the

filing fee is calculated and state how it was determined):

---

(4)

Proposed maximum aggregate value of transaction:

(5)

Total fee paid:

---

..

Fee paid previously with preliminary materials.

..

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

(1)

Amount Previously Paid:

---

(2)

Form, Schedule or Registration Statement No.:

---

(3)

Filing Party:

---

(4)

Date Filed:

---



**1301 Capital of Texas Highway, Suite C-300**

**Austin, Texas 78746**

**NOTICE OF 2009 ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held June 3, 2009**

To Our Shareholders:

You are cordially invited to attend our 2009 Annual Meeting of Shareholders to be held at our offices, located at 1301 Capital of Texas Highway, Suite C-300, Austin, Texas 78746, on Wednesday, June 3, 2009 at 8:00 a.m., CDT, for the following purposes:

(a)

To elect eight directors to serve on our board of directors; and

(b)

To transact such other business as may properly come before the meeting or any adjournment(s) thereof.

The 2009 proxy statement contains information regarding, and a more complete description of, the items of business to be considered at the meeting. Only shareholders of record of our common and preferred stock at the close of business on April 9, 2009 are entitled to notice of, and to vote at, the meeting or any adjournment(s) thereof.

We are pleased to take advantage of U.S. Securities and Exchange Commission rules that allow companies to furnish their proxy materials over the Internet. **As a result, we are mailing to our shareholders a Notice of Internet Availability of Proxy Materials (the Notice ) instead of a paper copy of our proxy statement and our 2008 Annual Report on Form 10-K filed with the SEC on March 4, 2009.** The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of the proxy materials, including our proxy statement, our 2008 Annual Report and a form of proxy card or voting instructions card. All shareholders who have previously opted out of receiving the Notice will receive a paper copy of the proxy materials by mail. We believe this new process will allow us to provide our shareholders with the information they need in a timely manner, while reducing the environmental impact and lowering the costs of printing and distributing our proxy materials.

Your vote is important and we urge you to attend the meeting. Whether or not you plan to attend the meeting, we hope that you will vote as soon as possible. You may vote your shares over the Internet at [www.proxyvote.com](http://www.proxyvote.com) or via a toll-free number at (800) 690-6903. If you requested and received a paper copy of a proxy card or voting instruction card by mail, you may submit your proxy card or voting instruction card for the meeting by completing, signing, dating and returning it in the envelope provided. If you attend the meeting, you may vote in person, if you wish, even if you have already returned a proxy card or voting instruction card provided you revoke your proxy any time before it is exercised in the manner described in the proxy statement.

By Order of our board of directors

/s/ W. H. HAYES

W. H. HAYES

Secretary

Austin, Texas

April 23, 2009

2

---

**AMERICAN PHYSICIANS SERVICE GROUP, INC.**

**1301 Capital of Texas Highway, Suite C-300**

**Austin, Texas 78746**

**PROXY STATEMENT**

**for**

**2009 ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held June 3, 2009**

Our board of directors hereby solicits your proxy for use at our 2009 Annual Meeting of Shareholders to be held at our offices, located at 1301 Capitol of Texas Highway, Suite C-300, Austin, Texas 78746, on Wednesday, June 3, 2009 at 8:00 a.m., CDT, and any adjournment(s) thereof. This solicitation may be made in person or by mail, telephone, or telecopy by our directors, officers, and employees, who will receive no extra compensation for participating in this solicitation. In addition, we will reimburse banks, brokerage firms, and other fiduciaries for forwarding solicitation materials to the beneficial owners of our common stock held of record by such persons. We will pay the entire cost of this solicitation.

We are pleased to take advantage of rules of the U.S. Securities and Exchange Commission (the "SEC") that allow companies to furnish their proxy materials over the Internet. As a result, we are mailing to most of our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") instead of a paper copy of this proxy statement and our 2008 Annual Report. The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including this proxy statement, our 2008 Annual Report and a form of proxy card or voting instruction card. The proxy materials are being distributed and made available on or about April 23, 2009. This proxy statement contains important information for you to consider when deciding how to vote on the matters presented before this meeting. Please read it carefully.

References in this report to we, us, our, and the Company mean American Physicians Service Group, Inc.



## **OUTSTANDING COMMON STOCK**

Only shareholders of record at the close of business on April 9, 2009 are entitled to notice of, and to vote at, the meeting and any adjournment(s) thereof. At April 9, 2009, we had outstanding and entitled to vote 6,797,774 shares of our common stock and 7,050 shares of our preferred stock.

## **QUORUM; VOTING**

The presence, in person or by proxy, of the holders of a majority of the combined outstanding shares of our common and preferred stock is necessary to constitute a quorum at the meeting. Abstentions and broker non-votes (i.e., shares held by brokers or nominees that are represented at the meeting but with respect to which they have no discretionary power to vote on a particular matter and have received no instructions from the beneficial owners thereof or persons entitled to vote thereon) will be counted in determining whether a quorum is present at the meeting. If a quorum is not present or represented at the meeting, the shareholders entitled to vote thereat, present in person or represented by proxy, have the power to adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present or represented. At any such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally notified.

On all matters (including election of directors) submitted to a vote of the shareholders at the meeting or any adjournment(s) thereof, each holder of our common and preferred stock will be entitled to one vote for each share of our common and preferred stock owned of record by such shareholder at the close of business on April 9, 2009. Our common and preferred shares are voted together as a single class. Cumulative voting is not permitted in the election of our directors.

Proxies in the accompanying form that are properly executed and returned and that are not revoked will be voted at the meeting and any adjournment(s) thereof and will be voted in accordance with the instructions thereon. Any proxy upon which no instructions have been indicated with respect to a specified matter will be voted according to the recommendations of our board of directors, which are contained in this proxy statement. Our board of directors knows of no matters, other than those presented in this proxy statement, to be presented for consideration at the meeting. If, however, other matters properly come before the meeting or any adjournment(s) thereof, the persons named in the accompanying proxy will vote such proxy in accordance with their judgment on any such matters. The persons named in the accompanying proxy may also, if they believe it advisable, vote such proxy to adjourn the meeting from time to time.

Each matter submitted to the shareholders requires the affirmative vote of a majority of the shares entitled to vote and present in person or by proxy. Abstentions and broker non-votes will not be counted as a vote for or against any proposal.

### **REVOCAION OF PROXY**

You have the power to revoke your proxy at any time before the shares it represents are voted. A revocation will be effective upon receipt, at any time before the meeting is called to order, by our Secretary of either (a) an instrument revoking your proxy or (b) a proxy duly executed by you bearing a later date than the preceding proxy. Additionally, you may revoke a previously executed proxy by voting in person at the meeting.

### **PROPOSAL I --ELECTION OF DIRECTORS**

#### *General*

Pursuant to our bylaws, our board of directors has, by resolution, fixed the number of directors at eight, and eight directors will be elected. All nominees will be elected to hold office until our next annual meeting of shareholders and until his or her successor is duly elected and qualified, or until his or her earlier death, resignation or removal.

Should any nominee for director become unwilling or unable to accept nomination or election, the proxies will be voted for the election, in his or her stead, of such other persons as our board of directors may recommend or our board of directors may reduce the number of directors to be elected. We have no reason to believe that any nominee named below will be unwilling or unable to serve.

*Nominees*

<b>Name</b>	<b>Age</b>	<b>Director of Company Since</b>
Kenneth S. Shifrin	60	1987
Timothy L. LaFrey	53	2007
Norris C. Knight, Jr., M.D.	73	2007
Lew N. Little, Jr.	52	2005
Jackie Majors	75	2003
William J. Peche, M.D.	72	2007
William A. Searles	66	1989
Cheryl Williams	57	2003

Mr. Shifrin has been our Chairman of the Board since 1990. He has been our Chief Executive Officer since 1989. He has been a director since 1987. From February 1985 until June 1987, Mr. Shifrin served as our Senior Vice President - Finance and Treasurer. Mr. Shifrin also was Chairman of the Board of Prime Medical Services, Inc. from October 1989 until November 2004. With the merger of Prime Medical Services, Inc. and HealthTronics, Inc., or Healthtronics, Mr. Shifrin became Vice-chairman of the Board of HealthTronics in November 2004. In 2006, Mr. Shifrin resigned his vice-chairmanship but remains a member of the Board of Directors of HealthTronics. Mr. Shifrin is a member of the World Presidents Organization.

Mr. LaFrey has been our President and Chief Operating Officer as well as a director since April 2007. He previously served as a partner in the Austin office of Akin Gump Strauss Hauer & Feld LLP from April 1997 until April 2007, where his law practice focused on corporate governance, mergers and acquisitions, and debt and equity financings. Mr. LaFrey has extensive experience in the insurance, healthcare, and financial services industries. Prior to becoming an attorney, Mr. LaFrey, who also is a certified public accountant, was in the audit practice of KPMG Peat Marwick in Austin. He maintains memberships in the American Bar Association, The State Bar of Texas and the Travis County Bar Association. He also is a member of The American Institute of Certified Public Accountants, and the Texas Society of Certified Public Accountants, and is a member of the Board of Trustees of the Seton Healthcare System.

Dr. Knight has been a director since April 2007. He has been a member of the board of directors of American Physicians Insurance Company, or API (formerly known as American Physicians Insurance Exchange, or APIE), since 1978. He served as chairman of the APIE board of directors from 1998 to 2004 and again from 2005 until APIE was acquired by us in April, 2007. Dr. Knight has been in the private practice of orthopedic surgery since 1965 in Texarkana, Texas. He is a member of the Texas Orthopedic Association, American College of Surgeons, American Academy of Orthopedic Surgery, and certified by the American Board of Orthopedic Surgeons. Dr. Knight is a staff member of Christus St. Michael's Health System and Wadley Regional Medical Center in Texarkana.

Mr. Little has been a director since 2005. He has been chief executive officer of Harden Healthcare, LLC, an owner and operator of skilled nursing facilities, assisted living facilities, home health, hospice, pharmacy and therapy companies, since December 2001. Mr. Little was president of Capstar Partners, LLC, a private investment company, from February 2000 until joining Harden Healthcare. Prior to his association with Capstar, Mr. Little spent 18 years in the banking industry, most recently as president of Bank of America in Austin, Texas.

Mr. Majors has been a director since 2003. He previously served on our board of directors from 1989 through 1993. Mr. Majors was a director and president of Prime Medical Services, Inc., (now HealthTronics, Inc.), a national urology company, from 1989 until his retirement in 1996. He was an independent business consultant from 1986 to 1989 and our vice president-mergers and acquisitions from 1984 to 1986.

Dr. Peche has been a director since April 2007. He is a founder of API and has served as a member of its board of directors since its formation in 1975. He served as chairman of API's board of directors from 1992 to 1995 and as vice chairman from 1997 to 2001 and from 2005 to 2007. Dr. Peche is in private practice in San Antonio, Texas, with a specialty in obstetrics and gynecology. He has served as chairman of the Obstetrics and Gynecology department at Santa Rosa General Hospital and North Central Baptist Hospital. He is a member of the Bexar County Medical Society, Texas Medical Association and San Antonio Ob-Gyn Society.

Mr. Searles has been a director since 1989. He has been an independent business consultant since 1989. Before then, he spent 25 years with various Wall Street firms, the last ten years of which were with Bear Stearns (an investment

banking firm) as an associate director/limited partner. He served as chairman of the board of APS Investment Services, Inc., a wholly-owned subsidiary of ours from May 1998 to December 2008.

Ms. Williams has been a director since 2003. She has been a private investor and business consultant since 2002. She was Chief Financial Officer of Prime Medical Services, Inc. from 1989 to 2002. Prior to that she held finance and accounting positions in the data processing and aircraft industries.

**The Board recommends that you vote FOR each nominee for director.**

*Certain Additional Information Concerning Our Board of Directors*

No family relationships exist among our officers or directors. Except as indicated above with respect to HealthTronics, no director is a director of any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or subject to the requirements of Section 15(d) of the Exchange Act or any company registered as an investment company under the Investment Company Act of 1940.

Our board of directors held four meetings during 2008, and each director attended at least 75% of (a) the total number of our board meetings held during 2008 and (b) the total number of meetings held by all committees of the board on which he or she served during 2008. It is the policy of our board of directors to hold an executive session without the presence of management at each board meeting.

## **BOARD COMMITTEES; CORPORATE GOVERNANCE**

### *General*

There are currently eight members of our board of directors, including five directors who the board has determined to be independent under Rule 5605(a) (2) of the NASDAQ Listing Rules.

Our board of directors has an audit committee, a compensation committee and a nominating committee. Our board of directors has adopted a written charter for each of these committees. A copy of each committee's charter is available on our web site at <http://www.amph.com>. The contents of this web site are not incorporated by reference and the web site address provided in this proxy statement is intended to be an inactive textual reference only.

### *Board Meetings*

In regard to directors' attendance at annual shareholders meetings, although we do not have a formal policy regarding such attendance, our board of directors encourages all board members to attend such meetings, but such attendance is not mandatory. All of our board members attended the 2008 annual shareholders' meeting. In addition, our board of directors holds its regular annual meeting immediately following the annual shareholders' meeting.

### *Audit Committee*

Our board of directors has an audit committee that, during most of 2008, consisted of four directors, Dr. Knight, Mr. Little, Mr. Majors and Ms. Williams. The chairperson of the committee is Ms. Williams. Effective December 4, 2008, Dr. Knight resigned from the audit committee in connection with receiving a payment of \$66,136 from the Company pursuant to the termination of the advisory services agreement with the advisory board of directors of API and Dr. Knight's signing of a five year non-competition agreement. See the discussion below under Certain Relationships and Related Transactions Advisory Services Agreement . As a result of this payment, it was determined that Dr. Knight no longer met the audit committee independence standards set forth in Rule 10A-3(b)(1) of the Exchange Act. Dr. Knight remains an independent director and is expected to rejoin the audit committee when it is determined that he meets the audit committee independence standards. Our board has determined that the remaining committee members are independent as defined in Rule 5605(a) (2) of the NASDAQ Listing Rules and meet the independence standards set forth in Rule 10A-3(b) (1) of the Exchange Act. Our board has further determined that Ms. Williams is an audit committee financial expert as such term is defined in Item 401(h) of Regulation S-K promulgated by the SEC. The audit committee held five meetings during 2008 and each member of the committee attended at least 75% of the total audit committee meetings. The audit committee meets with our independent auditors, reviews our financial statements, and selects our independent auditors for each fiscal year.

The audit committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent auditors. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The audit committee has delegated pre-approval authority to Ms. Williams when expedition of services is necessary.

#### *Compensation Committee*

Our board of directors has a compensation committee, which in 2008 consisted of three directors, Mr. Little, Mr. Majors and Ms. Williams, all of whom are independent directors as defined in Rule 5605(a) (2) of the NASDAQ Listing Rules. The chairperson of the committee is Mr. Majors. The compensation committee held two meetings during 2008, with all members attending each meeting. The compensation committee recommends to the board the compensation of our executive officers and directors.





*Nominating Committee*

Our board of directors has a nominating committee that assists the board in identifying qualified individuals to become directors. During 2008 the committee consisted of three members, Mr. Majors, Dr. Peche and Ms. Williams, all of whom are independent directors as defined in Rule 5605(a) (2) of the NASDAQ Listing Rules. The chairperson of the committee is Mr. Majors. The nominating committee held one meeting in 2008, which all members attended.

The nominating committee identifies nominees by first evaluating the current members of the board who are willing to continue in service. Current members of the board with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the board with that of obtaining a new perspective. If any member of the board does not wish to continue in service or if the nominating committee decides not to recommend a member for re-election, the nominating committee will identify the desired skills and experience of a new nominee in light of the criteria below. Research may be performed to identify qualified individuals. To date, the nominating committee has not engaged third parties to identify or evaluate or assist in identifying potential nominees, although it may do so in the future if it considers doing so necessary or desirable.

The consideration of any candidate for service on our board is based on the nominating committee's assessment of the candidate's professional and personal experiences and expertise relevant to our operations and goals. The committee evaluates each candidate on his or her ability to devote sufficient time to board activities to effectively carry out the work of the board. The ability to contribute positively to the existing collaborative culture among board members is also considered by the committee. In addition, the committee considers the composition of the board as a whole, the status of the nominee as independent under the NASDAQ's Listing Rules and the rules and regulations of the SEC, and the nominee's industry and business experience and knowledge. Other than the foregoing, there are no stated minimum criteria for director nominees, although the nominating committee may also consider such other factors as it may deem are in our and our shareholders' best interests.

After completing its evaluation, the nominating committee makes a recommendation to the full board of directors as to the persons who should be nominated by the board, and the board determines the nominees after considering the recommendation and report of the nominating committee.

The nominating committee will consider director candidates recommended by our shareholders. The nominating committee intends to assess such candidates in the same manner as other nominees, as described above. To recommend a prospective nominee for the nominating committee's consideration, shareholders should submit in writing the candidate's name and qualifications, and otherwise comply with our bylaws' requirements for shareholder nominations, which are described under *Shareholder Proposals* below, to:

American Physicians Service Group, Inc.

Corporate Secretary

1301 Capital of Texas Highway, Suite C-300

Austin, TX 78746

*Compensation Committee Interlocks and Insider Participation*

None of our executive officers serves, or has served during the past fiscal year, as a member of the board of directors or compensation committee of any other company that has one or more executives serving as a member of our board of directors or compensation committee.

*Shareholder Communications with the Board of Directors*

Shareholders who wish to communicate with the board of directors or with a particular director may send a letter to the corporate secretary at our principal executive offices, at 1301 Capital of Texas Highway, Suite C-300, Austin, Texas 78746. The mailing envelop should contain a clear notation indicating that the enclosed letter is a Shareholder-Board Communication. All such letters should identify the author as a shareholder and clearly state whether the intended recipients are all members of the board or just certain specified individual directors.



Following receipt of the communication the secretary will:

a.

Filter out obscene or otherwise inappropriate materials, unsolicited advertising material, mass mailings, spam and unsolicited newsletters, newspapers, books and publications.

b.

Direct to Company personnel routine questions, complaints, comments, invoices/statements and related communications, surveys and questionnaires, and requests for business contacts or referrals that can be appropriately addressed by management. The secretary will provide a copy of the original communication to the chairperson of the audit committee and advise him or her of any action taken with respect to the communication.

c.

Create a log of all communications, except for those excluded under a. above, and will provide, quarterly, a copy of such log to the chairperson of the audit committee for review. The secretary will also provide to any director, upon his or her request, a copy of the log.

d.

Forward all communication not covered in a. or b. above to the whole board, or any particular committee or individual member, as requested in the communication.

e.

Maintain a file of all communications, which shall be kept in accordance with the Company's record retention policy. The secretary will provide to any director upon request a copy of any filed communication.

#### *Code of Business Conduct and Ethics*

We have established a Code of Business Conduct and Ethics (the Code) for our chief executive officer, senior finance officers, executive officers and all other employees. A current copy of the Code is available on our web site at <http://www.amph.com>. The contents of this web site are not incorporated by reference and the web site address provided in this proxy statement is intended to be an inactive textual reference only.

#### EXECUTIVE COMPENSATION

## Compensation Discussion and Analysis

### *Introduction*

We compensate our executive officers primarily through a combination of base salary, annual incentive plan compensation, long-term and deferred equity options and awards and perquisites. The executive compensation is designed to be competitive and to align executive performance with the long-term interests of our shareholders.

Our total compensation philosophy and objectives are designed to:

.

Provide competitive total compensation opportunities that will attract, retain and motivate high-performing executives;

.

Align the compensation plans to our business strategies;

.

Compensate competitively and equitably;

.

Motivate high-quality performance; and

.

Align the financial interests of our executives and shareholders through equity-based incentives.



*Elements of Executive Compensation*

Our executive compensation program is designed to reflect the philosophy and objectives we have described above. Senior executives evaluate and set salaries for junior executives using similar criteria, with specific approval required of the president for new hires and salary changes. We also consider the pay of each executive officer relative to each other executive officer and relative to other members of the management team. Generally, that means that greater responsibility for overall Company performance will result in greater pay. While specific performances within the segments may occasionally skew the results, we expect our chief executive officer, Mr. Shifrin, and our president, Mr. LaFrey, to be compensated more than the head of our primary operating division, Mr. Magids, and we expect this division head to be compensated more than Mr. Zimmermann, who directs support functions. We have designed the total compensation program to be consistent for our entire executive management team.

The compensation program consists of base salary, annual cash incentive compensation, stock option awards and deferred stock grants. Traditionally, base salary represents about 30-45%, and stock option awards and deferred stock grants represent about 10-25%, of compensation, with the rest consisting of cash incentive compensation. Our base salaries are designed to provide a part of a competitive total compensation package that will attract, retain and motivate high-performing executives. The incentive compensation program is designed to reinforce our pay for performance culture by making a significant portion of an executive's compensation variable and based on Company, business unit and individual performance. The incentive compensation program also aligns compensation with our business strategies. Our stock option awards along with our deferred stock grants are designed to reinforce our pay for performance culture, align the financial interests of our executives and shareholders, align compensation with our intermediate and long-term business strategies and provide a significant equity component as part of the total compensation package.

Our compensation committee performs a review of our executive officers' compensation at least annually to determine whether the compensation provides adequate incentives and motivation to our executive officers. In addition, on an annual basis, our compensation committee reviews and considers the individual performance of executives, the financial and operating performance of the divisions or departments managed by the executives, and our overall performance, and considers this information in making compensation decisions. In addition to any information specifically requested by the compensation committee, the chief executive officer and chief operating officer provide the compensation committee with quantitative and qualitative information regarding their evaluation of company performance and on the specific performance of our senior executives. Historically, our compensation committee has performed this annual review in the first quarter of the year following the year reviewed, after audited financial results have been communicated. During the year, our compensation committee may consider compensation awards to executives for extraordinary performance.

*Base Salaries.* Base salaries for our executives are established based on the scope of their responsibilities. Management and our compensation committee collaborate to determine the base salary of executive employees, with our compensation committee making the final determination. For each individual executive, we also consider our needs for that officer's skill set, the contribution that the officer has made or we believe will make, whether the executive officer's skill set is easily transferable to other potential employers and other factors. We fix executive base

salaries at a level we believe enables us to hire and retain individuals in a competitive environment and to reward satisfactory individual performance and a satisfactory level of contribution to our overall business goals. While we are generally familiar with the base compensation that is payable by companies that we believe to be our competitors and by other private and public companies with which we believe we generally compete for executives and do consider this information when making compensation decisions, we have not felt it necessary to utilize the services of a compensation consultant or to do any formal benchmarking. Base salaries are reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. In 2008, based on the above criteria, of our five most highly compensated executives, Mr. LaFrey's base salary was increased by \$25,000. No adjustments were made in 2008 to the base salaries of Mr. Shifrin, Mr. Magids or Mr. Zimmermann, or to the fee paid to Mr. Searles, the Chairman of APS Investment Services, Inc. in 2008 (which, together with its subsidiaries, we refer to as Investment Services). As of December 31, 2008, Mr. Searles' contract with us expired and he no longer receives a consulting fee and is no longer Chairman of Investment Services though he remains a member of our board of directors.



*Annual Management (Non-Equity) Incentive Plan Compensation.* Our executive officers and mid-level management are eligible to participate in our annual incentive compensation program whereby participants may receive a cash bonus each year. We established this annual incentive compensation program in order to emphasize pay for performance. We believe this program helps focus our executive officers' efforts in driving operating results that create shareholder value. Annual incentive compensation awards are based on the actual achievement of certain company and business division performance goals, including the achievement of certain thresholds of financial performance and certain business initiatives aimed at improving future earnings, which are determined prior to or shortly after the beginning of each year. The goals are communicated to our executive officers and are set so that the attainment of the targets is not assured and requires significant effort by our executives. Our Compensation Committee has the discretion to award a portion of annual incentive compensation in the form of deferred stock grants in lieu of cash. In 2008, after total incentive compensation levels were determined, the compensation committee directed that a portion of Mr. LaFrey's, Mr. Magids' and Mr. Zimmermann's awards be paid in the form of deferred share grants in lieu of cash. These deferred share grants are included in the awards for officers and discussed below under Long-Term Incentives - Deferred Stock Grants.

Although performance objectives vary between our insurance services, financial services and corporate segments, executive incentive compensation awards for our executive officers and mid-level management in each segment are determined upon some combination of the following performance measures: revenue growth; pre-tax income; net earnings growth; earnings per share growth; book value per share growth; stock price; and return on equity. Additional incentive compensation may be awarded to our executive officers and mid-level management for successful completion of major projects, client development, personal development or similar-type accomplishments in which the employee played a significant role. While we intend to tie individual performance to clearly articulated objectives, it is necessary, and at times prudent, for management to use a certain degree of discretion in evaluating individual results. When establishing our threshold performance incentive objectives, the compensation committee reviews and discusses with both senior management and the full board of directors our business plan and its key underlying assumptions, expectations under then-existing and anticipated market conditions and the opportunity to generate shareholder value and then establishes the performance objectives for the year.

In 2008, as president of our Insurance Services division, Mr. Magids' performance incentives were based on subjective considerations that included favorable growth and/or expansion of the Insurance Services division and individual achievements for that year. Among the individual achievements, Mr. Magids' was charged with developing and managing a direct sales effort that decreased our reliance on independent sales agents and produced significant new business; managing sales agent relationships and producing significant new business through agents; achieving or exceeding forecasted new premium revenue generation for Oklahoma; and controlling Insurance Services division operating costs to drive underwriting profits that met or exceeded forecasted levels. After evaluating the extent of Mr. Magids' accomplishment of these objectives, the Compensation Committee awarded Mr. Magids' incentive compensation totaling \$226,234 in 2008.

With respect to our financial services operations, Mr. Searles, the chairman of Investment Services, and non-executive personnel would have participated in an incentive pool that was to begin after Investment Services earned a minimum of a 30% return on capital for that year on a consolidated basis, including the financial results of its subsidiaries. Since Investment Services incurred a pre-tax loss during 2008, the terms of their incentive compensation plan were not met and thus no incentive compensation was paid to any executive or employee of this segment. In addition, our contract with Mr. Searles expired on December 31, 2008 and thus he is no longer chairman of Investment Services, though he remains a member of our board of directors.



At the holding company level, Mr. Shifrin (Chief Executive Officer), Mr. LaFrey (President and Chief Operating Officer) and Mr. Zimmermann (Chief Financial Officer), participated in a corporate incentive plan based in part on achieving one or more of the following operating performance objectives: increasing book value per share by at least 15% over the December 31, 2007 amount; achieving 2008 internally budgeted earnings per share estimates, and; achieving a 2008 return on equity of at least 15%. In 2008, the Company achieved a 13% increase in book value per share; a 23% shortfall in earnings per share compared to forecasted estimates, the result primarily of non-operating other-than-temporary impairment charges on certain mortgage-backed securities and the losses incurred in our financial services operations, and; a 15% return on equity, meeting the plan's goal. The Committee then reviewed the performance of the Company from a broad perspective, including share price performance of the Company in a declining economy and the degree of accomplishment of personal performance objectives of each officer, and recommended incentive awards to the board of directors reflective of short and long-term returns to shareholders.

After evaluating the extent of their accomplishment of these objectives, the Compensation Committee awarded the officers of the holding company the following amounts: Mr. Shifrin, \$572,000; Mr. LaFrey, 512,546; and Mr. Zimmermann, \$121,117.

*Long-Term Incentives.* We believe our executives should have an ongoing stake in our success. We also believe that our executives should have a portion of their total compensation, historically 10-25%, tied to stock price performance because stock-related compensation is directly tied to shareholder value. Our long-term incentives are in the form of stock options and deferred stock grants and specific awards in 2008 are discussed below under *Stock Options* and *Deferred Stock Grants*. We use these incentives as a form of long-term compensation because we believe stock options and deferred stock grants more appropriately align the long-term incentive compensation with the creation of shareholder value by allowing the executives, in the case of stock options, to purchase the underlying common stock at the same price as the closing price per share on the date the option was granted.

*Stock Options.* Our board of directors reviews and approves stock option awards to executive officers based upon our compensation committee's assessment of individual performance, a review of each executive's existing long-term incentives, and retention considerations. Of the most highly compensated executive officers in 2008, the Company granted options for 25,000 shares to Mr. Shifrin with a grant date fair value of \$75,500, 25,000 shares to Mr. LaFrey with a grant date fair value of \$75,500, 15,000 shares to Mr. Zimmermann with a grant date fair value of \$45,300, and 15,000 shares to Mr. Magids, with a grant date fair value of \$45,300. No options were granted to Mr. Searles in 2008 for his service as chairman of Investment Services. The vesting schedule for recent grants of stock options, determined by the compensation committee, traditionally has had options vest in two approximately equal annual installments beginning one year from the date of grant for directors and three approximately equal annual installments beginning one year from the date of grant for non-director employees. Stock options have historically been granted at about the same time that the year's financial results are known. This has usually occurred in conjunction with a board meeting held late in the fourth quarter or early in the first quarter of the following year. Options have also historically been granted to directors upon their initial election to the board and to key employees upon their initial employment. The board considers whether material non-public information exists and does not grant options during such periods. Options are priced at the closing price on the date of grant.



*Deferred Stock Grants.* Key executives, including our named executive officers, may receive a portion of their incentive compensation, typically up to 5%, in the form of deferred grants of company common stock, with all deferred stock awards being proposed by the compensation committee and approved by our board of directors. Under our American Physicians Service Group, Inc. Affiliated Group Deferred Compensation Master Plan (our *Deferred Compensation Plan* ), shares are earned in the year of award. Payout of the shares is subject to a schedule wherein shares become eligible for payout over five years, in equal annual amounts, following the grant. Upon reaching age 60, participants are then entitled to receive the eligible shares and the shares that become eligible each year thereafter. In the event that a participant is terminated other than for cause or resigns and signs a non-competition agreement, all of the shares granted become eligible and will be paid out. In the event that a terminating participant does not sign a non-competition agreement or if a participant is terminated for cause, the participant will receive only the eligible shares and shares not yet eligible will be forfeited and allocated pro rata to the remaining participants. All shares granted are to be paid out in the event of the death or disability of the participant. In 2008, Mr. Shifrin received 4,000 shares, with an award date market value of \$82,000, Mr. LaFrey received 5,400 shares, with an award date market value of \$109,454, Mr. Zimmermann received 2,300 shares, with an award date market value of \$46,883, and Mr. Magids received 2,600 shares, with an award date market value of \$52,766 and Mr. Searles received 1,000 shares, with an award date market value of \$18,300. Mr. Searles did not receive his award in connection with his role as Chairman of Investment Services; rather he received this award as a member of our board of directors.

*Perquisites.* Executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, group life, disability and accidental and dismemberment insurance and our 401 (k) plan, in each case on the same basis as other employees. Other perquisites, offered only to executive officers, include club dues. Specifically, Mr. Shifrin, Mr. LaFrey, Mr. Zimmermann and Mr. Magids are reimbursed for club dues amounting to annual 2008 totals of \$2,825, \$734, \$4,980 and \$6,104 respectively. Finally, executive officers and other employees may seek reimbursement for business related expenses in accordance with our business expense reimbursement policy. We do not view perquisites as a significant element of our comprehensive compensation structure but do believe that they can be used in conjunction with a base salary and incentive compensation to attract, motivate and retain individuals in a competitive environment.

#### *Federal Income Tax Consequences*

Internal Revenue Code Section 162(m) ( *Code Section 162(m)* ) prohibits a public company from deducting executive compensation in excess of \$1,000,000 paid in any year to its chief executive officer and to any of the four highest compensated executive officers required to be named in the Summary Compensation Table in its proxy statement. Executive compensation includes base salary, annual bonus, stock option exercises, transfers of property (e.g. stock awards) and benefits paid under non-qualified plans. Code Section 162(m) exempts performance based compensation from the limitation on the deduction for executive compensation provided it complies with various conditions described in Code Section 162(m) and the accompanying regulations.

The compensation committee retains the authority to authorize payments that may not be tax deductible. The compensation committee has concluded, and may conclude in the future, that it is appropriate to exceed the limitation

on deductibility under Section 162(m) to ensure that executive officers are compensated in a manner that it believes to be consistent with the bests interest of the Company and its shareholders. In addition, the timing of stock option exercises or the payout of deferred stock cannot be predicted and may result in the compensation of any of our named executive officers in any given period to exceed the \$1 million threshold. We do not believe the current effect of the limitation on deductibility is material to us or that further action to qualify compensation for deductibility is necessary at this time.

**Compensation Committee Report**

The compensation committee of the board of directors has reviewed the Compensation Discussion and Analysis and discussed that analysis with management. Based on its review and discussions with management, the committee recommended to our board of directors that the Compensation Discussion and Analysis be included in the Company's 2009 proxy statement. This report is provided by the following independent directors, who comprise the committee:

Jackie Majors, Chairperson

Lew N. Little, Jr.

Cheryl Williams

**Executive Compensation Tables***Summary Compensation Table*

Set forth below is information concerning aggregate cash compensation earned by our chief executive officer, our chief financial officer and the three other most highly compensated executive officers in fiscal year 2008, who we refer to herein as our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Awards (\$)(1)	Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(3)
Kenneth S. Shifrin, Chairman and	2008	404,196	--	82,000	56,553	572,000	--	10
	2007	387,495	--	441,100	34,556	520,000	--	18

Edgar Filing: AMERICAN PHYSICIANS SERVICE GROUP INC - Form DEF 14A

Chief Executive Officer	2006	349,992	--	70,450	10,127	465,500	--	14
Timothy L. LaFrey, President and	2008	394,792	--	109,454	231,427	512,546	--	8
Chief Operating Officer	2007	265,625	--	122,496	140,382	460,000	--	
	2006	--	--	--	--	--	--	
Marc J. Zimmermann, Sr. Vice-President-Finance	2008	185,000	--	46,883	41,971	121,117	--	10
and Chief Financial Officer	2007	175,000	--	86,800	24,558	115,500	--	13
	2006	--	--	--	--	--	--	
Maury L. Magids, Senior Vice President-Insurance	2008	300,000	--	52,766	19,638	226,234	--	1
	2007	300,000	--	191,900	12,295	217,410	--	14
	2006	287,500	--	--	119,715	237,623	--	1
William A. Searles, Chairman of the Board of Investment Services	2008	114,000 (4)	--	18,300	44,191	--	--	23
	2007	108,000 (4)	--	35,000	21,775	317,398 (5)	--	
	2006	108,000 (4)	--	39,718	6,095	125,837 (5)	--	

(1)

Awards of deferred stock under our Deferred Compensation Plan. (See section entitled "Non-Qualified Deferred Compensation for 2008" for a description of this Plan).

(2)

Reflects the dollar amount recognized for financial statement reporting purposes for the years ended December 31, 2008, 2007 and 2006, respectively in accordance with FAS 123 (R) of stock options granted pursuant to our equity incentive plans and thus include amounts from options granted in and prior to 2008. Assumptions used in the calculation of the amount for years ended December 31, 2008, 2007 and 2006 are included in the footnotes to our audited financial statements for the year ended December 31, 2008 included in our Annual Report on Form 10-K filed with the SEC on March 4, 2009. In 2008, a total of 24,500 shares were forfeited in the stock option plan. Our historical forfeiture rate had been less than 1%. The forfeitures in 2008 were primarily due to the retirement of one individual. Consequently, as the change would be immaterial, we did not modify our FAS 123R calculation of stock option expense for this presentation.





(3)

Consists of our matching contributions to our 401(k) plan and premiums paid for group life insurance in excess of \$50,000 coverage with respect to such officer. Mr. Shifrin, Mr. LaFrey, Mr. Zimmermann and Mr. Magids received club dues reimbursements in 2008 of \$2,825, \$734, \$4,980 and \$6,104, respectively. Mr. Searles received \$25,000 upon the expiration of his consulting contract with APS Investment Services, Inc. effective December 31, 2008.

(4)

Director fee for serving as chairman of Investment Services.

(5)

Incentive bonus based on Investment Services achieving specified levels of return on capital.

*Grants of Plan-Based Awards*

The following table provides information related to options granted to the named executive officers during 2008. We do not have any outstanding stock appreciation rights.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise Price or Basis for Award (\$/Share)
		Target Threshold	Target Maximum	Target Maximum	Target Threshold	Target Maximum	Target Maximum			
		(\$)	(\$)	(\$)	(#)	(#)	(#)			
Kenneth S. Shifrin	9/08/08	--	--	--	--	--	--	--	25,000	20.5
Timothy L. LaFrey	9/08/08	--	--	--	--	--	--	--	25,000	20.5

Marc J. Zimmermann	9/08/08									15,000	20.5
Maury L. Magids	9/08/08	--	--	--	--	--	--	--	--	15,000	20.5
William A. Searles (3)	9/08/08	--	--	--	--	--	--	--	--	--	--

(1)

These options were granted from our 2005 Incentive and Non-Qualified Stock Option Plan (the Stock Option Plan ) with the exercise price equal to the closing price on the date of grant. Options granted to Mr. Shifrin and Mr. LaFrey will vest on the anniversary of the date of grant over a two year period in approximately equal increments. Options granted to Mr. Magids and Mr. Zimmermann will vest on the anniversary of the date of grant over a three year period in approximately equal increments.

(2)

The grant date fair value is calculated assuming a per share value of \$3.02 for options granted 9/08/08 arrived at by applying the Black-Scholes valuation method in accordance with FAS 123 (R), *Accounting for Stock-Based Compensation*.

(3)

Mr. Searles' options granted in 2008 related only to his service as a member of our board of directors and are included in the Certain Information Regarding Our Board of Directors table shown on page 18. These options will vest on the anniversary of the date of grant over a two year period in approximately equal increments.

*Outstanding Equity Awards at December 31, 2008*

The following table provides information regarding each unexercised stock option held by each of our named executive officers as of December 31, 2008.

Name	Option Awards					Stock Awards		
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Kenneth S. Shifrin	10,000(1)	--	--	10.12	12/6/2009	--	--	--
	15,000(2)	--	--	11.55	12/6/2010	--	--	--
	10,000(3)	10,000(3)	--	17.36	3/23/2012	--	--	--
	--	25,000(4)	--	20.50	9/08/2013	--	--	--
Timothy L. LaFrey	25,000(3)	25,000(3)	--	17.36	3/23/2012	--	--	--
	25,000(9)	25,000(9)	--	17.00	6/19/2012	--	--	--

Edgar Filing: AMERICAN PHYSICIANS SERVICE GROUP INC - Form DEF 14A

	2,500(10)	2,500(10)	--	19.43	12/6/2012	--	--	--
	--	25,000(4)	--	20.50	9/08/2013			
Marc J. Zimmermann	5,000(1)	--	--	10.12	12/6/2009	--	--	--
	5,000(2)	--	--	11.55	12/6/2010	--	--	--
	6,000(5)	4,000(5)	--	13.50	3/22/2011	--	--	--
	3,000(6)	7,000(6)	--	17.36	3/23/2012	--	--	--
	3,000(7)	7,000(7)	--	19.43	12/6/2012	--	--	--
	--	15,000(8)	--	20.50	9/08/2013			
Maury L. Magids	5,000(1)	--	--	10.12	12/6/2009	--	--	--
	25,000(14)	--	--	14.20	5/30/2011	--	--	--
	3,000(6)	7,000(6)	--	17.36	3/23/2012	--	--	--
		15,000(8)	--	20.50	9/08/2013	--	--	--
William S. Searles	--	6,000(3)	--	17.36	3/23/2012	--	--	--
	5,000(10)	5,000(10)	--	19.43	12/6/2012	--	--	--
	--	5,000(4)	--	20.50	9/08/2013			

The number of and the exercise price for each non-qualified option share (columns b and e , respectively) is proposed by the compensation committee and approved by our board of directors. The exercise price of a qualified incentive stock option has to be at least 100% of the fair market value of such shares on the date of grant of the option. Under the Stock Option Plan, option grants are limited to a maximum of ten-year terms; however, the compensation committee has issued all currently outstanding grants with five-year terms. The compensation committee also determines vesting for each option grant and traditionally has had options vest in two approximately equal annual installments beginning one year from the date of grant for directors and three approximately equal annual installments beginning one year from the date of grant for non-director employees.

The stock awards columns g through j are blank as Company deferred stock awards vest immediately upon grant and thus there is no unvested balance as of December 31, 2008.

These options were granted on December 7, 2004. The options vested 100% on the grant date.

2

These options were granted on December 7, 2005. The options vested 100% on the grant date.

3

These options were granted on March 23, 2007. The options vest 50% on the first and second anniversaries of the grant date.

4

These options were granted on September 8, 2008. The options vest 50% on the first and second anniversaries of the grant date.

5

These options were granted on March 22, 2006. The options vest 30%, 30% and 40% on the first, second and third anniversaries of the grant date.

6

These options were granted on March 23, 2007. The options vest 30%, 30% and 40% on the first, second and third anniversaries of the grant date.

7

These options were granted on December 6, 2007. The options vest 30%, 30% and 40% on the first, second and third anniversaries of the grant date.

8

These options were granted on September 8, 2008. The options vest 33.33% on each of the first, second and third anniversaries of the grant date.

9

These options were granted on June 19, 2007. The options vest 50% on the first and second anniversaries of the grant date.

10

These options were granted on December 6, 2007. The options vest 50% on the first and second anniversaries of the grant date.

11

These options were granted on November 11, 2006. The options vest 30%, 30% and 40% on the first, second and third anniversaries of the grant date.

12

These options were granted on December 6, 2007. The options vest 25%, 37.5% and 37.5% on the first, second and third anniversaries of the grant date.

13

These options were granted on September 8, 2008. The options vest 30%, 35% and 35% on the first, second and third anniversaries of the grant date.

14

These options were granted on May 30, 2006. The options vested 100% on the grant date.

*2008 Option Exercises*

The following table provides information related to options exercised by the named executive officers during 2008 and the number and the aggregate dollar amount realized by the named executive officer upon exercise of the stock options.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Name	(#)	(\$)	(#)	(#)
Kenneth S. Shifrin	25,000	323,000	--	--
Timothy L. LaFrey	--	--	--	--



Marc J. Zimmermann	5,000	52,000	--	--
Maury L. Magids	20,000	242,000	--	--
William A. Searles	6,000	28,000	--	--

*Nonqualified Deferred Compensation for 2008*

The following table provides information on the non-qualified deferred compensation of the named executive officers in 2008. Key executives, including the named executive officers, may receive a portion of their incentive compensation in the form of deferred company common stock. These executives, as well as members of the board of directors, may also receive deferred stock grants, with all deferred stock awards being proposed by the compensation committee and approved by our board of directors.

Awards to non-employee members of the board of directors are included in the director compensation table.

	<b>Executive</b>	<b>Company</b>	<b>Aggregate</b>	<b>Aggregate</b>	<b>Aggregate</b>
	<b>Contributions</b>	<b>Contributions</b>	<b>Earnings in</b>	<b>Withdrawals/</b>	<b>Balance at</b>
	<b>in 2008</b>	<b>in 2008</b>	<b>2008</b>	<b>Distributions</b>	<b>12/31/08</b>
<b>Name</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
		<b>(1)</b>	<b>(2)</b>		<b>(3)</b>
Kenneth S. Shifrin	--	82,000	66,616	--	1,007,959
Timothy L. LaFrey	--	109,454	17,043	--	268,531
Marc J. Zimmermann	--	46,883	12,941	--	201,979
Maury L. Magids	--	52,766	39,996	--	598,623
William A. Searles (4)	--	18,300	15,366	--	200,602

(1)

Reflects shares of the Company's common stock contributed by the Company to the account of the named executive in 2008. Shares are valued at market value at the date of grant. Shares are earned in the year of award and all amounts are included in the Summary Compensation Table. Payout of the shares is subject to a schedule wherein shares become eligible for payout over five years, in equal annual amounts, following the grant (the eligible shares). Upon reaching age 60, participants are then entitled to receive the eligible shares and the shares that become eligible each year thereafter. In the event that a participant terminates employment or resigns and signs a non-competition agreement, all of the shares granted become eligible and will be paid out. In the event that a terminating participant does not sign a non-competition agreement or if a participant is terminated for cause, the participant will receive only the eligible shares and shares not yet eligible will be forfeited and allocated pro rata to the remaining participants. All shares granted are to be paid out in the event of the death or disability of the participant.

(2)

This represents the change in market value during 2008 of deferred shares held at the beginning of the year and shares awarded during the year. It is based on a closing price of \$21.51 and \$20.05 at December 31, 2008 and 2007, respectively. Shares were granted during 2008 at market prices from \$18.30 to \$20.50. No earnings were above-market or preferential and, consequently, are not included on the Summary Compensation Table.

(3)

Aggregate balance is the cumulative shares awarded valued at the closing market price on December 31, 2008, \$21.51. Included in the aggregate balance are amounts reported in the Summary Compensation Table in 2008 and

prior years, as follows: Mr. Shifrin, \$684,444; Mr. LaFrey, \$122,496; Mr. Zimmermann, \$86,800; Mr. Magids, \$349,665; and Mr. Searles, \$107,572.

(4)

Company contributions in 2008 related solely to services as a member of our board of directors. Aggregate earnings and aggregate balance totals are related to service as Chairman of the Board of Investment Services and of as a member of our board of directors.

#### *Employment Agreements*

The compensation committee believes that employment agreements between the Company and our executive officers are an important component of attracting and retaining our executive talent. The Company competes in a highly competitive market in which companies offer similar benefits to senior employees. We believe that in change of control situations, these employment agreements allow key executives to devote their energies to the completion of a transaction for the benefit of their shareholders with less concern for its impact on their employment status. We offer severance compensation in the event we terminate the executive without cause or the executive terminates his or her employment for good reason following a change of control. A more detailed description of these provisions is set forth below.

We have entered into employment agreements with Mr. Shifrin, Mr. LaFrey, Mr. Zimmermann and Mr. Magids. Each of these agreements provides for the payment of a base salary, eligibility for performance bonuses as determined by our board of directors, and such other benefits as are available to our other salaried employees. Mr. Shifrin's agreement provides for a monthly salary, currently \$33,683, and terminates April 1, 2013. Mr. LaFrey's agreement provides for a monthly salary, currently \$33,333, and terminates April 1, 2013. Mr. Zimmermann's agreement provides for a monthly salary, currently \$16,667, and terminates April 1, 2011. Mr. Magids' agreement provides for a monthly salary, currently \$25,000, and terminates April 1, 2010. Our employment agreements contain confidentiality and non-solicitation provisions and are cancelable by us for cause, which includes conviction of a felony or involving moral turpitude; material violation of the agreement or Company policies; or failure to carry out the duties of the position. If these agreements are terminated for cause, or upon death or permanent disability of the executive or without cause by the executive, then our agreements provide for the payment of the executive's current base salary (excluding any bonuses or non-cash benefits) through the effective date of the termination and we have no further obligations to the executive under the terms of the agreement.

Each of the agreements entitles the executive to receive lump-sum payments in the event the agreements are terminated by us without cause or by the executive for good reason following a change in control of us, as defined in the agreements. These payments are calculated for Mr. Shifrin and Mr. LaFrey, four times, and for Mr. Zimmermann and Mr. Magids two times, their respective average annual cash compensation earned for the prior number of years used as the multiplier for each agreement, per above. Mr. Shifrin's agreement contains a provision requiring the Company to provide post-retirement healthcare benefits should he retire prior to the age of 65. Upon attaining eligibility for Medicare, such benefits may be provided through Medicare Part B coverage.

The following chart summarizes termination benefits under the agreements for each executive officer:

	Applicable Cash Compensation					# of	Amount to be Paid (1)
	2008	2007	2006	2005	Average	times/ average	
	\$	\$	\$	\$	\$	comp.	\$
Kenneth S. Shifrin	971,996	907,495	815,492	851,660	886,661	4	3,546,644
Timothy L. LaFrey	907,338	725,625	--	--	816,482	4	3,265,928
Marc J. Zimmermann	306,117	290,500	--	--	298,309	2	596,618
William H. Hayes	129,832	334,995	--	--	232,414	2	464,828
Maury L. Magids	526,234	517,410	--	--	521,822	2	1,043,644

(1)

These amounts would be paid in the following circumstances:

(a)

Employer terminates executive without cause.

(b)

Following a change in control if any of the following should occur:

(i)

Executive's base salary is diminished.

(ii)

Executive is required to move to a city other than Austin, Texas.

(iii)

The board of directors or its appointee unreasonably interferes with the executive's ability to fulfill his job responsibilities.

(iv)

Executive's responsibilities are materially narrowed or diminished.

The agreements of Mr. Shifrin and Mr. LaFrey provide that, following a change in control and upon six months written notice, they may resign and receive one-half of the amounts shown in the table.

#### *Indemnity Agreements*

We have entered into indemnity agreements with our directors and certain of our officers. The agreements generally provide that, to the extent permitted by law, we must indemnify each such person for judgments, expenses, fines, penalties and amounts paid in settlement of claims that result from the fact that such person was our officer, director or employee. In addition, our articles of incorporation and certain of our subsidiaries' articles of incorporation provide for certain indemnifications and limitations on director liability.



**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth certain information, as of December 31, 2008, concerning shares of common stock authorized for issuance under all of our equity compensation plans.

<b>Plan Category</b>	<b>Equity Compensation Plan Information</b>		
	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights.</b> <b>(a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights.</b> <b>(b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans. Excluding securities reflected in column (a)</b> <b>(c)</b>
Equity Compensation plans approved by security holders	904,000	\$16.21	576,000
Equity compensation plans not approved by security holders	none	none	none
<b>Total</b>	<b>904,000</b>	<b>\$16.21</b>	<b>576,000</b>

Note 1: Average price is for the 755,000 shares under the Stock Option Plan only, as 149,000 shares in the Deferred Compensation Plan ( deferred shares ) are outright grants. Deferred shares are reflected in the financial statements at the grant date.

Note 2: As of December 31, 2008 there are 488,000 shares remaining in the Stock Option Plan and 88,000 shares remaining in the Deferred Compensation Plan.

**CERTAIN INFORMATION REGARDING OUR BOARD OF DIRECTORS**

Our board compensation consists of cash, common stock options and deferred common stock grants. During 2008, our non-employee directors received a fee of \$3,500 for each in-person board meeting, \$500 for teleconference board meetings and \$500 for each committee meeting they attended. The chairpersons of the audit committee and of the compensation committee each receive an annual stipend of \$10,000 for serving in those capacities. Mr. Shifrin and Mr. LaFrey do not receive separate compensation for their services as directors. Directors are eligible to receive stock option grants under our Stock Option Plan. In 2008, directors received option grants as follows:

<b>Director</b>	<b>Number of Options Granted</b>
Dr. Knight	5,000
Mr. Little	5,000
Mr. Majors	5,000
Dr. Peche	5,000
Ms. Williams	5,000
Mr. Searles	5,000



Directors are also eligible to receive grants of our common stock under our Deferred Compensation Plan. In 2008, directors received stock awards as follows:

<b>Director</b>	<b>Number of Awards</b>
Dr. Knight	5,000 (1)
Mr. Little	1,000
Mr. Majors	1,000
Dr. Peche	5,000 (1)
Ms. Williams	1,000
Mr. Searles	1,000

(1)

Received as director, 1,000; received 4,000 additional as a one-time award in recognition of additional efforts as new members of the Board, bringing experience and expertise relevant in particular to the Company's shift in status to an insurance holding company.

The following table provides information concerning aggregate compensation for 2008 for non-management members of our board of directors serving in 2008.

#### Director Compensation

<b>Name</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards</b>	<b>Option Awards</b>	<b>Non-equity Incentive Plan Compensation</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings</b>	<b>All Other Compensation</b>	<b>Total</b>
	(\$)	(\$) (1)	(\$) (2)	(\$)	(\$)	(\$) (3)	(\$)
Norris C. Knight, Jr., M.D.	16,000	91,500	21,039	--	--	126,411	254,950
Lew. N. Little, Jr.	16,500	18,300	32,226	--	--	--	67,026

Edgar Filing: AMERICAN PHYSICIANS SERVICE GROUP INC - Form DEF 14A

Jackie Majors	41,040	18,300	32,226	--	--	--	91,566
William J. Peche, M.D.	14,000	91,500	21,039	--	--	117,646	244,185
Cheryl Williams	32,000	18,300	32,226	--	--	--	82,526

(1)

Three of the non-management board members received 1,000 shares in deferred common stock of the Company under our Deferred Compensation Plan while two of the non-management board members received 5,000 shares. Drs. Knight and Peche each received a one-time award of 4,000 shares in recognition of their additional efforts as new board members bringing experience relevant to the Company's shift in status to an insurance holding company. The grant date fair value of the deferred shares was \$18.30, based on the closing price of our common stock on the grant date, March 5, 2008. The aggregate number of shares of deferred stock grants held at year-end was Dr. Knight, 6,000; Mr. Little, 4,026; Mr. Majors, 5,038; Dr. Peche, 6,000; and Ms. Williams, 5,038.

(2)

Reflects the dollar amount recognized for financial statement reporting purposes for the year ended December 31, 2008 in accordance with FAS 123 (R) of stock options granted pursuant to our equity incentive plans and thus includes amounts from options granted in and prior to 2008. Assumptions used in the calculation of the amount for years ended December 31, 2006, 2007 and 2008 are included in the footnotes to our audited financial statements for the year ended December 31, 2008 in our Annual Report on Form 10-K filed with the SEC on March 4, 2009. The aggregate number of stock options held at year-end was for Dr. Knight, 37,000; Mr. Little, 45,000; Mr. Majors, 30,000; Dr. Peche, 44,000; and Ms. Williams, 35,000.

(3)

Drs. Knight and Peche were paid \$66,136 and \$88,911, respectively, in connection with the termination of our management agreement with API Advisor, LLC and their entering into of a five year non-competition agreement. See the discussion below under Certain Relationships and Related Transactions Advisory Services Agreement. In addition, Drs. Knight and Peche were paid for services rendered for the insurance company board and committee meetings during 2008. These totaled \$60,275 to Dr. Knight and \$28,735 to Dr. Peche.



## AUDIT COMMITTEE REPORT

The audit committee of the board of directors was comprised of four directors in 2008 and operates under a written charter adopted by the board. The audit committee, among other things,

·  
reviews with the independent auditors, internal auditors, and management the adequacy of the Company's accounting and financial reporting controls;

·  
reviews with the independent auditors, internal auditors, and management, significant accounting and reporting principles, practices and procedures applied in preparing the Company's financial statements;

·  
discusses with the independent auditors their judgment about the quality, not just the acceptability, of the Company's accounting principles used in the Company's financial reporting;

·  
reviews the activities and independence of the independent auditors and approves all fees;

·  
reviews and discusses the results of the audit and the audited financial statements with the independent auditors, internal auditors, and management;

·  
reviews and approves all audit and non-audit services performed by independent auditors;

appoints independent auditors; and

reviews and approves related party transactions.

The audit committee is responsible for hiring, terminating and compensating the auditor and approving all related fees. The audit committee, or a designated member thereof, pre-approves audit and non-audit services rendered by our independent auditors. If pre-approval authority is delegated, the delegate must report back to the audit committee at the first audit committee meeting following any approval.

It is the responsibility of our executive management to prepare financial statements in accordance with accounting principles generally accepted in the United States of America and of our independent auditors to audit those financial statements.

In this context, the audit committee has reviewed and held discussions with management and the independent auditors regarding the Company's 2008 financial statements. Management represented to the audit committee that our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the audit committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The audit committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards).

In addition, the audit committee has received the written disclosures and the letter from our independent accountant required by applicable requirements of the Public Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence. Further, the audit committee has considered whether the provision of non-audit services by the independent auditors is compatible with maintaining the auditor's independence.

The audit committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of our internal controls, and the overall quality of our financial reporting.



Based on the reviews and discussions referred to above, the audit committee recommended to the board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, for filing with the SEC. The audit committee considered the independent auditors' provision of non-audit services in 2008 and determined that the provision of those services is compatible with and does not impair the auditors' independence.

**Audit Committee:**

Cheryl Williams, Chairperson

Lew N. Little, Jr.

Jackie Majors

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

**DESIGNATION OF AUDITORS**

As a result of a competitive request for proposal process undertaken by the audit committee, on March 25, 2009, the audit committee, together with our board of directors, approved the engagement of Deloitte & Touche LLP as our independent registered public accounting firm, to audit our books and accounts for the year ended December 31, 2009.

On the same day, the audit committee notified BDO Seidman LLP that it will not be retained as our independent registered public accounting firm. BDO Seidman's audit reports on both our consolidated financial statements and on the effectiveness of our internal controls over the financial reporting process as of December 31, 2008 and December 31, 2007, respectively, did not contain an adverse opinion or a disclaimer of an opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. In addition, during the two most recent fiscal years ended December 31, 2008 and 2007, and in the subsequent interim period through March 25, 2009, there were (i) no disagreements between the Company and BDO Seidman on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of BDO Seidman, would have caused BDO Seidman to make reference to the subject matter of the disagreement in its reports on the consolidated financial statements for such years, and (ii) no "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S-K. Representatives of Deloitte & Touche will be present at the meeting to respond to appropriate questions, and they will have the opportunity, if they desire, to make a statement.

Fees paid to our audit firm during 2008 and 2007 were comprised of the following:

	<b>2008</b>	<b>2007</b>
Audit Fees	\$ 755,300	\$ 893,200
Audit-related Fees	\$ 12,600	\$ 13,700
Tax Fees	\$ --	\$ --
All Other Fees	\$ --	\$ --
Total	\$ 767,900	\$ 906,900

*Audit Fees.* Audit fees relate to services rendered in connection with the audit of the annual financial statements included in our Form 10-K , the quarterly reviews of financial statements included in our Form 10-Q filings and in the audit of our internal controls for compliance with the Sarbanes-Oxley Act of 2002.. Fees associated with the acquisition of API and with our secondary common stock offering are included in 2007 audit fees.

*Audit-Related Fees.* Audit-related services include fees for assurance and related services, such as consultations concerning financial accounting and reporting matters.

*Tax Fees.* There were no tax fees in 2008 or 2007.

*All Other Fees.* There were no other fees in 2008 or 2007.

All fees paid in 2008 and 2007 to our independent auditors were pre-approved by the audit committee.



**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information as of April 9, 2009 regarding the amount and nature of the beneficial ownership of our common stock by (a) each person who is known by us to be the beneficial owner of more than five percent of the outstanding shares of our common stock, (b) each of our directors and nominees for director, (c) each of our named executive officers, and (d) all of our officers and directors as a group:

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
American Physicians Capital, Inc.  1301 North Hagadorn Road  East Lansing, MI 48823	See Notes (1)(2) 521,877	7.5%
Kenneth S. Shifrin  1301 Capital of Texas Highway, Suite C-300  Austin, Texas 78746	421,100	6.0%
Dalton, Greiner, Hartman, Maher & Co., LLC (4)  565 5 <sup>th</sup> Avenue, Suite 2101  New York, NY 10017-2413	369,656	5.3%
Norris C. Knight, Jr. M.D.  1301 Capital of Texas Highway, Suite C-300  Austin, Texas 78746	29,500	*
Timothy L. LaFrey  1301 Capital of Texas Highway, Suite C-300	82,500	1.1%

Austin, Texas 78746

Lew N. Little, Jr.	39,000	*
--------------------	--------	---

1301 Capital of Texas Highway, Suite C-300

Austin, Texas 78746

Jackie Majors	36,471	*
---------------	--------	---

1301 Capital of Texas Highway, Suite C-300

Austin, Texas 78746

William J. Peche, M.D	36,500	*
-----------------------	--------	---

1301 Capital of Texas Highway, Suite C-300

Austin, Texas 78746

William A. Searles	11,000	*
--------------------	--------	---

1301 Capital of Texas Highway, Suite C-300

Austin, Texas 78746

Cheryl Williams	29,258	*
-----------------	--------	---

1301 Capital of Texas Highway, Suite C-300

Austin, Texas 78746

W. H. Hayes	34,122	*
-------------	--------	---

1301 Capital of Texas Highway, Suite C-300

Austin, Texas 78746

Maury L. Magids	93,396	1.3%
-----------------	--------	------

1301 Capital of Texas Highway, Suite C-300

Austin, Texas 78746

Thomas R. Solimine	14,447	*
--------------------	--------	---

1301 Capital of Texas Highway, Suite C-300

Austin, Texas 78746

Marc J. Zimmermann	32,952	*
1301 Capital of Texas Highway, Suite C-300		
Austin, Texas 78746		
All officers and directors as a group (12 persons) (5)	860,246	11.7%

\* Represents less than 1% of the outstanding shares of common stock at April 9, 2009.

(1)

Except as otherwise indicated, and subject to community property laws where applicable, each individual has sole voting and investment power with respect to all shares owned by such individual.

(2)

The number of shares of our common stock beneficially owned by our officers and directors includes the following number of shares subject to options that are presently exercisable or exercisable within 60 days after April 9, 2009: Mr. Shifrin, 45,000; Dr. Knight, 29,500; Mr. LaFrey, 77,500; Mr. Little, 37,500; Mr. Majors, 22,500; Dr. Peche, 36,500; Mr. Searles, 11,000; Ms. Williams, 27,500; Mr. Hayes, 7,500; Mr. Magids, 36,000; Mr. Solimine, 11,000; and Mr. Zimmermann, 29,000. The number of shares beneficially owned by all of our directors and officers as a group, including the above-named directors, includes 370,500 shares subject to options that are presently exercisable or exercisable within 60 days after April 9, 2009. These amounts do not include shares awarded to directors and executive officers in the form of deferred stock awards. In the aggregate, our officers and directors own an additional 149,850 shares of Company common stock resulting from deferred stock awards.

(3)

Based on an amendment to Schedule 13G filed by American Physicians Capital, Inc. with the SEC on December 31, 2008, American Physicians Capital, Inc. has shared voting and investment power over 521,877 shares of our common stock as of February 17, 2009.

(4)

Based on a Schedule 13G filed by Dalton, Greiner, Hartman, Maher & Co. on January 26, 2009, Dalton, Greiner, Hartman, Maher & Co., has sole voting and investment power over 369,656 shares of our common stock as of January 26, 2009.

(5)

Includes the president and chairman of the board, if any, of each of our consolidated subsidiaries.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and officers, and persons who own more than 10% of a registered class of our equity securities, to file initial reports of ownership and reports of changes in ownership with the SEC, and the NASDAQ Market. Such persons are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such forms received by us with respect to 2008, or written representations from certain reporting persons, we believe that all filing requirements applicable to our directors and officers and persons who own more than 10% of a registered class of our equity securities have been complied with.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On an annual basis, we require each officer and director to complete a questionnaire that solicits information in regards to various matters, including but not limited to, other directorships; beneficial reporting compliance; involvement in certain legal proceedings; injunctions or limitations as to engaging in certain activities and information regarding any related party transactions such as: any family relationships to any director, executive officer or nominee of the Company; any ownership interest in any subsidiaries of the Company; any direct or immediate family member material interest in any actual or proposed material transaction to which the Company was or is to be a party; and other certain business relationships and transactions with clients that create or appear to create a conflict of interest. This questionnaire is completed in conjunction with our filing of our annual proxy statement. In addition, our directors, officers and employees are required to comply with our Code of Business Conduct and Ethics (our Code) which requires that they perform their duties and exercise judgment on behalf of the Company without influence or impairment, or the appearance of impairment, due to any activity, interest or relationship that arises outside of the Company. Furthermore, Company directors, officers and employees have a duty to avoid all relationships that are or might be conflicts of interest or otherwise comprise the integrity of our business. Our Code requires that any time a director, officer or employee believes a conflict of interest could exist, he/she should immediately report the situation to their supervisor or a listed compliance officer. A copy of our Code is posted on our web site at <http://www.amph.com>. The contents of this web site are not incorporated by reference and the web site address provided in this proxy statement is intended to be an inactive textual reference only.

Our Code serves as our policy with respect to transactions with related persons. Any related person transactions are subject to limitations on conflicts of interest contained in our Code and are generally discouraged by us. To the extent any such transactions are proposed, they are subject to the approval by the audit committee in accordance with the audit committee's charter.

Described below are transactions that we have entered into with parties that are related to us. We believe each of the transactions described below was on terms no less favorable to us than we could have obtained from unrelated parties.

### **Advisory Services Agreement**

On April 1, 2007, the effective time of our acquisition of API, our insurance company subsidiary, API, entered into an Advisory Services Agreement with API Advisory, LLC, or API Advisor, an entity formed by the former members of API's board of directors. Under the terms of the Advisory Services Agreement, API Advisor would provide advisory and consulting services as an independent contractor through an advisory board.

Effective November 19, 2008, upon approval by the Texas Department of Insurance, API and API Advisor mutually agreed to terminate the Advisory Services Agreement. In consideration for terminating the agreement, API agreed to pay a total sum of \$1,000,000 to the members of API Advisor to be allocated in accordance with the written

instructions of API Advisor. Drs Knight and Peche were paid \$66,136 and \$88,911, respectively in 2008 and they will be paid an additional \$66,136 and \$88,911, respectively, in 2009. The amounts for 2008 are reflected in other compensation in the Director Compensation Table. Each member of API Advisor in turn signed a non-competition agreement. The non-competition agreements are for a term of five years with the costs associated with the agreements expensed evenly over this period.

Before the termination of the Advisory Services Agreement, API compensated the members of the advisory board and the committees directly based on meeting attendance. Under the terms of the Advisory Services Agreement, compensation for the advisory directors was \$2,600 for each board meeting attended in person and \$260 per hour, if attended by telephone, respectively with the same rates applicable to each committee of the board. Total fees paid to the members of the advisory board, excluding fees related to terminating the Advisory Board, were \$253,634 for 2008. Fees paid during 2008 to Dr. Knight and Dr. Peche for serving as directors of API and for claims committee meetings, in addition to serving as directors of the Company, were \$60,275 and \$28,735, respectively, and these fees are included in other compensation in the Director Compensation Table.

## Investment Services

During 2008, in addition to his serving as a director of the Company, William A. Searles also served as a director and chairman of the board of APS Investment Services, Inc, one of our wholly-owned subsidiaries. For these additional services, Mr. Searles was paid annual director fees totaling \$114,000, which are reflected in our Summary Compensation Table. In addition, Mr. Searles was paid \$25,000 upon the expiration of his consulting agreement effective December 31, 2008.

## SHAREHOLDER PROPOSALS

Any of our shareholders meeting certain minimum stock ownership and holding period requirements may submit a proposal to be considered at the annual meeting of shareholders to be held in 2010 pursuant to (i) Rule 14a-8 of the Exchange Act or (ii) our bylaws.

Pursuant to Rule 14a-8 of the Exchange Act, a shareholder who desires to present a proposal for inclusion in next year's proxy statement must deliver the proposal to our principal executive offices no later than December 24, 2009. Submissions should be addressed to our secretary at our principal executive offices. Only those proposals that are appropriate for shareholder action and otherwise meet the requirements of Rule 14a-8 of the Exchange Act may be included in our proxy statement.

In accordance with our bylaws, a shareholder who desires to present a proposal for consideration at next year's annual meeting must comply with the requirements set forth in our bylaws, which require, among other things, that to bring business before our 2010 annual meeting, a shareholder must give written notice that complies with our bylaws to our secretary at our principal executive offices. A shareholder's notice shall be timely if received by our secretary no less than 120 days or more than 150 days prior to the anniversary date of this year's annual meeting, or between January 4 and February 3, 2010. A shareholder proposal for the 2010 annual meeting, submitted other than pursuant to Rule 14a-8, will be untimely if not received by us within the time deadlines required by our bylaws as described above.

For any proposal that is not submitted for inclusion in next year's proxy statement, but is instead sought to be presented directly at next year's annual meeting, SEC rules permit the proxies named in management's proxy for that meeting to exercise their discretionary authority to vote on that proposal (a) if we do not receive timely notice of the proposal, or (b) if we receive the proposal on a timely basis and advise shareholders in next year's proxy statement about the nature of the matter and how management intends to vote on such matter, to the extent permitted under Rule 14a-4(c)(2) of the Exchange Act.



**OTHER MATTERS**

Our board of directors does not intend to bring any other matters before the meeting and does not know of any matters which will be brought before the meeting by others. However, if any other matters properly come before the meeting, the persons named in the accompanying proxy will vote the proxies in accordance with their judgment on such matters.

By Order of our board of directors

/s/ W. H. HAYES

W. H. HAYES

Secretary

*1301 S. CAPITAL OF TEXAS*

*HWY. SUITE C-300*

*AUSTIN, TX 78746*

**Your vote is important. Thank you for voting.**

**To vote by Internet**

- 1) Read the Proxy Statement and have the proxy card below at hand.
- 2) Go to website [www.proxyvote.com](http://www.proxyvote.com)
- 3) Follow the instructions provided on the website.
- 4) You have until 11:59 P.M. Eastern Time the day before the cut-off date  
or meeting date to vote.

**To vote by Telephone**

- 1) Read the Proxy Statement and have the proxy card below at hand.
- 2) Call 1-800-690-6903
- 3) Follow the instructions.
- 4) You have until 11:59 P.M. Eastern Time the day before the cut-off date  
or meeting date to vote.

**To vote by Mail**

- 1) Read the Proxy Statement.
- 2) Check the appropriate boxes on the proxy card below.
- 3) Sign and date the proxy card.
- 4) Return the proxy card in the envelope provided.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS

APSGP1

KEEP THIS PORTION FOR YOUR RECORDS  
DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

<b>AMERICAN PHYSICIANS SERVICE GROUP, INC.</b>	For	Withhold	For All	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
<b>The Board of Directors recommends that you</b>	All	All	Except	
<b>vote <u>FOR</u> the following proposals:</b>	p	p	p	

**VOTE ON DIRECTORS:**

**1. Election of Directors:**

**Nominees:**

- |                                 |                            |
|---------------------------------|----------------------------|
| 01) Norris C. Knight, Jr., M.D. | 05) William J. Peche, M.D. |
| 02) Timothy L. LaFrey           | 06) William A. Searles     |
| 03) Lew N. Little, Jr.          | 07) Kenneth S. Shifrin     |
| 04) Jackie Majors               | 08) Cheryl Williams        |

**Vote on Proposals**

2. To transact such other business as may properly come before the meeting or any adjournment(s) thereof.

The accompanying proxy statement contains information regarding, and a more complete description of, the items of business to be considered at the meeting.

**THIS PROXY WILL BE VOTED AS DIRECTED. IF NO SPECIFICATION IS INDICATED, THIS PROXY WILL BE VOTED FOR THE NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS LISTED ON THIS PROXY AND, IN THE DISCRETION OF THE PROXIES, ON ANY OTHER BUSINESS.**

(NOTE: Please sign exactly as your name(s) appear(s) hereon. All holders must sign. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. If a corporation, please sign in full corporate name, by authorized officer. If a partnership, please sign in partnership name by authorized person.)

Signature (PLEASE SIGN      Date  
WITHIN BOX)

Signature (Joint Date  
Owners)

**ANNUAL MEETING OF SHAREHOLDERS OF**

**AMERICAN PHYSICIANS SERVICE GROUP, INC.**

**June 3, 2009**

Please date, sign and mail  
your proxy card in the  
envelope provided as soon  
as possible.

Please detach along perforated line and mail in the envelope provided.

**PROXY**

**AMERICAN PHYSICIANS SERVICE GROUP, INC.**

**PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING  
OF SHAREHOLDERS TO BE HELD JUNE 3, 2009**

The undersigned hereby (a) acknowledges receipt of the Notice of Annual Meeting of Shareholders of American Physicians Service Group, Inc. (the Company ) to be held on June 3, 2009 and the Proxy Statement in connection therewith, each dated April 23, 2009 (b) appoints Kenneth S. Shifrin and William H. Hayes, or either of them, as Proxies, each with the power to appoint a substitute, (c) authorizes the Proxies to represent and vote, as designated on the reverse, all the shares of Common and Preferred Stock of American Physicians Service Group, Inc. held of record by the undersigned on April 9, 2009 at such annual meeting of Shareholders and at any adjournment(s) thereof and (d) revokes any proxies heretofore given.

**(Continued and to be signed on reverse side.)**