

May 19, 2005

Via Hand Delivery

John S. Skilton
John.Skilton@hellerehrman.com
Direct +1.608.663.7474
Main +1.608.663.7460
Fax +1.608.663.7499

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Fred Nepple
General Counsel
State of Wisconsin
Office of the Commissioner of Insurance
125 South Webster Street
P.O. Box 7873
Madison, WI 53707-7873

Re: Case No. 04-C29283: Proposed Acquisition of Control of Physicians Insurance Company of Wisconsin, Inc., by American Physicians Capital, Inc., and American Physicians Assurance Corporation.

Dear Mr. Nepple:

In response to the notice of a prehearing conference and previous submissions by American Physicians Assurance Corporation, Physicians Insurance Company of Wisconsin, Inc. ("PIC") writes to clarify its position regarding some of the issues to be discussed and/or decided at the prehearing conference on May 31, 2005. PIC also hereby requests that transcripts be kept in this matter, pursuant to Wis. Stat. § 227.44(8).

Section 227.01(3) of the Wisconsin Statutes defines a "contested case" as "an agency proceeding in which the assertion by one party of any substantial interest is denied or controverted by another party and in which, after a hearing required by law, a substantial interest of a party is determined or adversely affected by a decision or order." There can be little debate about whether Physicians Insurance Company of Wisconsin meets the definition of a party whose substantial interest will be "determined or adversely affected by a decision or order" by this agency; it surely does. American Physicians Assurance Corporation ("APAC") is attempting to purchase a controlling portion of PIC's shares of stock. Such a change in control will greatly impact the future of and direction of the company. APAC's plan is by no means passive. It now intends to seek representation on PIC's Board of Directors, among other things.

As PIC noted in its Request for Admission As A Party, dated October 15, 2004, PIC has a substantial interest in the outcome of this proceeding; the decision by this agency regarding whether APAC will be allowed to purchase this significant portion of PIC stock may affect PIC's ability to fulfill its core mission, *i.e.*, serving the interests of Wisconsin physicians by providing stable and affordable medical liability insurance. Pursuant to Wis. Stat. § 227.44(2m), then, PIC should be granted party status in this proceeding.

The notice of the prehearing conference stated that scheduling will be discussed. Mr. Hanson has previously suggested in his April 27, 2005 letter that "[i]f the prehearing conference proceeds at the end of May to address any procedural issues, the parties (however they end up being defined) should be in a position to submit prefiled testimony in June, with a hearing scheduled in July or August." PIC Wisconsin disagrees with this suggested process. We think there are a number of significant issues that will need to be resolved prior to the hearing, including various dispositive motions and legal matters. Among other things, it is not yet determined who the parties are, the scope of the hearing, the extent of permitted discovery and the nature of the issues that the various parties will raise. The resolution of these issues will affect how our case is presented at the hearing, including what evidence and expert witnesses will be used, and will affect the applicant's presentation as well. We will be in a better position to convey our recommendations as to the timing of the hearing once these and other preliminary matters are dealt with and resolved at the prehearing or after rulings on dispositive motions are made.

As PIC noted in its November 2, 2004 reply filing:

APAC has made a voluminous filing which contains numerous purported representations of fact relating, *e.g.*, to APAC's financial condition, its position and history in the medical malpractice insurance industry, and its long term intentions concerning PIC Wisconsin — all of which are intended to persuade the Office of the Commissioner of Insurance ("OCI") that APAC can overcome each of the grounds for disapproval stated in Wis. Stat. § 611.72.

PIC believes that a significant amount of discovery is necessary and appropriate in this matter. At the prehearing conference, PIC will seek permission to take depositions and to pursue document production. Such discovery will aid the Commissioner in evaluating the Form A application of APAC and reaching an appropriate disposition of the matter.

The reasons for significant discovery have only become stronger since November. PIC now understands that APAC intends to seek board representation, among other things. This change of position from its initial purported position of passivity is one that raises questions about APAC's credibility and long-term intentions. We believe there should be a reasonable period for the completion of discovery and motion practice, allowing full

development of the issues that are to be decided. In addition, PIC anticipates that a hearing in this matter will take approximately five days, not two days, as proposed by Mr. Hanson.

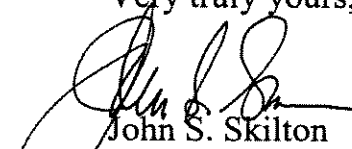
The notice of the prehearing conference also mentions the issue of dispositive motions. PIC intends to file such a motion. We do not believe the Wisconsin Form A requirements as to application set out in Wis. Admin. Code sec. 40.01(1) have been met since AP Capital, Pzena Investment Management, LLC, Stilwell Value Partners V, L.P. Stilwell Associates, L.P. Stilwell Value LLC, Joseph Stilwell and Spencer L. Schneider have not been named as applicants. Moreover, the Form A does not contain the required information for those entities and individuals and with respect to some entities, the required information is totally omitted.

Further, PIC believes that the Form A Application is defective or contains incorrect, incomplete or misleading information. A violation of the filing requirements in Section 40.02 of the Administrative Code is a violation of law. For example, if the Stilwell entities are deemed to be an "acquiring person," the Form A would have to contain five years of audited financial information concerning them. There is also a requirement in Section 40.02 (j) that 'additional soliciting material' be included as part of the Form A.

In addition, PIC believes there are a variety of issues that must be evaluated by the Commissioner in the hearing on this Form A application. First, Wis. Stat. § 611.72(3) states, in relevant part: "The commissioner shall approve the plan if the commissioner finds, after a hearing ... that it would not violate the law or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation...." PIC intends to argue that, in relation to the acquisition of shares, there have been violations of federal and state securities law, and the Wisconsin insurance code, among other things. PIC also intends to argue that a substantial ownership position in PIC by APAC is contrary to the interests of PIC's Wisconsin policyholders.

In sum, PIC believes this matter should be carefully considered by OCI following appropriate discovery and motion practice. PIC will be prepared to fully address each of the issues at the May 31, 2005 prehearing conference.

Very truly yours,



John S. Skilton

cc: Mr. David J. Hanson (by hand delivery)
Mr. Ralph V. Topinka (by U.S. mail)
Mr. Andrew J. Guzikowski (by U.S. mail)
Mr. Robert O'Keefe (by U.S. mail)
Mr. Peter L. Gardon (by U.S. mail)
Mr. Donal M. Demet (by U.S. mail)
Mr. Thomas R. Streifender (by U.S. mail)
Ms. Lori McAllister (by U.S. mail)