

- the percentage of business written on the occurrence form which has historically produced more volatile results than the claims-made form.

ProAssurance's board concluded that the anticipated benefits of combining with PIC Wisconsin outweighed the preceding risks.

Although each member of ProAssurance's board individually considered these and other factors, the board did not collectively assign any specific or relative weights to the factors considered and did not make any determination with respect to any individual factor. The board collectively made its determination with respect to the merger based on the conclusion reached by its members that, in light of the factors that each of them considered appropriate, the merger is in the best interests of ProAssurance and its stockholders.

ProAssurance's board of directors realized there can be no assurance about future results, including results expected or considered in the factors listed above, such as assumptions regarding anticipated earnings accretion. However, the board concluded the potential positive factors outweighed the potential risks of consummating the merger.

It should be noted that this explanation of the ProAssurance board's reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Forward-Looking Statements" on page 85.

PIC Wisconsin representative on ProAssurance's board of directors.

The merger agreement provides that PIC Wisconsin has the right to nominate one person for election as a director of ProAssurance promptly after the effective time of the merger. The person to be appointed as a director must meet the following conditions before the person will be elected as a director of ProAssurance:

- the person must be a physician;
- the person must consent to serving as a director and to being named as a nominee for director in the proxy statement used for the solicitation of proxies by the board of directors of ProAssurance for the election of directors; and
- the board of directors of ProAssurance must find that the person is an independent director consistent with its policy for determining director independence.

PIC Wisconsin had not nominated a person to serve on ProAssurance's board of directors as of the date of mailing this proxy statement-prospectus. If PIC Wisconsin nominates a person who meets the above requirements, the ProAssurance board of directors will elect PIC Wisconsin's nominee promptly after the effective time of the merger to serve in the class of directors whose terms will expire at the 2007 annual meeting of ProAssurance's stockholders, and the ProAssurance board will nominate PIC Wisconsin's nominee for election as a director at the 2007 annual meeting. If elected, PIC Wisconsin's nominee will serve for a three year term expiring at the 2010 annual meeting of stockholders.

Interests of certain persons in the merger.

Some of PIC Wisconsin's executive officers and directors have interests in the merger that are in addition to and may be different from the interests as PIC Wisconsin shareholders they may share with you. The PIC Wisconsin board of directors was aware of these different interests and considered them, among other matters, in approving and adopting the merger agreement and the merger.

Change of control benefits policy. The board of directors of PIC Wisconsin adopted a change of control benefits policy effective January 31, 2005, which provides for severance benefits for certain officers of PIC Wisconsin if, within eighteen months after a change of control, employment of an eligible officer is terminated either by PIC Wisconsin without cause or by the officer after certain specified changes in employment conditions.

The change of control benefits policy provides severance benefits upon any such termination of employment for William T. Montei as chief executive officer, David L. Maurer as chief financial officer,

Christopher J. Brady as senior vice president, and Penelope R. O'Hara as vice president, who comprise all of PIC Wisconsin's executive officers. The severance benefits include:

- salary continuation for two years;
- reimbursement of COBRA expenses for two years unless COBRA eligibility is terminated sooner;
- continued use of an automobile or an allowance for automobile use for two years in accordance with the then current automobile policy of PIC Wisconsin;
- outplacement services having a value of not more than \$15,000;
- payment of pro rata bonus compensation for the then current year based on assumed 100% achievement of performance objectives (Mr. Montei is entitled to two times his bonus compensation); and
- reimbursement for premiums paid on any life insurance policies maintained for the executives during the reimbursement period.

The change of control benefits policy also provides similar severance benefits for other vice presidents and assistant vice presidents of PIC Wisconsin after a change of control. The principal difference from severance benefits described above is that the maximum period for severance benefits for the other vice presidents and assistant vice presidents is one year rather than two years and certain of the severance benefits (other than salary continuation) are limited or eliminated for those individuals.

ProAssurance has agreed to assume the obligations to pay severance benefits to eligible officers under the change of control benefits policy. In addition to conditioning the payment of severance benefits on termination of employment under the circumstances specified in the change of control benefits policy, an officer whose employment has been terminated will be required to execute a release with respect to claims relating to his or her employment with PIC Wisconsin or ProAssurance. The change of control benefits policy may be amended or terminated by PIC Wisconsin's board of directors at any time after January 31, 2006, but the PIC Wisconsin board has resolved to keep the policy in effect through the effective time of the merger.

The following table sets forth the current salary and the estimated pro rata target bonus for each PIC Wisconsin executive officer, and sets forth an estimate of the total severance benefits that the executive officers would receive if (1) the merger is completed on June 30, 2006, (2) the executive officer terminates employment on that date, and (3) the entire target bonus is met for each individual. Actual pro rata bonus amounts and severance payments may be greater or less than the amount estimated.

<u>Name</u>	<u>Current Salary (\$)</u>	<u>Estimated Pro Rata Target Bonus (\$)</u>	<u>Estimated Total Severance Benefits \$(1)</u>
William T. Montei	293,550	102,743	763,758(2)
David L. Maurer	206,000	51,500	518,075
Christopher J. Brady	136,700	34,175	348,150
Penelope R. O'Hara	138,500	27,700	339,575

- (1) Includes estimates for salary continuation, pro rata target bonus, outplacement services, health, dental and vision insurance benefits, automobile allowance and reimbursement of premiums on life insurance.
- (2) Mr. Montei is entitled to receive an amount equal to two times his pro rata target bonus and the other executive officers are entitled to receive an amount equal to their pro rata target bonus.

Employment agreements. The merger agreement provides that the executive officers of PIC Wisconsin will continue to serve in the same capacities after the merger. In that regard, ProAssurance has agreed to assume (subject to the changes discussed below) the employment agreements of Messrs. Montei and Maurer. The employment agreements for each of Messrs. Montei and Maurer currently have one-year terms that may be renewed for additional one-year terms with the agreement of PIC Wisconsin and the executive and provide for a base salary, discretionary bonus compensation, and various fringe benefits, including use of an automobile, payment of life insurance premiums and participation in group health and retirement plans.

ProAssurance has further agreed to offer to continue the employment of Messrs. Montei and Maurer after the merger subject to the following changes in the terms of their employment:

- the annual base salaries, incentive compensation opportunities and benefits of each executive will be evaluated and adjusted so that they are generally commensurate with the salaries of comparable executives currently employed by ProAssurance;
- during the first year after the effective time of the merger, ProAssurance and each executive will have the ability to voluntarily terminate the employment of the executive, and if either ProAssurance or the executive does so, the executive will receive the two year severance benefits as called for in the change of control benefits policy from the date of termination in exchange for an agreement by the executive to not compete in the medical malpractice insurance business in the States of Wisconsin and Iowa for the two year period immediately following the termination of employment;
- within the first year after the merger, ProAssurance may offer a continuing severance agreement on terms generally comparable to agreements with other ProAssurance executives that would provide severance benefits for termination of the executive's employment by ProAssurance without cause or by the executive for good reason if the termination occurs within two years after the commencement of the agreement and for one year if such termination occurs after the initial two year period; and
- if a continuing severance agreement is not offered, the executive will then be entitled to receive the benefits under the change of control benefits policy.

ProAssurance consulting agreements. The directors of PIC Wisconsin will be replaced as directors as of the effective time of the merger by the directors of Physicians Merger Company, all of whom are executive officers of ProAssurance. Those directors who are not employees of PIC Wisconsin will be retained by ProAssurance as consultants under separate consulting agreements, except that a director will not be eligible for a consulting agreement if he is elected as a director of ProAssurance. The merger agreement provides that PIC Wisconsin has the right to nominate one person for election as a director of ProAssurance promptly after the effective time of the merger. The consulting agreement will provide for compensation through June 30, 2007 at the rate of \$2,000 per month for the current chairman and vice chairman and \$1,500 for all other non-employee directors. The consulting agreement requires the directors to serve on an advisory committee to be established to facilitate the transition of PIC Wisconsin's business and prohibits them from competing with the business of ProAssurance during the terms of their agreements.

Stock awards. PIC Wisconsin has granted stock awards to directors and executive officers under its long term stock plan. As a result of the merger, all outstanding and unvested PIC Wisconsin stock awards will become vested and shares of PIC Wisconsin common stock will be issued to the holders of these awards in accordance with the terms of the PIC Wisconsin long term stock plan at the effective time of the merger. In accordance with the merger agreement, each participant may request that ProAssurance purchase for cash (in the amount equal to \$5,000 per each repurchased share) some or all of the PIC Wisconsin shares issued to the participant under the long term stock plan, including those to be issued pursuant to unvested awards at the effective time of the merger, as further described in "The Merger Agreement — Treatment of stock awards" on page 44.

The following table sets forth, as of January 31, 2006, the number of vested and unvested shares held by individuals who served as executive officers of PIC Wisconsin since the beginning of 2005 that were awarded under the PIC Wisconsin long term stock plan.

<u>Name</u>	<u>Vested Stock Awards</u>	<u>Unvested Stock Awards</u>
William T. Montei	102.69	22.48
David L. Maurer	59.54	15.96
Christopher J. Brady	52.18	10.98
Penelope R. O'Hara	22.95	10.28