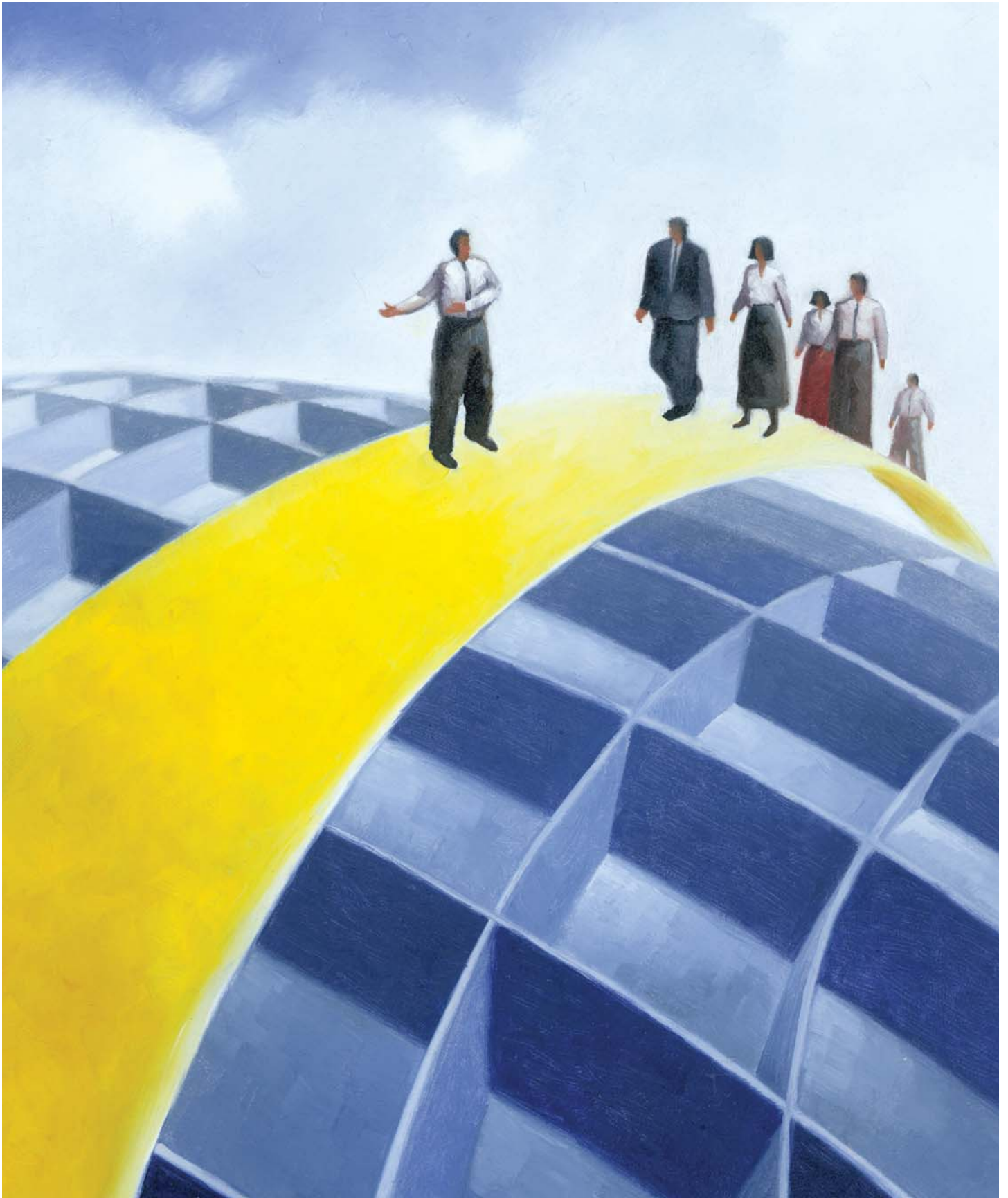


leadership

ProAssurance 2004 Annual Report



ProAssurance[®]



ProAssurance is a specialty insurer with more than \$3.2 billion in assets and almost \$790 million in gross written premiums. As the nation's fourth largest writer of medical professional liability insurance, our principal professional liability subsidiaries, The Medical Assurance Company, Inc., ProNational Insurance Company, and Red Mountain Casualty Insurance Company, Inc., are recognized leaders in developing solutions which serve the needs of the evolving health care industry. We are the tenth largest writer of personal auto coverage in Michigan through our subsidiary, MEEMIC Insurance Company.

financial highlights	1
letter to shareholders	2
leading by example	7
directors and officers	8
corporate and shareholder information	ibc

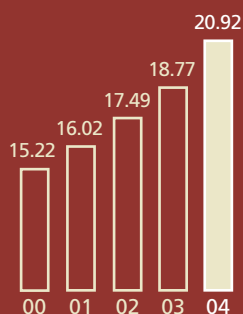
leadership

LEADERSHIP REQUIRES VISION, BUT VISION ALONE IS NOT ENOUGH. LEADERS COMBINE VISION WITH ACTION TO INSPIRE OTHERS TO ACHIEVE THE HIGHEST GOALS AND OBJECTIVES. AT PROASSURANCE, WE ARE EACH CHALLENGED TO LEAD BY EXAMPLE SO THAT THE ENTIRE COMPANY SUCCEEDS. OUR SUCCESS BENEFITS OUR CUSTOMERS AND OUR EMPLOYEES WHILE REWARDING OUR STOCKHOLDERS.

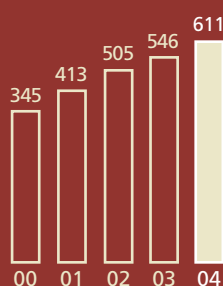
SELECTED FINANCIAL DATA⁽¹⁾ (in thousands)

	Fiscal Years Ended December 31				
	2004	2003	2002	2001	2000
Income Statement Highlights					
Gross premiums written	\$ 789,660	\$ 740,110	\$ 636,156	\$ 388,983	\$ 223,871
Total revenues	794,553	709,640	555,767	382,555	222,589
Net income ⁽²⁾	72,811	38,703	12,207	12,450	24,300
Balance Sheet Highlights					
Total investments	\$ 2,455,053	\$ 2,055,672	\$ 1,679,497	\$ 1,521,279	\$ 796,526
Total assets	\$ 3,239,198	\$ 2,879,352	\$ 2,586,650	\$ 2,238,325	\$ 1,122,836
Reserve for losses and loss adjustment expenses	\$ 2,029,592	\$ 1,814,584	\$ 1,622,468	\$ 1,442,341	\$ 659,659
Long-term debt	\$ 151,480	\$ 104,789	\$ 72,500	\$ 82,500	\$ —
Total liabilities	\$ 2,628,179	\$ 2,333,047	\$ 2,055,086	\$ 1,802,606	\$ 777,669

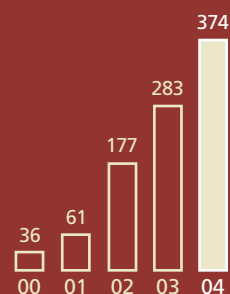
Book value per share⁽³⁾



Stockholders' Equity (in millions)



Cash Flow from Operations (in millions)



- (1) Includes Professionals Group since the date of consolidation, June 27, 2001.
 (2) Net income for the year ended December 31, 2002 was increased by \$1.7 million due to the adoption of SFAS 141 and 142. See Note 13 to the Consolidated Financial Statements.
 (3) Total capital per share of common stock outstanding

to our stockholders

To My Fellow Shareholders,

I have always thought that the best leaders are those people or organizations that have the courage to take bold steps forward when others see only chaos, and who are able to clearly and concisely convey their vision of the opportunities they see. I firmly believe that ProAssurance can be considered a leader in those terms.

In simple terms, ProAssurance is focused on the bottom line. But we understand that bottom line success is achieved by serving our insureds. Our 2004 results are a great example of the success that comes from our dedication to serving our customers and ensuring the strength of our balance sheet. In the long-term, what is good for our customers produces good results for our stockholders.

That's why we point with pride to intrinsic measures such as an 88% increase in Net Income as compared to 2003, a 32% increase in Cash Flow from Operations, which was already at record levels, and the first full year of consolidated underwriting profitability since our creation in 2001. These are visible signs that we are succeeding in building a company that can deliver sustainable shareholder growth. Further, these results represent major steps toward our ultimate goals: underwriting profitability in both Professional Liability and Personal Lines and a long-term average Return on Equity of 12% to 14%.

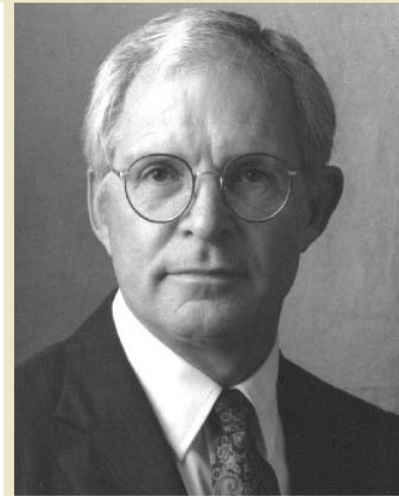
Professional Liability

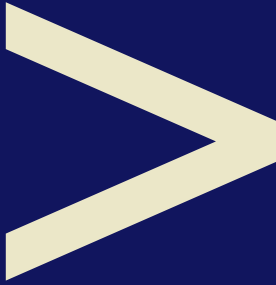
We also understand that we cannot achieve these results without delivering on the promises that we make to our insureds every day. This is especially true in Professional Liability, where our balance sheet strength allows us to successfully implement our claims defense philosophy, which in turn differentiates us from our competitors and adds to our bottom line.

We further differentiate ourselves by the localized, venue-specific approach to claims management. Our claims philosophy does result in higher defense costs than the industry average, but our success in the courtroom dramatically lowers our overall loss costs while ensuring policyholder loyalty. Our analysis shows that ProAssurance's average statutory professional liability loss ratio for the past three years is almost 15 points better than the industry average published by A. M. Best.

By trying over 500 cases to a jury verdict in 2004, we have communicated to our insureds and the plaintiff's bar that we are serious about defense in cases where there is no negligence, and our intensive claims management process continues to produce a successful outcome in over 90% of all claims filed against our insureds.

A strong, fair defense philosophy is one bookend for our Professional Liability operations; and a disciplined underwriting and pricing of our business is the other. Our defense posture is one of the hallmarks of ProAssurance and our predecessors, but it's been in the last five years that we have sharpened our approach to accepting risk.





We have demonstrated our commitment to disciplined underwriting and rate adequacy. Industry events have reinforced the need for strong, committed insurance providers that are able to withstand the challenges of the turbulent malpractice environment. Our average renewal rate increase has been 24% over the past three years.

Looking forward, we anticipate an average Professional Liability renewal rate increase in the 9% to 14% range in 2005. But because our rates are at adequate levels, this continues to produce the margins we need to reach our financial targets and we're confident that we can maintain our margins, barring any unforeseen change in the loss environment. We expect pricing to remain strong in 2005, and see no signs of widespread market softening into the first part of 2006.

We do see signs of emerging competition from smaller insurance entities with little capital or capacity beyond what they obtain through the heavy use of reinsurance. To date, they have not penetrated our operating footprint to a significant degree, and we remain confident that discerning buyers of insurance will look beyond mere price in making their purchasing decision.

Our continued message of leadership rings true in these situations. The proven strength of our balance sheet and the professional level of quality service we deliver to our insureds has allowed us to retain desirable insureds and add new insureds to replace those lost to price-based competitors or through our own stringent re-underwriting process.

In fact, despite self-imposed reductions in several states in 2004, our professional liability policyholder count has grown. This reflects our increased comfort with the overall pricing and regulatory climate in many of the states in which we operate. In contrast, careful underwriting in those states where the market is challenging helps preserve our capital and further protect our balance sheet. This ultimately protects the financial well-being of those we insure, and ensures that we are able to provide the returns we expect as shareholders.

To date our growth has not been limited by capacity concerns, and we believe that we are generating sufficient capital now to support organic growth in our business footprint. As the market cycle turns, and it ultimately will, we believe that growth and expansion opportunities will manifest themselves quickly as companies are forced to deal with deficient reserves and other legacy issues. We are prepared and able to raise capital to take advantage of those opportunities; however, we will be prudent in our capital management, and we do not foresee taking on debt or issuing equity unless we can clearly demonstrate the need for the funds.

We will continue to allocate capital to those states where we are best able to write profitable business, and will apply the same rigorous standards as we evaluate states for expansion or opportunities for acquisition. Our proposed merger of NCRIC Group, Inc. into ProAssurance is a prime example of our strategy to grow by careful acquisition. If the transaction closes as planned, we will gain meaningful market share in Delaware, Virginia and

the District of Columbia. We had previously targeted Delaware and Virginia as prime states for expansion so this is a natural fit for ProAssurance. NCRIC's long track record of success in the District is similar to the success the predecessors of ProAssurance achieved in their home markets; thus we view this transaction as furthering our proven leadership in growth through acquisition.

We see continued growth opportunities in the Excess & Surplus Lines market, although the Excess & Surplus lines market will be the first to soften as the insurance cycle turns. We are already seeing signs that competitors that are hungry for market share are offering coverage at prices we believe to be inadequate for some risks. To counter this trend, we will not compete on price or seek to artificially maintain market share, but we will identify growth opportunities in non-traditional professional liability areas where we can utilize our skilled underwriting to give us an edge.

A final comment on Professional Liability concerns the debate over Tort Reform. Progress is being made: already in 2005 Georgia and Missouri have enacted sweeping Tort Reforms and Congress will debate the issue again this year. While ProAssurance's balance sheet strength allows us to withstand the inherent severity of the current system, the burden on our insureds is crushing. We cannot ignore our need to maintain our long-term financial strength, yet we recognize the need to bring rationality to the system and are supportive of Tort Reform efforts throughout the legal system.

Personal Lines

I want to highlight MEEMIC's remarkable results, both in 2004 and over the long-term. Last year marked MEEMIC's tenth straight year of underwriting profitability and underscores the value of careful underwriting in a preferred market. Favorable weather in 2004 also played a role in MEEMIC's success, but we must be realistic in recognizing that adverse weather is the one variable we are unable to control, although we do manage our exposure to extreme weather events.

In 2004 MEEMIC began expanding outside its home state of Michigan, writing its first policy in Wisconsin. Because peer-to-peer selling has been a key to MEEMIC's success in Michigan, both as a marketing tool and as a first line of underwriting scrutiny, we will utilize the same system as we expand.

Identifying and training educators to become valued agents takes time and will likely limit our growth outside Michigan in 2005. MEEMIC continues to identify growth areas in Michigan, and is growing its policyholder count by penetrating underserved geographic areas and opening new distribution in colleges and non-public school systems.

Looking Ahead

Overall, we are pleased with the results we achieved in 2004, but I want to assure you we are not resting on those laurels. We have more work to do to reach our goal of underwriting profitability in both lines of insurance. We realize that we must remain committed to our service-oriented but disciplined operational strategy in order to sustain a long-term average Return on Equity between 12% and 14%. This is my focus each day, and the focus of each of our employees.

This focus is what makes ProAssurance a leader. At each level of our company, we understand the link between excellence in service and excellent results. Our employees and agents know that we can only back up our promise of protection by maintaining a strong balance sheet, and our insureds have learned they can count on us to keep that promise.

We are confident the best days of ProAssurance are ahead of us and we're grateful to the stockholders who continue to share this vision, and to our employees, agents and defense attorneys who help us keep the promises we make.

For the Board and Employees of ProAssurance,



A. Derrill Crowe, M.D.
Chairman and CEO



AT EACH LEVEL OF OUR COMPANY, WE UNDERSTAND THE LINK BETWEEN EXCELLENCE IN SERVICE AND EXCELLENT RESULTS. OUR EMPLOYEES AND AGENTS KNOW THAT WE CAN ONLY BACK UP OUR PROMISE OF PROTECTION BY MAINTAINING A STRONG BALANCE SHEET, AND OUR INSURED HAVE LEARNED THEY CAN COUNT ON US TO KEEP THAT PROMISE.



PROASSURANCE OFFERS OUR INSURED THE POWER AND PROMISE OF INDUSTRY-LEADING FINANCIAL STRENGTH. OUR PROVEN TRACK RECORD OF COMMITMENT AND SERVICE PROVIDES OUR CUSTOMERS WITH THE ASSURANCE THAT WE WILL BE THERE WHEN THEY NEED US AND RESULTS IN THE FINANCIAL PERFORMANCE OUR INVESTORS DEMAND.

leading by example



PROFESSIONAL LIABILITY

ProAssurance's leadership in Professional Liability is built on performance. Where many other companies have failed, ProAssurance has thrived by using our financial strength to provide unparalleled service and a wide range of coverage options to our customers.

The heart of our service commitment is our dedication to the defense of non-meritorious claims. We've proven time and again that we will fight to protect our insureds, while ensuring that claims that have merit are resolved quickly and fairly.

We back up our claims defense with a broad array of risk management and consulting services designed to help improve patient care while reducing the risk that our insureds face.

PERSONAL LINES

For more than half-a-century, MEEMIC has provided cost effective insurance coverage to Michigan educators and their families. MEEMIC's focus on the education market has made us a trusted partner for our insureds. As we grow in and beyond Michigan, we're proud of our reputation as the leading insurance company serving the educational community.

directors

Non-independent Directors

A. Derrill Crowe, M.D. ^{(E)C}
Chairman & Chief Executive Officer

Victor T. Adamo, Esq., C.P.C.U. ^(E)
Vice-Chairman &
Chief Operating Officer

Paul R. Butrus ^(E)
Vice-Chairman

Independent Directors

Lucian Bloodworth ^(A)
Chairman, Cain Manufacturing
Company, Inc.

Robert E. Flowers, M.D. ^{(C)C (E) (N&C)}
Retired Physician

John J. McMahon, Jr. ^{(C) (N&C)C}
Chairman, Ligon Industries

John P. North, Jr., C.P.A. ^{(A)C}
Retired Accounting Firm Partner

Ann F. Putallaz, Ph.D. ^(A)
Vice-President, Munder Capital
Management

Wilfred W. Yeargan, M.D. ^(C)
Physician in Private Practice

William H. Woodhams, M.D. ^(N&C)
Physician in Private Practice

Audit Committee: (A)
Compensation Committee: (C)
Executive Committee: (E)
Nominating &
Corporate Governance: (N&C)
Chairman: C

senior officers

Jeffrey L. Bowlby, A.R.M.
Senior Vice-President,
Marketing & Sales
Professional Liability Group

Howard H. Friedman, A.C.A.S., M.A.A.A.
Secretary & Senior Vice-President
Chief Underwriting Officer & Chief
Actuary, Professional Liability Group

Lynn Kalinowski
President
MEEMIC Insurance Company

James J. Morello, C.P.A.
Chief Accounting Officer & Treasurer
Senior Vice-President

Frank B. O'Neil
Investor Relations Officer
Senior Vice-President,
Corporate Communications

Edward L. Rand, Jr., C.P.A.
Chief Financial Officer
Senior Vice-President

Christine C. Schmitt, C.P.A.
Chief Financial Officer & Treasurer
MEEMIC Insurance Company

Darryl K. Thomas, Esq.
Senior Vice-President, Claims
Professional Liability Group

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

- Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required] for the fiscal year ended December 31, 2004, or
- Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] for the transition period from _____ to _____.

Commission file number: 001-16533

ProAssurance Corporation
(Exact name of registrant as specified in its charter)

Delaware 63-1261433
(State of incorporation or organization) (I.R.S. Employer Identification No.)

100 Brookwood Place, Birmingham, AL 35209
(Address of principal executive offices) (Zip Code)

(205) 877-4400
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Each Exchange On Which Registered -----
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2004 was \$995,191,723.

As of December 31, 2004, the registrant had outstanding approximately 29,204,463 shares of its common stock.

Exhibit Index at page 103
Page 1 of 108 pages

Documents incorporated by reference in this Form 10-K

- (i) The definitive proxy statement for the 2005 Annual Meeting of the Stockholders of ProAssurance Corporation (File No. 001-16533) is incorporated by reference into Part III of this report.
- (ii) Registration Statement on Form S-4 of MAIC Holdings, Inc. (File No. 33-91508) is incorporated by reference into Part IV of this report.
- (iii) The MAIC Holdings, Inc. Definitive Proxy Statement for the 1996 Annual Meeting (File No. 0-19439) is incorporated by reference into Part IV of this report.
- (iv) The Registration Statement on Form S-4 of Professionals Group, Inc. (File No. 333-3138) is incorporated by reference into Part IV of this report.
- (v) The Registration Statement on Form S-4 of ProAssurance Corporation (File No. 333-49378) is incorporated by reference into Part IV of this report.
- (vi) The ProAssurance Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (Commission File No. 001-16533) is incorporated by reference into Part IV of this report.
- (vii) The ProAssurance Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (Commission File No. 001-16533) is incorporated by reference into Part IV of this report.
- (viii) The ProAssurance Corporation Annual Report on Form 10-K for the year ended December 31, 2001 (Commission File No. 001-16533) is incorporated by reference into Part IV of this report.
- (ix) The ProAssurance Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (Commission File No. 001-16533) is incorporated by reference into Part IV of this report.
- (x) The Registration Statement on Form S-3 of ProAssurance Corporation (Commission File No. 333-100526) is incorporated by reference into Part IV of this report.
- (xi) The ProAssurance Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-16533) is incorporated in Part IV of this report.
- (xii) The ProAssurance Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 001-16533) is incorporated in Part IV of this report.
- (xiii) The Registration Statement on Form S-3 of ProAssurance Corporation (File No. 333-109972) is incorporated by reference in Part IV of this report.
- (xiv) The ProAssurance Corporation Quarterly Report on form 10-Q for the quarter ended June 30, 2004 (File No. 001-16533) is incorporated by reference into

Part IV of this report.
- (xv) The ProAssurance Corporation Quarterly Report on form 10-Q for the quarter ended March 31, 2004 (File No. 001-16533) is incorporated by reference into Part IV of this report.
- (xvi) The ProAssurance Corporation Report on Form 8-K for event occurring on February 28, 2005 (File No. 001-16533) is incorporated by reference into Part IV of this report.

PART I

ITEM 1. BUSINESS

GENERAL

We are a holding company for specialty property and casualty insurance companies focused on the professional liability and the personal lines insurance markets. Our executive offices are located at 100 Brookwood Place, Birmingham, Alabama 35209 and our telephone number is (205) 877-4400. Our stock trades on the New York Stock Exchange under the symbol "PRA."

Our website is www.ProAssurance.com. On our website we make available all of the reports that we file with the Securities and Exchange Commission (the SEC), including our annual report on Form 10K, our quarterly reports on Form 10Q and our current reports on Form 8K. We provide access to these reports, as well as Forms 3, 4 and 5 detailing stock trading by corporate insiders, through our website as soon as reasonably practical after they are filed with the SEC. We provide access to these reports for at least one year after their filing. We also provide similar access to Company news releases, and to major investor presentations made by our executives.

Our Board of Directors has adopted a Policy Regarding Determination of Director Independence, including categorical standards to assist in determining independence, has amended the charter of our Audit Committee and has adopted charters for our Compensation and Nominating/Corporate Governance Committees as well as our Corporate Governance Principles and our Code of Ethics and Conduct. Copies of all these documents are available on our website at <http://www.proassurance.com>. Printed copies of our committee charters, Corporate Governance Principles, Code of Ethics and Conduct, and our Policy Regarding Determination of Director Independence may be obtained by writing to: Frank O'Neil, Senior Vice President, ProAssurance Corporation, either by mail or at P.O. Box 590009, Birmingham, Alabama 35259-0009, or by telephone at (205) 877-4400 or (800) 282-6242.

Because the insurance business uses certain terms and phrases that carry special and specific meaning, we urge you to read the Glossary included at the end of Item I, prior to reading this report.

Our insurance companies are regionally-oriented. We sell professional liability insurance to physicians, dentists, other healthcare providers and healthcare facilities, principally in the midwest and southeast and automobile, homeowners and associated coverages to educators and their families in Michigan.

We rigorously underwrite our risks and are focused on maintaining adequate pricing for the risks. By ensuring that we charge an adequate rate, we seek to maintain a strong financial position to protect our customers. Our regional presence and service commitment allow us to maintain active relationships with our customers and be more responsive to their needs. We believe these factors have allowed us to establish a leading position in our markets, enabling us to compete on a basis other than just price.

For the year ended December 31, 2004, we generated \$789.7 million of gross premiums written, \$696.0 million of net premiums earned and \$794.6 million of total revenues. As of December 31, 2004, we had cash and invested assets of \$2.5 billion, total assets of \$3.2 billion and stockholders' equity of \$611.0 million.

CORPORATE ORGANIZATION AND HISTORY

We were incorporated in Delaware to serve as the holding company for Medical Assurance, Inc. (Medical Assurance) in connection with its acquisition of Professionals Group, Inc. (Professionals Group) in June 2001. Our core operating subsidiaries are The Medical Assurance Company, Inc., ProNational Insurance Company, Red Mountain Casualty Insurance Company, Inc., and MEEMIC Insurance Company. We also write a limited amount of professional

liability insurance through Medical Assurance of West Virginia, Inc., which we consider to be a non-core operating subsidiary.

We are the successor to 11 insurance organizations. Our predecessor company, Medical Assurance, was founded by physicians as a mutual company in Alabama and began in 1977. We demutualized and became a public company in 1991. Medical Assurance expanded through internal growth and the acquisition of professional liability insurance companies with strong regional identities in West Virginia, Indiana and Missouri, along with books of business in Ohio and Missouri.

Professionals Group traces its roots to the Brown-McNeeley Fund, which was founded by the State of Michigan in 1975 to provide medical professional liability insurance to physicians. Physicians Insurance Company of Michigan, which ultimately became ProNational, was founded in 1980 to assume the business of the Fund. That company also expanded through internal growth and the acquisition of a book of business in Illinois and the acquisition of professional liability insurers in Florida and Indiana.

MEEMIC Insurance Company was founded as a mutual company by Michigan teachers and has provided personal lines insurance to the educational community in that state since 1950. Professionals Group became affiliated with MEEMIC in 1997 and acquired majority ownership of MEEMIC Holdings, Inc. (MEEMIC Holdings) in 1999. In 2003, we increased our ownership of MEEMIC to 100%.

In each acquisition we retained key personnel, allowing us to maintain a local presence and preserve important institutional knowledge in claims management and underwriting. We believe that this ability to utilize local knowledge in claims and underwriting is a critical factor in the operation of our companies. Our successful integration of each organization demonstrates our ability to grow effectively through acquisitions.

BUSINESS OVERVIEW

In each of our segments we maintain a strong position in our local markets. In our professional liability segment we focus on providing medical professional liability insurance. In our personal lines segment we offer personal automobile, and to a lesser extent, homeowners, boat and umbrella insurance primarily to teachers, administrators, professors and other members of the educational community and their families in Michigan.

In professional liability, our top five states represented 71% of gross premiums written for the year ended December 31, 2004. Our personal lines business was substantially confined to Michigan in 2004. The following table shows our gross premiums written in these lines and key states for each of the periods indicated.

Gross Written Premiums—Years Ended December 31
(\$ in thousands)

	Professional Liability					
	2004		2003		2002	
Ohio	\$149,269	26%	\$123,205	23%	\$ 91,571	20%
Alabama	111,582	19%	106,437	20%	83,818	18%
Florida	69,899	12%	80,549	15%	71,366	15%
Michigan	45,578	8%	54,727	10%	52,203	11%
Missouri	35,217	6%	33,987	6%	23,786	5%
All other states	162,047	29%	144,418	26%	138,971	31%
Total	\$573,592	100%	\$543,323	100%	\$461,715	100%
	=====	===	=====	===	=====	===

Personal Lines Premiums

	2004		2003		2002	
Michigan	\$216,068	100%	\$196,787	100%	\$174,441	100%
	=====	===	=====	===	=====	===

For the year ended December 31, 2004, professional liability produced a combined ratio of 104.8% and personal lines reported a combined ratio of 83.4%.

A combined ratio below 100% generally indicates profitable underwriting prior to the consideration of investment income. However, if investment income is considered, companies writing professional liability insurance may be profitable with combined ratios above 100%. Thus, the combined ratio may not always be indicative of our ultimate results because of the "long-tail" nature of the professional liability business.

In order to measure the effect of investment income, we also measure our results by calculating our operating ratio.

Recent Transactions

In April and May 2004, we received \$44.9 million from the issuance of \$46.4 million of trust preferred securities. These securities were issued by specially-created business trusts created solely for the purpose of issuing the trust preferred securities. In early July 2003 we received \$104.6 million from the issuance of 3.9% Convertible Debentures, due June 2023, having a face value of \$107.6 million. We utilized a substantial portion of the net proceeds from the sale of the Convertible Debentures to repay our outstanding term loan. We are using the balance of the net proceeds from the sale of the Convertible Debentures and the trust preferred securities for general corporate purposes, including contributions to the capital of our insurance subsidiaries to support the growth in insurance operations. See Note 10 to our Consolidated Financial Statements for more information regarding the Convertible Debentures and the trust preferred securities.

In the fourth quarter of 2002 ProAssurance sold 3,025,000 shares of common stock at a price of \$16.55 per share in an underwritten public offering. ProAssurance received net proceeds from the offering in the amount of approximately \$46.5 million. ProAssurance used the proceeds from the offering to support the growth of the professional liability insurance business and for general corporate purposes.

On January 29, 2003 MEEMIC Holdings, the parent company of MEEMIC Insurance Company, purchased all of the issued and outstanding shares of its common stock, other than those held by ProAssurance's subsidiary, ProNational Insurance Company (ProNational). MEEMIC Holdings used its internal funds in the approximate amount of \$34.1 million to acquire all of the 1,062,298 shares of its common stock not owned by ProNational, to pay for outstanding options for 120,000 shares, and to pay the expenses of the transaction. The funds were derived from MEEMIC Holdings' cash and investment resources. As a result of the transaction, MEEMIC Holdings was delisted from the NASDAQ stock market and became a wholly-owned subsidiary of ProNational.

Proposed Transaction

On February 28, 2005 ProAssurance Corporation and NCRIC Group, Inc. (NASDAQ: NCRI) reached an agreement to merge NCRIC into ProAssurance in a \$69.6 million, all-stock transaction which values NCRIC at \$10.10 per share, based on the closing price of ProAssurance common stock on February 25, 2005. See Note 19 of our Consolidated Financial Statements included herein for more information regarding the merger.

PRODUCTS AND SERVICES

The following table shows Gross Written Premiums for our main lines of business.

	Years Ended December 31					
	(\$ in thousands)					
	2004		2003		2002	
Medical Professional Liability	\$561,907	71%	\$531,033	72%	\$448,136	70%
Professional Liability-Other(1)	11,685	2%	12,290	1%	13,579	3%
Private Passenger Auto	174,654	22%	161,399	22%	147,168	23%
Personal Lines - Other(2)	41,414	5%	35,388	5%	27,273	4%
	\$789,660	100%	\$740,110	100%	\$636,156	100%
	=====	===	=====	===	=====	===

(1) Includes legal professional liability, workers' compensation and commercial multi-peril coverages.

(2) Primarily homeowners coverage, but also includes boat, snowmobile and personal umbrella coverage.

In professional liability we believe our size, financial strength and flexibility of distribution differentiates us from our competitors. We primarily offer insurance for providers of medical and other healthcare services. Although we generate a majority of our premiums from individual and small group practices, we also insure major physician groups as well as hospitals. While most of our business is written in the standard market, we do offer medical professional liability insurance on an excess and surplus lines basis to healthcare professionals who generally do not qualify for standard coverage because of their claim history or other factors. Red Mountain Casualty Insurance Company, Inc. is the main subsidiary in which this business is written and we believe it provides profitable opportunities to expand our business. We also offer professional office package and workers' compensation insurance products in connection with our medical professional liability products.

We write legal professional liability insurance in Michigan, Ohio and Indiana, but that is a small percentage of our professional liability business.

In personal lines, private passenger automobile insurance is our primary line of business. To provide for the other insurance needs of our auto customers, we also offer homeowners, boat and umbrella policies.

MARKETING

In professional liability, we primarily write insurance in the Southeast and Midwest and are licensed to do business in every state but Connecticut, Maine, New Hampshire, New York and Vermont. Based on gross premiums written in 2004, Ohio, Alabama, Florida, Michigan, and Missouri represented our five largest states. In personal lines, we market our products to members of the educational community and their families in Michigan and Wisconsin.

We utilize direct marketing and independent agents to write professional liability business. In Alabama, we rely solely on direct marketing, and in Florida and Missouri, direct marketing accounts for a majority of our business. We use independent agents to market our professional liability insurance products in other markets. For the year ended December 31, 2004, we estimate that approximately 65% of our gross professional liability premiums written were produced through independent insurance agencies. These local agencies usually have one to three producers who specialize in professional liability insurance and who we believe are able to convey the factors that differentiate our professional liability insurance product. No single agent or agency accounts for more than 10% of our total direct premiums written.

Our marketing is primarily directed to physicians. We generally do not target large physician groups or facilities because of the difficulty in underwriting the individual risks and because their purchasing decision is more focused on price. Our marketing efforts differentiate our professional liability insurance products by emphasizing:

- excellent claims service and the other services and communications we provide to our customers,
- the sponsorship of risk management education seminars as an accredited provider of continuing medical education,
- risk management consultation, loss prevention seminars and other educational programs,
- legislative oversight and active support of proposed legislation we believe will have a positive effect on liability issues affecting the healthcare industry,
- the preparation and dissemination of newsletters and other printed material with information of interest to the healthcare industry, and
- endorsements by, and attendance at meetings of medical societies and related organizations.

These communications and services have helped us gain exposure among potential insureds and demonstrate our understanding of the insurance needs of the healthcare industry and promote a commonality of interest among us and our insureds.

We sell our personal lines coverage through exclusive sales representatives who produce business primarily for MEEMIC. Our representatives are able to sell coverages that

MEEMIC does not underwrite. Those policies are written through MEEMIC's wholly-owned insurance agency; both MEEMIC and our representatives receive compensation from the companies that write those coverages.

For the year ended December 31, 2004, one sales representative accounted for approximately 5% of our direct premiums written within our personal lines segment. The top 10 sales representatives accounted for approximately 34% of our direct premiums written in 2004.

UNDERWRITING

Our underwriting process is driven by individual risk selection rather than by account. Our pricing decisions are focused on achieving rate adequacy. We assess the quality and pricing of the risk, primarily emphasizing loss history, practice specialty and location of practice in making our underwriting decision. Our underwriters work closely with our local claims departments. This includes consulting with staff about claims histories and patterns of practice in a particular locale as well as monitoring claims activity.

Our professional liability underwriting focuses on knowledge of local market conditions and legal environment. Through our five regional underwriting offices located in Alabama, Florida, Indiana, Missouri and Michigan, we have established a local presence within our targeted markets to obtain better information more quickly.

Our professional liability underwriting department classifies risks by practice specialty and by location. Our underwriters work with our field marketing force to identify business that meets these established underwriting standards and to develop specific strategies to write the desired business. In performing this assessment, our underwriters may also consult with internal actuaries regarding loss trends and pricing and utilize loss-rating models to assess the projected underwriting results of certain insured risks.

These underwriters are also assisted by our local medical advisory committees that we have established in our key states. These committees are comprised of local physicians, dentists and representatives of hospitals and healthcare entities and help us maintain close ties to the medical communities in these states, provide information on the practice of medicine in each state and provide guidance on critical underwriting and claims issues.

In personal lines we rely to a significant degree on information provided by our sales representatives in underwriting risks. The majority of our sales representatives are, or were, teachers. This enhances the sales representatives' ability to act as field underwriters since they have a general understanding of lifestyles and insurance needs within the educational community. Our underwriters then evaluate and accept applications for insurance submitted by the sales representatives based on underwriting guidelines.

CLAIMS MANAGEMENT

In each of our segments our claims departments establish the appropriate case reserves for each claim and monitor the level of each case reserve as circumstances require.

In professional liability we have claims offices throughout the states in which we write business in order to provide localized and timely attention to claims. Our claims department investigates the circumstances surrounding a medical incident from which a covered claim arises against an insured. Upon investigation, and in consultation with the insured and appropriate experts, we evaluate the merit of the claim and either seek reasonable settlement or aggressively defend the claim. If the claim is defended, our claims department manages the case, including selecting defense attorneys who specialize in medical liability cases, planning the defense and obtaining medical and/or other professional experts to assist in the analysis and defense of the claim.

The department also decides when and if to settle all but the most significant claims, which are currently reviewed by an internal committee made up of our Chairman and Chief Executive Officer, our Senior Vice President-Claims, and our outside legal counsel. In each of the states in which we operate, we meet regularly with our local medical advisory committees to examine claims, attempt to identify potentially troubling practice patterns and make recommendations to our staff.

We aggressively defend claims against our insureds that we believe have no merit or those we believe cannot be reasonably settled. As a result of this policy, many of our claims are litigated, and we engage experienced trial attorneys in each venue to handle the litigation in defense of our policyholders.

Our aggressive claims management approach generally results in increased loss adjustment expenses compared to those of other property and casualty lines or other companies specializing in professional liability insurance. However, we believe that our approach contributes to lower overall loss costs and results in greater customer loyalty. The success of this claims philosophy is based on our ability to develop relationships with attorneys who have significant experience in the defense of professional liability claims and who are able to defend claims in an aggressive, cost-efficient manner.

We also offer professional liability claims management to self-insuring entities on a fee-for-service basis. While we do not expect this to become a major source of revenue for us, we believe it allows us to leverage our claims-management expertise to produce some additional income as larger groups and facilities decide to self-insure their malpractice risk.

Our personal lines claims operation is centralized in Auburn Hills, Michigan, with resident adjusters located in cities throughout Michigan. These employee adjusters settle a majority of our claims, and independent multi-line adjusters are used on a contract basis when needed.

In responding to claims in personal lines, we emphasize timely investigation, evaluation and fair settlement while controlling claims expense and maintaining adequate reserves. We have a year-round, 24-hour claim reporting telephone service for insureds and third-party claimants which enables us to quickly complete initial claim handling and ultimately reduces indemnity payments such as rental and storage.

We have also established relationships with a network of auto repair shops and other repair facilities that provide damage appraisals and repairs according to established company guidelines. An inspection audit program ensures that repairs are completed timely, economically and to the satisfaction of the customer. Audits of liability claim files are conducted regularly by claims department managers and reinsurers. Historically, less than 1% of all claims result in litigation.

INVESTMENTS

We manage our investments at the holding company level, but allocate portfolio assets and earnings to the individual segments. Our overall investment strategy is to focus on maximizing current income from our investment portfolio while maintaining safety, liquidity, duration and portfolio diversification. The portfolio is generally managed by professional third party asset managers whose results are evaluated periodically by management. The asset managers typically have the authority to make investment decisions, subject to investment policies, within the asset class they are responsible for managing. See Note 3 to our Consolidated Financial Statements for more detail on our investments.

RATING AGENCIES

Our principal insurance subsidiaries are rated "A-" (Excellent) by A.M. Best, its fourth highest category out of 15 categories. Best maintained a "Stable" Outlook on these subsidiaries at December 31, 2004. Standard & Poor's rates our principal insurance subsidiaries "A-" (Strong), its seventh highest category out of 21 categories, and maintained a "Stable" outlook on the rating at December 31, 2004.

In developing these ratings, A.M. Best and Standard & Poor's evaluate an insurer's ability to meet its obligations to policyholders, and are not directed toward the protection of stockholders. These ratings are neither ratings of securities nor a recommendation to buy, hold or sell any security.

Our West Virginia-based subsidiary, Medical Assurance of West Virginia (MAWV), which accounts for less than two percent of ProAssurance's book of business, is rated "B" (Fair) by Best with a "Positive" outlook. Best downgraded MAWV on December 24, 2003 as a result of our decision to terminate a reinsurance contract between MAWV and our Alabama-based subsidiary, The Medical Assurance Company, Inc. Standard & Poor's downgraded MAWV on December 19, 2003 and then withdrew the rating at our request.

As a result of our proposed transaction with NCRIC, as discussed under "Recent Transactions", A.M. Best has placed the financial strength rating of ProAssurance Group under review with negative implications. The negative implications signal that the ratings could either remain the same or be downgraded following the completion of the under review process.

COMPETITION

Competition depends on several factors including pricing, size, name recognition, service quality, market commitment, breadth and flexibility of coverage, method of sale, financial stability and ratings assigned by A.M. Best and Standard & Poor's. Many of these factors, such as market conditions, the ratings assigned by rating agencies, and regulatory conditions are beyond our control. However, for those factors within our control, such as service quality, market commitment, financial strength and stability, we believe we have competitive strengths that make us a viable competitor in those states where we are currently writing insurance.

In professional liability we compete with insurance companies and self-insuring entities. Many of the competing companies concentrate on a single state and have an extensive knowledge of the local markets. We also compete with large national insurers that may have greater financial strength and resources than we do.

Self-insuring entities are emerging as an alternative to the traditional insurance market as insureds seek greater control over the professional liability premiums. We assist groups with the formation and administration of self-insuring entities, and earn fee income for the management and services we provide. We do not expect this to become a major source of revenue for us. However, we hope to produce additional income to offset some of the potential lost business as growth in this segment of the market removes potential insureds from the traditional insurance market.

We believe that we have a competitive advantage in the current market due to our size, geographic scope and name recognition, as well as our heritage as a policyholder-founded company with a long-term commitment to the professional liability insurance industry. We have achieved these advantages through our balance sheet strength, claims defense expertise, strong ratings and ability to deliver a high level of service to our insureds and agents. We believe that these competitive strengths make us a viable competitor in the states where we are currently writing insurance.

Beginning in 1999, insurance companies focused on medical professional liability coverage experienced higher claim costs on business written in prior years than they had reserved for initially. In many cases this resulted in significant losses and reduced the capital available to support current and future business. This led many professional liability carriers focused on medical professional liability coverages to withdraw from, or limit new business in, one or more markets.

In 2002 several medical liability insurance companies were forced from the market due to financial difficulties. The St. Paul Companies, then the leading writer of medical professional liability insurance withdrew from the market. In 2003 Farmers Insurance Company exited medical professional liability insurance and The Reciprocal of America was placed under regulatory supervision. We believe these events have heightened the sensitivity of our target market to this issue.

Given this reduction in capacity and the uncertainty surrounding several writers in the medical professional liability market, we believe there has been a "flight to quality" as insureds place greater emphasis on financial strength and stability. We believe this trend will continue through 2005. However, small competitors, focused on limited pools of risk or geographic areas, are entering the market in a few areas and as a result we cannot be certain how long current market conditions will persist.

Our personal lines insurance subsidiary operates in a highly competitive market and some of our competitors are substantially larger than we are and have much greater financial, technical and operating resources. Competition depends on several factors including the price and quality of insurance products, the quality and speed of service and claims response, financial strength, sales and marketing capability, technical expertise and ratings assigned by A.M. Best and Standard & Poor's.

INSURANCE REGULATORY MATTERS

We are subject to regulation under the insurance and insurance holding company statutes, of various jurisdictions, including the domiciliary states of our insurance subsidiaries and other states in which our insurance subsidiaries do business.

Insurance companies are also affected by a variety of state and federal legislative and regulatory measures and judicial decisions that define and qualify the risks and benefits for which insurance is sought and provided. These include redefinitions of risk exposure in such areas as medical liability, product liability, environmental damage and workers' compensation. In addition, individual state insurance departments may prevent premium rates for some classes of insureds from reflecting the level of risk assumed by the insurer for those classes. Although there is limited federal regulation of the insurance business, each state has a comprehensive system for regulating insurers operating in that state. In addition, these insurance regulators periodically examine each insurer's financial condition, adherence to statutory accounting practices, and compliance with insurance department rules and regulations.

Our operating subsidiaries are required to file detailed annual reports with the state insurance regulators in each of the states in which they do business. The laws of the various states establish supervisory agencies with broad authority to regulate, among other things, licenses to transact business, premium rates for certain types of coverage, trade practices, agent licensing, policy forms, underwriting and claims practices, reserve adequacy, transactions with affiliates, and insurer solvency. Many states also regulate investment activities on the basis of quality, distribution and other quantitative criteria. States have also enacted legislation regulating

insurance holding company systems, including acquisitions, the payment of dividends, the terms of affiliate transactions, and other related matters. Our insurance subsidiaries are domiciled in Michigan, Alabama and West Virginia.

Applicable state insurance laws, rather than federal bankruptcy laws, apply to the liquidation or reorganization of insurance companies.

Insurance Regulation Concerning Change or Acquisition of Control

The insurance regulatory codes in our operating subsidiaries' respective domiciliary states each contain similar provisions (subject to certain variations) to the effect that the acquisition of "control" of a domestic insurer or of any person that directly or indirectly controls a domestic insurer cannot be consummated without the prior approval of the domiciliary insurance regulator. In general, a presumption of "control" arises from the direct or indirect ownership, control or possession with the power to vote or possession of proxies with respect to 10% (5% in Alabama) or more of the voting securities of a domestic insurer or of a person that controls a domestic insurer. A person seeking to acquire control, directly or indirectly, of a domestic insurance company or of any person controlling a domestic insurance company must generally file an application for approval of the proposed change of control with the relevant insurance regulatory authority.

In addition, certain state insurance laws contain provisions that require pre-acquisition notification to state agencies of a change in control of a non-domestic insurance company admitted in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic admitted insurer doing business in the state if certain conditions exist, such as undue market concentration.

Statutory Accounting and Reporting

Insurance companies are required to file detailed annual reports with the state insurance regulators in each of the states in which they do business, and their business and accounts are subject to examination by such regulators at any time. The financial information in these reports is prepared in accordance with Statutory Accounting Practices (SAP). Insurance regulators periodically examine each insurer's financial condition, adherence to SAP, and compliance with insurance department rules and regulations.

Regulation of Dividends and Other Payments from Our Operating Subsidiaries

We are a legal entity separate and distinct from our subsidiaries. As a holding company with no other business operations, our primary sources of cash to meet our obligations, including principal and interest payments with respect to indebtedness, are available dividends and other statutorily permitted payments, such as tax allocation payments from our operating subsidiaries.

Our operating subsidiaries are subject to various state statutory and regulatory restrictions, applicable generally to any insurance company in its state of domicile, which limit the amount of dividends or distributions an insurance company may pay to its stockholders without prior regulatory approval. The restrictions are generally based on certain levels or percentages of surplus, investment income and operating income, as determined in accordance with SAP. Generally, dividends may be paid only out of earned surplus. In every case, surplus subsequent to the payment of any dividends must be reasonable in relation to an insurance company's outstanding liabilities and must be adequate to meet its financial needs.

State insurance holding company acts generally require domestic insurers to obtain prior approval of extraordinary dividends. Under the insurance holding company acts governing our principal operating subsidiaries, a dividend is considered to be extraordinary if the combined dividends and distributions to the parent holding company in any 12 month period are more than the greater of either the insurer's net income for the prior fiscal year or 10% of its surplus at the end of the prior fiscal year.

If insurance regulators determine that payment of a dividend or any other payments to an affiliate (such as payments under a tax-sharing agreement or payments for employee or other services) would, because of the financial condition of the paying insurance company or otherwise, be a detriment to such insurance company's policyholders, the regulators may prohibit such payments that would otherwise be permitted without prior approval.

Risk-Based Capital

In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners (NAIC) specifies risk-based capital (RBC) requirements for property and casualty insurance companies. At December 31, 2004, all of ProAssurance's insurance subsidiaries exceeded the minimum level and, as a result, no regulatory response or action was required.

Investment Regulation

Our operating subsidiaries are subject to state laws and regulations that require diversification of investment portfolios and that limit the amount of investments in certain investment categories. Failure to comply with these laws and regulations may cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture. We believe that our operating subsidiaries are in compliance with state investment regulations.

Guaranty Funds

Admitted insurance companies are required to be members of guaranty associations which administer state Guaranty Funds. These associations levy assessments (up to prescribed limits) on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the covered lines of business in that state. Maximum assessments permitted by law in any one year generally vary between 1% and 2% of annual premiums written by a member in that state. Some states permit member insurers to recover assessments paid through surcharges on policyholders or through full or partial premium tax offsets, while other states permit recovery of assessments through the rate filing process.

Shared Markets

State insurance regulations may force us to participate in mandatory property and casualty shared market mechanisms or pooling arrangements that provide certain insurance coverage to individuals or other entities that are otherwise unable to purchase such coverage in the commercial insurance marketplace. Our operating subsidiaries' participation in such shared markets or pooling mechanisms is not material to our business at this time.

Legislative and Regulatory Changes

In recent years, the insurance industry has been subject to increased scrutiny by regulators and legislators. The NAIC and a number of state legislatures have considered or adopted legislative proposals that alter and, in many cases, increase the authority of state agencies to regulate insurance companies and insurance holding company systems.

Several of the states in which we operate, notably Ohio and West Virginia, have passed Tort Reform, but these laws have yet to materially affect our business. However, we believe they will be challenged in court and past history tells us that they may be invalidated in the appeals process. Because we cannot predict with any certainty how appellate courts will rule on these laws we do not take them into account in our rate-making assumptions, except in Florida where such credit is required by law.

Legislatures in other states in which we operate are currently considering, or being asked to consider Tort Reform, but we cannot predict in which states those efforts will be successful. In certain states, Tort Reform may also place limits on the ability of medical liability insurers to raise

or maintain rates at adequate levels. We continue to monitor developments on a state-by-state basis, and make business decisions accordingly.

The professional liability market in Florida is also likely to be changed by three constitutional amendments that were approved by voters in November 2004. The first amendment places limits on fees plaintiff attorneys may collect in medical liability cases and could result in fewer malpractice claims being filed.

The second amendment would take away the license of any physician who has three malpractice judgments or adverse findings by a licensing review organization. We believe this could cause physicians to demand settlements in malpractice cases which could generate more lawsuits and drive up costs.

The third amendment gives the public greater rights to see previously confidential state complaints filed against doctors and institutions, incident reports filed after medical errors, and documents from error reviews done by hospitals. This could have a detrimental effect on peer review activities.

All three amendments are being challenged in court and are subject to further legislative interpretation. We are unable to predict how they will affect our business until we know exactly how and when they will be implemented.

There are also Tort Reform proposals being considered at the Federal level. This legislation has the backing of the Bush administration and has repeatedly passed the House of Representatives. The legislation has never been approved in the Senate and while there are more Republicans now serving in the Senate, we do not know if there are enough votes to enact these reforms. As in the states, passage of a federal Tort Reform package would likely be subject to judicial challenge and we cannot be certain that it would be upheld by the courts.

In addition, several committees of Congress have made inquiries and conducted hearings as part of a broad study on the regulation of insurance companies, and legislation has been introduced in several of the past sessions of Congress which, if enacted, could result in the federal government assuming some role in the regulation of the insurance industry. Although the federal government does not regulate the business of insurance directly, federal initiatives often affect the insurance business. Current and proposed federal measures that may significantly affect the insurance business include changes in medical patient protection laws such as the "Patients Bill of Rights", tort reform and environmental laws.

EMPLOYEES

At December 31, 2004, we employed 632 persons. None of our employees are represented by a labor union. We consider our employee relations to be good.

FORWARD-LOOKING STATEMENTS

Any written or oral statements made by us or on our behalf may include forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are identified by words such as, but not limited to, "believe", "expect", "intend", "anticipate", "estimate", "project" and other analogous expressions. Forward-looking statements relating to our business include among other things, statements concerning: liquidity and capital requirements, return on equity, financial ratios, net income, premiums, losses and loss reserves, premium rates and retention of current business, competition and market conditions, the expansion of product lines, the development or acquisition of business in new geographical areas, the availability of acceptable reinsurance, actions by regulators and rating agencies, payment or performance of our obligations under the debentures, payment of dividends, and other matters. In addition, forward-looking statements may also relate to the proposed merger between ProAssurance and NCRIC Group, Inc. as well as the goals, plans, objectives, intentions, expectations, financial condition, results of operations, future performance and business of the combined company including, without limitation, statements relating to the benefits of the merger, such as future financial and operating results, cost savings, enhanced revenues and the accretion to reported earnings that may be realized from the merger and statements regarding certain

of ProAssurance's and/or NCRIC's goals and expectations with respect to earnings, earnings per share, revenue, expenses and the growth rate in such items, as well as other measures of economic performance.

These forward-looking statements are based upon our estimates and anticipation of future events that are subject to certain risks and uncertainties that could cause actual results to vary materially from the expected results described in the forward-looking statements. Due to such risks and uncertainties, you are urged not to place undue reliance on forward-looking statements. All forward-looking statements included in this document are based upon information available to us on the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Risks that could adversely affect our operations or cause actual results to differ materially from anticipated results include, but are not limited to, the following:

- underwriting losses on the risks we insure are higher or lower than expected,
- unexpected changes in loss trends and reserving assumptions which might require the reevaluation of the liability for loss and loss adjustment expenses, thus resulting in an increase or decrease in the liability and a corresponding adjustment to earnings,
- our ability to retain current business, acquire new business, expand product lines and a variety of other factors affecting daily operations such as, but not limited to, economic, legal, competitive and market conditions which may be beyond our control and are thus difficult or impossible to predict,
- changes in the interest rate environment and/or the securities markets that adversely impact the fair value of our investments or our income,
- inability on our part to achieve continued growth through expansion into other states or through acquisitions or business combinations,
- general economic conditions that are worse than anticipated,
- inability on our part to obtain regulatory approval of, or to implement, premium rate increases,
- the effects of weather-related events,
- changes in the legal system, including retroactively applied decisions that affect the frequency and severity of claims,
- significantly increased competition among insurance providers and related pricing weaknesses in some markets,
- changes in the availability, cost, quality or collectibility of reinsurance,
- changes to our ratings by rating agencies,
- regulatory and legislative actions or decisions that adversely affect us, and
- our ability to utilize loss carryforwards and other deferred tax assets.

Risks that could adversely affect our proposed transaction with NCRIC include but are not limited to the following:

- the business of ProAssurance and NCRIC may not be combined successfully, or such combination may take longer to accomplish than expected;
- the cost savings from the merger may not be fully realized or may take longer to realize than expected;
- operating costs, customer loss and business disruption following the merger, including adverse effects on relationships with employees, may be greater than expected;
- governmental approvals of the merger may not be obtained, or adverse regulatory conditions may be imposed in connection with governmental approvals of the merger;
- there may be restrictions on our ability to achieve continued growth through expansion into other states or through acquisitions or business combinations; and
- the stockholders of NCRIC may fail to approve the merger.

GLOSSARY OF SELECTED INSURANCE AND RELATED FINANCIAL TERMS

In an effort to help our investors and other interested parties better understand our report, we are providing a Glossary of Selected Insurance Terms. These definitions are taken from recognized industry sources such as A. M. Best and The Insurance Information Institute. This list is intended to be informative and explanatory, but we do not represent that it is a comprehensive glossary.

Accident year	The accounting period in which an insured event becomes a liability of the insurer.
Admitted company; admitted basis ...	An insurance company licensed and authorized to do business in a particular state. An admitted company doing business in a state is said to operate on "an admitted basis" and is subject to all state insurance laws and regulations pertaining to its operations. (See: Non-admitted company)
Adverse selection	The tendency of those exposed to a higher risk to seek more insurance coverage than those at a lower risk. Insurers react either by charging higher premiums or not insuring at all, as in the case of floods. Adverse selection can be seen as concentrating risk instead of spreading it.
Agent	An individual or firm that represents an insurer under a contractual or employment agreement for the purpose of selling insurance. There are two types of agents: independent agents, who represent one or more insurance companies but are not employed by those companies and are paid on commission, and exclusive or captive agents, who by contract are required to represent or favor only one insurance company and are either salaried or work on commission. Insurance companies that use employee or captive agents are called direct writers. Agents are compensated by the insurance company whose products they sell. By definition, with respect to a given insurer, an agent is not a broker (See: Brokers)
Alternative markets	Mechanisms used to fund self-insurance. This includes captives, which are insurers owned by one or more non-insurers to provide owners with coverage. Risk-retention groups, formed by members of similar professions or businesses to obtain liability insurance, are also a form of self-insurance.
Assets; admitted; non-admitted	Property owned, in this case by an insurance company, including stocks, bonds, and real estate. Because insurance accounting is concerned with solvency and the ability to pay claims, insurance regulators require a conservative valuation of assets, prohibiting insurance companies from listing assets on their balance sheets whose values are uncertain, such as furniture, fixtures, debit balances, and accounts receivable that are more than 90 days past due (these are non-admitted assets). Admitted assets are those assets that can be easily sold in the event of

liquidation or borrowed against, and receivables for which payment can be reasonably anticipated.

Broker	An intermediary between a customer and an insurance company. Brokers typically search the market for coverage appropriate to their clients and they usually sell commercial, not personal, insurance. Brokers are compensated by the insureds on whose behalf they are working. With respect to a given insurer, a broker is not an agent. (See: Agent)
Bulk reserves	Reserves for losses that have occurred but have not been reported as well as anticipated changes to losses on reported claims. Bulk reserves are the difference between (i) the sum of case reserves and paid losses and (ii) an actuarially determined estimate of the total losses necessary for the ultimate settlement of all reported and incurred but not reported claims, including amounts already paid. (See: Case Reserves)
Capacity	For an individual insurer, the maximum amount of premium or risk it can underwrite based on its financial condition. The adequacy of an insurer's capital relative to its exposure to loss is an important measure of solvency.
Capital	Stockholder's equity (for publicly-traded insurance companies) and policyholders' surplus (for mutual insurance companies). Capital adequacy is linked to the riskiness of an insurer's business. (See: Risk-Based Capital, Surplus, Solvency)
Case reserves	Reserves for future losses for reported claims as established by an insurer's claims department.
Casualty insurance	Insurance which is primarily concerned with the losses caused by injuries to third persons (in other words, persons other than the policyholder) and the legal liability imposed on the insured resulting therefrom. (See: Professional liability insurance, Medical professional liability insurance)
Catastrophe	Term used for statistical recording purposes to refer to a single incident or a series of closely related incidents causing severe insured property losses totaling more than a given amount.
Catastrophe Reinsurance	Reinsurance (insurance for insurers) for catastrophic losses.
Cede, cedant; ceding company	When a party reinsures its liability with another, it "cedes" business and is referred to as the "cedant" or "ceding company."
Claims-made policy; coverage	A form of insurance that pays claims presented to the insurer during the term of the policy or within a specific term after its expiration. It limits liability insurers' exposure to unknown future liabilities. Under a claims-made policy, an insured event becomes a liability when the event is first reported to the insurer.

Combined ratio	The sum of the underwriting expense ratio and net loss ratio, determined in accordance with either statutory accounting principles (SAP) or GAAP.
Commission	Fee paid to an agent or insurance salesperson as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer, and the marketing methods.
Direct premiums written	Premiums charged by an insurer for the policies that it underwrites, excluding any premiums that it receives as a reinsurer.
Direct writer(s)	Insurance companies that sell directly to the public using exclusive agents or their own employees.
Domestic insurance company	Term used by a state to refer to any company incorporated there.
Excess & Surplus Lines; Surplus lines	Property/casualty insurance coverage that isn't generally available from insurers licensed in the state (See: Admitted companies) and must be purchased from a "non-admitted company". Examples include risks of an unusual nature that require greater flexibility in policy terms and conditions than exist in standard forms or where the highest rates allowed by state regulators are considered inadequate by admitted companies. Laws governing surplus lines vary by state.
Excess coverage; excess limits	An insurance policy that provides coverage limits above another policy with similar coverage terms, or above a self-insured amount.
Extended Reporting Endorsement.....	Also known as a "tail policy" or "tail premium." Tail coverage provides protection for future claims filed after a claims-made policy has lapsed. Typically requires payment of an additional premium, the "tail premium." "Tail coverage" may also be granted if the insured becomes disabled, dies or permanently retired from the covered occupation (i.e., the practice of medicine in medical liability policies.)
Facultative reinsurance	A generic term describing reinsurance where the reinsurer assumes all or a portion of a single risk. Each risk is separately evaluated and each contract is separately negotiated by the reinsurer.
Frequency	Number of times a loss occurs per unit of risk or exposure. One of the criteria used in calculating premium rates.
Front, fronting	A procedure in which a primary insurer acts as the insurer of record by issuing a policy, but then passes all or virtually all of the risk to a reinsurer in exchange for a commission. Often, the fronting insurer is licensed to do business in a state or country where the risk is located, but the reinsurer is not. The reinsurer in this scenario is often a captive or an independent insurance company that cannot sell insurance directly in a particular country.

Gross premiums written	Total premiums for direct insurance written and assumed reinsurance during a given period. The sum of direct and assumed premiums written.
Guaranty Fund; assessment(s)	The mechanism by which solvent insurers ensure that some of the policyholder and third party claims against insurance companies that fail are paid. Such funds are required in all 50 states, the District of Columbia and Puerto Rico, but the type and amount of claim covered by the fund varies from state to state.
Homeowners insurance	The typical homeowners insurance policy covers the house, the garage and other structures on the property, as well as personal possessions inside the house such as furniture, appliances and clothing, against a wide variety of perils including windstorms, fire and theft. The extent of the perils covered depends on the type of policy. An all-risk policy offers the broadest coverage. This covers all perils except those specifically excluded in the policy.
Incurred but not reported (IBNR) ...	Actuarially estimated reserves for estimated losses that have been incurred by insureds and reinsureds but not yet reported to the insurer or reinsurer including unknown future developments on losses which are known to the insurer or reinsurer. Insurance companies regularly adjust reserves for such losses as new information becomes available.
Incurred losses	Losses covered by the insurer within a fixed period, whether or not adjusted or paid during the same period, plus changes in the estimated value of losses from prior periods.
Insolvent; insolvency	Insurer's inability to pay debts. Typically the first sign of problems is inability to pass the financial tests regulators administer as a routine procedure. (See: Risk-based capital)
Investment income	Income generated by the investment of assets. Insurers have two sources of income, underwriting (premiums less claims and expenses) and investment income.
Liability insurance	A line of casualty insurance for amounts a policyholder is legally obligated to pay because of bodily injury or property damage caused to another person. (See: Casualty insurance, Professional liability insurance, Medical professional liability insurance)
Limits	Maximum amount of insurance that can be paid for a covered loss.
Long-tail; short-tail	The long period of time between collecting the premium for insuring a risk and the ultimate payment of losses. This allows insurance companies to invest the premiums until losses are paid, thus producing a higher level of invested assets and investment income as compared to other lines of property and casualty business. Medical professional liability is considered a

long tail line of insurance. Personal lines is primarily considered a short tail line of insurance due to shorter time periods between insuring the risk and the ultimate payment of claims. As a result, there is less time to invest premiums collected, which makes it necessary to achieve an underwriting profit in order to generate a satisfactory return on equity. (See: Medical professional liability, Professional liability)

Loss adjustment expenses (LAE)	The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.
Loss costs	The portion of an insurance rate used to cover claims and the costs of adjusting claims. Insurance companies typically determine their rates by estimating their future loss costs and adding a provision for expenses, profit, and contingencies.
Loss ratio	Percentage of each premium dollar an insurer spends on claims.
Loss reserves	Liabilities established by insurers and reinsurers to reflect the estimated cost of claims payments and the related expenses that the insurer or reinsurer will ultimately be required to pay in respect of insurance or reinsurance it has written. They represent a liability on the insurer's balance sheet.
Medical professional liability insurance	Insurance against the legal liability of an insured (and against loss, damage or expense incidental to a claim of such liability) arising out of death, injury or disablement of a person as the result of negligent deviation from the standard of care or other misconduct in rendering professional service.
NAIC	The National Association of Insurance Commissioners is the organization of insurance regulators from the 50 states, the District of Columbia and the four U.S. territories. The NAIC provides a forum for the development of uniform policy when uniformity is appropriate.
Net loss ratio	The net loss ratio measures the ratio of net losses to earned premiums determined in accordance with SAP or GAAP.
Net premium earned	The portion of net premium written that is recognized for accounting purposes as income during a particular period. Equal to net premiums written plus the change in net unearned premiums during the period.
Net premiums written	Gross premiums written for a given period less premiums ceded to reinsurers during such period.
Non-admitted company; basis	Insurers licensed in some states, but not others. States where an insurer is not licensed call that insurer "non-admitted." Non-admitted companies sell coverage that is unavailable from licensed insurers within a state and are generally exempt from most state laws and regulations related to rates and

coverages. Policyholders of such companies generally do not have the same degree of consumer protection and financial recourse as policyholders of admitted companies. Non-admitted companies are said to operate on a "non-admitted" basis.

Occurrence policy; coverage.....	Insurance that pays claims arising out of incidents that occur during the policy term, even if they are filed many years later. Under an occurrence policy the insured event becomes a liability when the event takes place.
Operating ratio	The operating ratio is the combined ratio, less the ratio of investment income (exclusive of realized gains and losses) to net earned premiums, if determined in accordance with GAAP. While the combined ratio strictly measures underwriting profitability, the operating ratio incorporates the effect of investment income.
Personal lines insurance	Property and casualty insurance written for an individual and on the personal and real property of an individual such as homeowners insurance and personal automobile insurance.
Policy	A written contract for insurance between an insurance company and policyholder stating details of coverage.
Premium	The price of an insurance policy, typically charged annually or semiannually.
Premiums written	The total premiums on all policies written by an insurer during a specified period of time, regardless of what portions have been earned.
Premium tax	A state tax on premiums for policies issued in the state, paid by insurers.
Primary Company	In a reinsurance transaction, the insurance company that is reinsured.
Professional liability insurance ...	Covers professionals for negligence and errors or omissions that cause injury or economic loss to their clients. (See: Casualty insurance, Liability insurance, Medical professional liability insurance)
Property/casualty insurance	Covers damage to or loss of policyholders' property and legal liability for damages caused to other people or their property.
Rate	The cost of insurance for a specific unit of exposure, such as for one physician. Rates are based on historical loss experience for similar risks and may be regulated by state insurance offices.
Rating agencies	These agencies assess insurers' financial strength and viability to meet claims obligations. Some of the factors considered include company earnings, capital adequacy, operating leverage, liquidity, investment performance, reinsurance programs, and management ability, integrity and experience. A high financial rating is not the same as a high consumer satisfaction rating.

Reinsurance	Insurance bought by insurance companies. In a reinsurance contract the reinsurer agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies. Reinsurers may have their own reinsurers, called retrocessionaires. Reinsurers don't pay policyholder claims. Instead, they reimburse insurers for claims paid.
Reinsured layer; retained layer ...	The retained layer is the cumulative portion of each loss, on a per-claim basis, which is less than an insurer's reinsurance retention for a given coverage year. Likewise, the reinsured layer is the cumulative portion of each loss that exceeds the reinsurance retention. (See: Reinsurance, Retention)
Reserves	A company's best estimate of what it will pay, at some point in the future, for claims for which it is currently responsible.
Retention	The amount or portion of risk that an insurer retains for its own account. Losses in excess of the retention level up to the outer limit, if any, are paid by the reinsurer. In proportional treaties, the retention may be a percentage of the original policy's limit. In excess of loss business, the retention is a dollar amount of loss, a loss ratio or a percentage.
Risk-Based Capital (RBC)	A regulatory measure of the amount of capital required for an insurance company, based upon the volume and inherent riskiness of the insurance sold, the composition of its investment portfolio and other financial risk factors. Higher-risk types of insurance, liability as opposed to property business, generally necessitate higher levels of capital. The NAIC's RBC model law stipulates four levels of regulatory action with the degree of regulatory intervention increasing as the level of surplus falls below a minimum amount as determined under the model law. (See: NAIC)
Risk management	Management of the varied risks to which a business firm or association might be subject. It includes analyzing all exposures to gauge the likelihood of loss and choosing options to better manage or minimize loss. These options typically include reducing and eliminating the risk with safety measures, buying insurance, and self-insurance.
Self-insurance	The concept of assuming a financial risk oneself, instead of paying an insurance company to take it on. Every policyholder is a self-insurer in terms of paying a deductible and co-payments. Larger policyholders often self-insure frequent or predictable losses to avoid insurance overhead expenses.
Severity	The average claim cost, statistically determined by dividing dollars of losses by the number of claims.

Solvent, solvency	Insurance companies' ability to pay the claims of policyholders. Regulations to promote solvency include minimum capital and surplus requirements, statutory accounting conventions, limits to insurance company investment and corporate activities, financial ratio tests, and financial data disclosure.
Statutory Accounting Principles; SAP	More conservative standards than under GAAP accounting rules, they are imposed by state laws that emphasize the present solvency of insurance companies. SAP helps ensure that the company will have sufficient funds readily available to meet all anticipated insurance obligations by recognizing liabilities earlier or at a higher value than GAAP and assets later or at a lower value. For example, SAP requires that selling expenses be recorded immediately rather than amortized over the life of the policy. (See: Generally Accepted Accounting Principles, Admitted assets)
Surplus; statutory surplus	The excess of admitted assets over total liabilities (including loss reserves) that protects policyholders in case of unexpectedly high claims. "Statutory Surplus" is determined in accordance with Statutory Accounting Principles.
Tail	The period of time that elapses between the occurrence of the loss event and the payment in respect thereof.
Third-party coverage	Liability coverage purchased by the policyholder as a protection against possible lawsuits filed by a third party. The insured and the insurer are the first and second parties to the insurance contract.
Treaty reinsurance	The reinsurance of a specified type or category of risks defined in a reinsurance agreement (a "treaty") between a primary insurer or other reinsured and a reinsurer. Typically, in treaty reinsurance, the primary insurer or reinsured is obligated to offer and the reinsurer is obligated to accept a specified portion of all such type or category of risks originally written by the primary insurer or reinsured.
Umbrella coverage	Insurance protection for all classes of business, including automobile, fire, general liability, homeowners, multiple peril, burglary, and glass, combining the coverages for these classes of business into one insurance contract. Typically provides coverage limits in excess of other insurance policies.
Underwriting	The insurer's or reinsurer's process of reviewing applications submitted for insurance coverage, deciding whether to accept all or part of the coverage requested and determining the applicable premiums.
Underwriting expense ratio	The ratio of underwriting, acquisition and other insurance expenses incurred to net premiums earned (for statutory purposes, the ratio of underwriting expenses incurred to net premiums written.)

Underwriting expenses	The aggregate of policy acquisition costs, including commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting income; loss	The insurer's profit on the insurance sale after all expenses and losses have been paid, before investment income or income taxes. When premiums aren't sufficient to cover claims and expenses, the result is an "underwriting loss."
Underwriting profit	The amount by which net earned premiums exceed Underwriting Income; the sum of losses, loss adjustment expenses and underwriting expenses (See: Underwriting Income)
Unearned premium	The portion of premium that represents the consideration for the assumption of risk in the future. Such premium is not yet earned since the risk has not yet been assumed. May also be defined as the pro-rata portion of written premiums that would be returned to policyholders if all policies were terminated by the insurer on a given date.

ITEM 2. PROPERTIES

We own a 156,000 square foot office building located in Birmingham, Alabama where we currently occupy approximately 78,000 square feet. The remaining office space is leased to unaffiliated persons or is available to be leased. We also own a 53,000 square foot office building in Okemos, Michigan that we fully occupy. Both buildings are currently unencumbered. MEEMIC leases its corporate offices in Auburn Hills, Michigan. In 2005 MEEMIC plans to begin construction of new corporate offices on an 11.5-acre vacant parcel of land currently owned in Auburn Hills, Michigan. We lease other office facilities in various locations and lease computer and operating equipment under cancelable and non-cancelable agreements.

ITEM 3. LEGAL PROCEEDINGS

Our insurance subsidiaries are involved in various legal actions, a substantial number of which arise from claims made under insurance policies. While the outcome of all legal actions is not presently determinable, management and its legal counsel are of the opinion that these actions will not have a material adverse effect on our financial position or results of operations.

See Note 8 to our Consolidated Financial Statements included herein.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF PROASSURANCE CORPORATION

The executive officers of ProAssurance serve at the pleasure of the Board of Directors.

Our senior management team is led by A. Derrill Crowe, M.D., our Chairman and Chief Executive Officer, and Victor T. Adamo, Esq., our President and Chief Operating Officer. Dr. Crowe (Age 68) has acted as the Chief Executive Officer of Medical Assurance since its founding in 1977. He has applied a hands-on management style in developing our underwriting and claims strategies and was instrumental in establishing us as a leading professional liability specialist. Mr. Adamo (Age 57) has held various positions with Professionals Group since 1985, becoming its CEO in 1987 and being named President in 1989. He is largely responsible for building Professionals Group into a successful regional professional liability company.

Dr. Crowe practiced medicine as his principal occupation for more than 25 years and Mr. Adamo was in the private practice of law for 10 years, providing them with knowledge of medical and legal issues that are critical to our insurance operations. We also have a knowledgeable and experienced management team with established track records in building and managing successful insurance operations. In total, our senior management team has average experience in the insurance industry of 22 years.

Here are the other executive officers of ProAssurance and a brief description of their principal occupation and employment during the last five years.

PAUL R. BUTRUS	Mr. Butrus has served as our Vice Chairman and a director of ProAssurance since we began operations in June 2001. Mr. Butrus has been Executive Vice President and a director of Medical Assurance since its incorporation in 1995. Mr. Butrus has been employed by Medical Assurance Company and its subsidiaries since 1977. (Age 64)
----------------	---

HOWARD H. FRIEDMAN Mr. Friedman was appointed as our Senior Vice President, Chief Financial Officer, and Secretary in June 2001. Mr. Friedman has served in a number of positions for Medical Assurance since 1996, most recently as Senior Vice President, Corporate Development of Medical Assurance. Mr. Friedman is an Associate of the Casualty Actuarial Society. He also serves as a director of MEEMIC. (Age 46)

JAMES J. MORELLO Mr. Morello was appointed as our Senior Vice President, Chief Accounting Officer and Treasurer in June 2001. Mr. Morello has been Senior Vice President and Treasurer for Medical Assurance since its formation in 1995. Mr. Morello has been employed as Treasurer and Chief Financial Officer of Medical Assurance Company since 1984. He also serves as a director of Medical Assurance's insurance subsidiaries and as treasurer for ProNational. Mr. Morello is a certified public accountant. (Age 56)

FRANK B. O'NEIL Mr. O'Neil was appointed as our Senior Vice President of Corporate Communications and Investor Relations in September 2001. Mr. O'Neil has been Senior Vice President of Corporate Communications for Medical Assurance since 1997 and employed by Medical Assurance Company and its subsidiaries since 1987. (Age 51)

EDWARD L. RAND Mr. Rand was appointed as our Senior Vice President of Finance in November 2004. Prior to joining ProAssurance Mr. Rand was the Chief Accounting Officer and Head of Corporate Finance for PartnerRe Ltd. Prior to that time Mr. Rand served as the Chief Financial Officer of Atlantic American Corporation. (Age 38)

LYNN M. KALINOWSKI Mr. Kalinowski has been President of MEEMIC Holdings and MEEMIC since September 2001. Mr. Kalinowski previously served as President of MEEMIC from January 1993 to May 1997 and as Executive Vice President of MEEMIC from May 1997 to September 2001. Prior to joining MEEMIC in 1993, Mr. Kalinowski was the President of Southern Michigan Mutual Insurance Company and previously served as Director of Financial Analysis for the Michigan Insurance Bureau (now the State of Michigan Office of Financial and Insurance Services). Mr. Kalinowski has been a director of MEEMIC Holdings since 1998. (Age 53)

ProAssurance has adopted a code of ethics that applies to its directors and executive officers, including its principal executive officers, principal financial officer, and principal accounting officer. See Item 1 for information regarding the availability of the Code of Ethics.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

At March 2, 2005, ProAssurance Corporation (PRA) had 3,535 stockholders of record and 29,205,007 shares of common stock outstanding. ProAssurance's common stock currently trades on The New York Stock Exchange (NYSE) under the symbol "PRA".

Quarter	2004		2003	
	HIGH	LOW	High	Low
First	\$35.00	\$30.33	\$23.92	\$20.69
Second	37.42	32.83	30.50	23.40
Third	35.20	30.20	28.90	24.50
Fourth	40.57	33.48	32.97	26.86

ProAssurance has not paid any cash dividends on its common stock and does not currently have a policy to pay regular dividends.

ProAssurance's insurance subsidiaries are subject to restrictions on the payment of dividends to the parent. Information regarding restrictions on the ability of the insurance subsidiaries to pay dividends is incorporated by reference from the paragraphs under the caption "Insurance Regulatory Matters-Regulation of Dividends and Other Payments from Our Operating Subsidiaries" in Item 1 on page 11 of this 10-K.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA (1)	Year ended December 31				
	2004	2003	2002	2001	2000
	(In thousands except per share data)				
Gross premiums written	\$ 789,660	\$ 740,110	\$ 636,156	\$ 388,983	\$ 223,871
Net premiums written	717,059	668,909	537,123	310,291	194,279
Premiums earned	765,643	698,347	576,414	381,510	216,297
Premiums ceded	(69,623)	(74,833)	(99,006)	(68,165)	(38,701)
Net premiums earned	696,020	623,514	477,408	313,345	177,596
Net investment income	87,225	73,619	76,918	59,782	41,450
Net realized investment gains (losses)	7,609	5,992	(5,306)	5,441	913
Other income	3,699	6,515	6,747	3,987	2,630
Total revenues	794,553	709,640	555,767	382,555	222,589
Net losses and loss adjustment expenses	572,881	551,376	448,029	298,558	155,710
Income before cumulative effect of accounting change	72,811	38,703	10,513	12,450	24,300
Net income (2)	72,811	38,703	12,207	12,450	24,300
Income per share before cumulative effect of accounting change (3)					
Basic	\$ 2.50	\$ 1.34	\$ 0.40	\$ 0.51	\$ 1.04
Diluted	\$ 2.37	\$ 1.32	\$ 0.39	\$ 0.51	\$ 1.04
Net income per share: (2) (3)					
Basic	\$ 2.50	\$ 1.34	\$ 0.47	\$ 0.51	\$ 1.04
Diluted	\$ 2.37	\$ 1.32	\$ 0.46	\$ 0.51	\$ 1.04
Weighted average number of shares outstanding: (3)					
Basic	29,164	28,956	26,231	24,263	23,291
Diluted	31,984	30,389	26,254	24,267	23,291
BALANCE SHEET DATA (as of December 31)					
Total investments	\$2,455,053	\$2,055,672	\$1,679,497	\$1,521,279	\$ 796,526
Total assets	3,239,198	2,879,352	2,586,650	2,238,325	1,122,836
Reserve for losses and loss adjustment expenses	2,029,592	1,814,584	1,622,468	1,442,341	659,659
Long-term debt	151,480	104,789	72,500	82,500	-
Total liabilities	2,628,179	2,333,047	2,055,086	1,802,606	777,669
Total capital	611,019	546,305	505,194	413,231	345,167
Total capital per share of common stock outstanding	\$ 20.92	\$ 18.77	\$ 17.49	\$ 16.02	\$ 15.22
Common stock outstanding at end of year	29,204	29,105	28,877	25,789	22,682

(1) Includes Professionals Group since the date of consolidation, June 27, 2001.

(2) Net income for the year ended December 31, 2002 was increased by \$1.7 million due to the adoption of SFAS 141 and 142. See Note 13 to our consolidated financial statements. In accordance with SFAS 142, we wrote off the unamortized balance of deferred credits that related to business combinations completed prior to July 1, 2001. The cumulative effect increased net income per share (basic and diluted) by \$0.07 per share.

(3) Diluted net income per share for 2003 has been restated to reflect implementation of Emerging Issues Task Force 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share". The restatement reduced previously reported diluted net income per share by \$0.01.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements appearing elsewhere in this report. Throughout the discussion, references to ProAssurance, "we," "us" and "our" refers to ProAssurance Corporation and its subsidiaries. The discussion contains certain forward-looking information that involves risks and uncertainties. As discussed under "Forward-Looking Statements," our actual financial condition and operating results could differ significantly from these forward-looking statements.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Preparation of these financial statements requires us to make estimates and assumptions in certain circumstances that affect the amounts reported in our consolidated financial statements and related footnotes. We evaluate these estimates and assumptions on an on-going basis based on historical developments, market conditions, industry trends and other information that we believe to be reasonable under the circumstances. There can be no assurance that actual results will conform to our estimates and assumptions, and that reported results of operations will not be materially affected by the need to make accounting adjustments reflecting changes in these estimates and assumptions. Management considers an accounting policy to be critical if it involves significant judgment by management and if the effect of those judgments could result in a material effect on the financial statements.

We believe the following critical accounting policies used in the preparation of the consolidated financial statements are the most sensitive to estimates and judgments.

Reserve for Losses and Loss Adjustment Expenses (reserve for losses)

Our reserve for losses represents our estimate of the future amounts necessary to pay claims and expenses associated with the investigation and settlement of claims. These estimates consist of case reserves and bulk reserves. The estimates take into consideration our past loss experience, available industry data and projections as to future claims frequency, severity, inflationary trends and settlement patterns. Independent actuaries review our reserves for losses each year and prepare reports that include recommendations as to the level of reserves. We consider these recommendations as well as other factors, such as known, anticipated or estimated changes in frequency and severity of claims and loss retention levels and premium rates, in establishing the amount of our reserves for losses. Estimating casualty insurance reserves, and particularly professional liability reserves, is a complex process. These claims are typically resolved over an extended period of time, often five years or more, and estimating loss costs for these claims requires multiple judgments involving many uncertainties. Our reserve estimates may vary significantly from the eventual outcome. The assumptions used in establishing our reserves are regularly reviewed and updated by management as new data becomes available. Any adjustments necessary are reflected in then current operations. Due to the size of our reserves, even a small percentage adjustment to these estimates could have a material effect on our results of operations for the period in which the adjustment is made. See the discussion under "Overview" in this section for a history of our loss reserve development.

Reinsurance

Our receivable from reinsurers represents our estimate of the amount of our future loss payments that will be recoverable from our reinsurers. These estimates are based upon our estimates of the ultimate losses that we expect to incur and the portion of those losses that we expect to be allocable to reinsurers based upon the terms of our reinsurance agreements. We also estimate premiums ceded under reinsurance agreements wherein the premium due to the reinsurer, subject to certain maximums and minimums, is a percentage of the losses reimbursed under the agreement. Given the uncertainty of the ultimate amounts of our losses, these estimates may vary significantly from the eventual outcome. Our estimates of the amounts receivable from and payable to reinsurers are regularly reviewed and updated by management as new data becomes available. Our assessment of the collectibility of the

recorded amounts receivable from reinsurers is based primarily upon public financial statements and rating agency data. Any adjustments necessary are reflected in then current operations. Due to the size of our receivable from reinsurers, even a small adjustment to these estimates could have a material effect on our results of operations for the period in which the adjustment is made. At December 31, 2004, we considered all of our receivables from reinsurers to be collectible.

Investments

We consider our fixed maturity securities as available-for-sale and our equity securities as either available-for-sale or trading portfolio securities. Both available-for-sale and trading portfolio securities are carried at fair value. Positive and negative changes in the market value (unrealized gains and losses) of available-for-sale securities are included, net of the related tax effect, in accumulated comprehensive income, a component of stockholders' equity, and are excluded from current period net income. Positive and negative changes in the market value of trading portfolio securities are included in current period net income as a component of net realized investment gains (losses).

We evaluate the securities in our available-for-sale investment portfolio on at least a quarterly basis for declines in market value below cost for the purpose of determining whether these declines represent other than temporary declines. Some of the factors we consider in the evaluation of our investments are:

- the extent to which the market value of the security is less than its cost basis,
- the length of time for which the market value of the security has been less than its cost basis,
- the financial condition and near-term prospects of the security's issuer, taking into consideration the economic prospects of the issuer's industry and geographical region, to the extent that information is publicly available, and
- our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

A decline in the fair value of an available-for-sale security below cost that we judge to be other than temporary is realized as a loss in the current period income statement and reduces the cost basis of the security. In subsequent periods, we base any measurement of gain or loss or decline in value upon the adjusted cost basis of the security.

Deferred Policy Acquisition Costs

Policy acquisition costs, primarily commissions, premium taxes and underwriting salaries, vary directly with, and are primarily related to, the acquisition of new and renewal premiums. Such costs are capitalized and charged to expense as the related premium revenue is recognized. We evaluate the recoverability of our deferred policy acquisition costs based on our estimates of the profitability of the underlying business and any amounts estimated to be unrecoverable are charged to expense in the current period.

Goodwill

In accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" we make an annual assessment by reporting unit as to whether the value of our goodwill assets is impaired. We completed such assessments in 2004 and 2003 and concluded that the value of our goodwill assets of approximately \$23.7 million was not impaired. We use both market-based valuation models and a capital assets pricing model to estimate the fair value of each reporting unit. These models require the use of numerous assumptions regarding market perceptions of value as related to our consolidated and reporting unit historical and projected operating results and those of other economically similar entities. Changes to these assumptions could significantly lower our estimates of fair value and result in a determination that goodwill has suffered impairment in value.

LIQUIDITY AND CAPITAL RESOURCES AND FINANCIAL CONDITION

ProAssurance Corporation is a legal entity separate and distinct from its subsidiaries. Because the parent holding company has no other business operations, dividends from its operating subsidiaries represent a significant source of funds for its obligations, including debt service. The ability of those insurance subsidiaries to pay dividends is subject to limitation by state insurance regulations. See our discussions under "Regulation of Dividends...from Our Operating Subsidiaries" in Part I, and in Note 16 of our Notes to the Consolidated Financial Statements for additional information regarding dividend limitations.

Within our operating subsidiaries our primary need for liquid funds is to pay losses and operating expenses in the ordinary course of business. Our operating activities provided positive cash flow of \$373.5 million for the year ended December 31, 2004 as compared to \$282.8 million for the year ended December 31, 2003. As in the prior year, the primary sources of our operating cash flows are net investment income and the excess of premiums collected over paid net losses and operating costs. Timing delays exist between the collection of premiums and the payment of losses, particularly so with regard to our professional liability premiums. A general measure of this timing delay is the paid loss ratio, which is computed by dividing paid losses for the year by net earned premium. Our paid loss ratios for the years ended December 31, 2004 and 2003 are 46% and 55%, respectively. This timing delay is more evident in periods of premium growth, regardless of whether that growth is the result of additional business or rate increases.

We believe that premium adequacy is critical to our long-term liquidity. We continually review rates and submit requests for rate increases to state insurance departments as we consider necessary to maintain rate adequacy. We are unable to predict whether we will continue to receive approval for our rate filings.

We held cash and cash equivalents of approximately \$30.1 million at December 31, 2004 as compared to \$42.0 million at December 31, 2003. We transfer most of the cash generated from operations into our investment portfolio.

We primarily invest in fixed maturity securities and in 2004 our investment in fixed maturity securities grew by \$467.2 million or 26%. The growth is primarily due to the investment of funds generated from operations, but also includes net proceeds of \$44.9 million from the sale of trust preferred securities having a face value of \$46.4 million, and funds transferred to fixed maturities from short-term investments, cash and cash equivalents. Offsetting these increases is a \$14.9 million decline in fixed maturity unrealized gains.

Substantially all of our fixed maturities are either United States government agency obligations or investment grade securities as determined by national rating agencies. The fixed maturity securities in our investment portfolio had a dollar weighted average rating of "AA" at December 31, 2004. Our investment policies implement an asset allocation that uses length to maturity as one method of managing our long-term rate of return. The weighted average modified duration of our fixed maturity securities at December 31, 2004 is 3.81 years. Changes in market interest rate levels generally affect our net income to the extent that reinvestment yields are different than the original yields on maturing securities. Additionally, changes in market interest rates may also affect the fair value of our fixed maturity securities. Net unrealized gains related to our available-for-sale securities decreased by \$15.4 million at December 31, 2004 as compared to December 31, 2003 primarily because average bond yields increased and prices declined during 2004.

At December 31, 2004, equity investments represented approximately 1.6% of our total investments, and approximately 6.4% of our capital. Our equity investments are diversified primarily among domestic growth and value holdings through common and preferred stock.

For a more detailed discussion of the effect of changes in interest rates on our investment portfolio see "Item 7A Quantitative and Qualitative Disclosures about Market Risk."

At December 31, 2004 our receivable from reinsurers approximated \$409 million. The following table identifies our reinsurers from which our recoverables (net of amounts due to the reinsurer) are \$10 million or more as of December 31, 2004:

Reinsurer -----	A. M. Best Company Rating -----	Net Amounts Due From Reinsurer -----
Michigan Catastrophic Claims Association *	Not rated	\$115,126
Hannover Ruckversicherung AG	A	\$ 50,544
General Reinsurance Corp	A++	\$ 31,059
PMA Capital Insurance Company	B+	\$ 23,196
American Re-Insurance Company	A	\$ 13,960
Lloyd's Syndicate 435	A	\$ 12,556
AXA Re	A-	\$ 11,582
Dorinco Reinsurance Company	A-	\$ 10,744

* The Michigan Catastrophic Claims Association (MCCA) is an unincorporated nonprofit association created by Michigan law, and every insurer engaged in writing personal protection auto insurance coverage in Michigan is required to be a member of the MCCA. Although the MCCA acts in the same manner as a reinsurer, it is not an insurance company and hence is not rated by A.M. Best.

We have not experienced any difficulties in collecting amounts due from reinsurers due to the financial condition of the reinsurer. Should future events lead us to believe that any reinsurer is unable to meet its obligations to us, adjustments to the amounts recoverable would be reflected in the results of current operations.

As our premiums have grown, so has our need for capital to support our insurance operations and maintain our ratings. In recent years, we have taken actions to obtain additional capital for general corporate purposes, including supporting growth by our insurance subsidiaries.

In late 2002, we raised \$46.5 million through the sale of our common stock in an underwritten public offering. In July 2003 we received \$104.6 million from the issuance of twenty-year 3.9% Convertible Debentures Due June 2023 (the Convertible Debentures); and in April and May 2004, we received net proceeds of \$44.9 million from the sale of trust preferred securities having a face value of \$46.4 million. See note 10 of the Notes to the Consolidated Financial Statements included herein for a more detailed description of the Convertible Debentures and the Trust Preferred Subordinated Debentures. During the three year period ended December 31, 2004, we repaid bank debt of \$67.5 million and contributed \$39.8 million on a net basis to our insurance subsidiaries.

We have on file a universal shelf registration statement with the Securities and Exchange Commission (SEC) that would allow us to offer from time-to-time up to \$250 million in common stock, preferred stock or debt securities. We may sell any class of the registered securities or combinations thereof in one or more separate offerings at a total price up to the amount registered with the amount, price and terms of the securities sold in each offering to be determined at the time of sale. Our ability to sell any of these securities will depend in part on our ability to continue profitable operations and maintain the credit ratings assigned to us by A.M. Best and Standard & Poor's. Any sale would require us to file a supplemental prospectus that specifies the terms of the securities to be sold. If securities are sold, we expect that the net proceeds will be used for general corporate purposes, which may include contributions to the capital and surplus of our subsidiaries, the repurchase of outstanding debt securities, or the repayment of other indebtedness.

Off Balance Sheet Arrangements /Guarantees

In April and May 2004, we formed two business trusts (the Trusts) with the sole purpose of the Trusts being to issue, in private placement transactions, \$45.0 million of trust preferred stock (TPS), and use the proceeds thereof; together with the equity proceeds that we contributed upon formation of the Trusts, to purchase our \$46.4 million variable rate subordinated debentures (Trust Preferred Subordinated Debentures or Subordinated Debentures), which are the only assets of the Trusts. The terms and maturities of the Subordinated Debentures mirror those of the TPS. The Trusts will meet the obligations of the TPS with the interest and principal we pay to the Trusts related to the Subordinated Debentures.

In accordance with the guidance given in Financial Accounting Standards Board Interpretation No. 46R, "Variable Interest Entities" (FIN 46R) the Trusts are not included in our consolidated financial statements because we are not the primary beneficiary of either of the Trusts.

The Subordinated Debentures are payable to the Trusts and are included in our condensed consolidated financial statements as long-term debt. We have issued guarantees that amounts paid to the Trusts related to the Subordinated Debentures will subsequently be remitted to the holders of the TPS. The amounts guaranteed are not expected to at any time exceed our obligations under the Subordinated Debentures, and we have not recorded any additional liability related to the TPS or the guarantee.

Contractual Obligations

A schedule of our non-cancelable contractual obligations at December 31, 2004 follows:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	In thousands				
Long-term debt obligations	\$151,480	\$ --	\$ --	\$ --	\$151,480
Operating lease obligations	8,723	3,786	3,880	936	121
Total	\$160,203	\$3,786	\$3,880	\$936	\$151,601
	=====	=====	=====	=====	=====

Our long-term debt obligations above include the repayment of principal on our Convertible Debentures and our Subordinated Debentures. Our operating lease obligations are primarily for the rental of office space, office equipment, and communications lines and equipment.

OVERVIEW

We are an insurance holding company and our operating results are almost entirely derived from the operations of our insurance subsidiaries. In 2004, the professional liability segment contributed approximately 75% of our total revenues and the personal lines segment contributed approximately 25% of total revenues. ProAssurance's professional liability segment primarily provides medical professional liability insurance to physicians and physician groups. The personal lines segment primarily provides auto insurance to members of the Michigan educational community and their families.

Corporate Strategy

We emphasize disciplined underwriting and do not manage our business to achieve a certain level of premium growth or market share. In our professional liability business, we apply our local knowledge to individual risk selection, and determine the appropriate price based on our assessment of the specific characteristics of each risk. In our personal lines business, we target the educational community, which we believe provides a preferred, stable and predictable group of risks.

In addition to prudent risk selection, we seek to control our underwriting results through effective claims management. We investigate each professional liability claim and have fostered a strong culture of aggressively defending those claims that we believe have no merit. We manage these claims at the local level, tailoring claims handling to the legal climate of each state, which we believe differentiates us from

national writers. In our personal lines business, we seek to quickly and efficiently resolve claims through an established network of auto repair shops and other repair facilities, focusing on minimizing the cost of handling each claim.

By concentrating on specialty markets where customers have specialized needs, we seek to provide value added solutions through our underwriting expertise and our emphasis on strong customer service. Through our regional underwriting and claims office structure, we are able to gain a strong understanding of local market conditions and efficiently adapt our underwriting and claims strategies to regional conditions. Our regional presence also allows us to maintain active relationships with our customers and be more responsive to their needs. We believe these factors have allowed us to establish a leading position in our markets, enabling us to compete on a basis other than just price. We also believe that our presence in local markets allows us to monitor and understand changes in the liability climate and thus develop better business strategies in a more timely manner than our competitors.

Our goal is to build upon our position as a leading writer of professional liability and personal lines insurance and expand within a defined geographic area, while maintaining our commitment to disciplined underwriting and aggressive claims management. According to A.M. Best, based on 2003 data we are the 4th largest active medical liability insurance writer in the nation, and we believe we are the largest medical liability writer in our collective states of operation. We believe that our strong reputation in our regional markets, combined with our financial strength, strong customer service and proven ability to manage claims, should enable us to profitably expand our position in select states. In our personal lines business, we estimate that we currently insure approximately 17% of the educational community (active and retired teaching professionals and service employees) in Michigan. We expect to increase our penetration of the educational community by appointing additional agents and broadening our existing relationships with educational institutions and their employees.

We have successfully acquired and integrated companies and books of business in the past and believe our financial size and strength make us an attractive acquirer. The current professional liability climate may also provide us with the opportunity to undertake additional mergers or acquisitions of companies or books of business within or adjacent to, our states of operation. We continually evaluate these opportunities to leverage our core underwriting and claims expertise.

We have sustained our financial stability during difficult market conditions through responsible pricing and loss reserving practices. We are committed to maintaining prudent operating and financial leverage and conservatively investing our assets. We recognize the importance that our customers and producers place on the strong ratings of our principal insurance subsidiaries and we intend to manage our business to protect our financial security.

Growth Opportunities and Outlook

We expect our future growth in professional liability will be supported by controlled expansion in states where we are already writing business and into additional states within, or adjacent to, our existing business footprint. We also believe there may be additional opportunities for profitable expansion of our professional liability business as insurers continue experiencing financial difficulties, requiring them to reduce their business or completely exit the marketplace. This may also lead to opportunities to expand through the acquisition of other companies or books of business.

We believe we are viewed as a market leader because of our financial strength and stability, and our ability to deliver excellent service at the local level. Our reputation allows us to take advantage of marketing conditions that are improving as price increases are implemented and earned. Our stability also makes us an attractive insurer in light of the highly publicized insolvencies in our industry, as well as the regulatory actions taken against several former competitors.

In 2004 and 2003, our professional liability segment achieved average gross price increases of approximately 19% and 28%, respectively, on renewal business (weighted by premium volume). In 2005 we expect professional liability pricing to continue to increase, albeit at a much slower pace. We believe our balance sheet strength will continue to be a differentiating factor in the market. Additionally, we plan to appoint new agents in underserved areas in the states where we write business and we believe that will bring us additional business as well.

In the personal lines segment, our strong capitalization provides operational flexibility allowing growth and expansion in Michigan and adjacent states.

We believe we can take advantage of growth opportunities in both segments while continuing to maintain our combined ratio. As with all property and casualty companies, we expect the beneficial impact of price increases to be fully reflected in our financial results over time as premiums written at the higher prices are earned which generally occurs over the course of the year after the policy is issued.

Losses and Reinsurance

Losses are the largest component of expense for both the professional liability segment and the personal lines segment. As discussed in critical accounting policies, net losses in any period reflect our estimate of net losses related to the premiums earned in that period as well as any changes to our estimates of the reserve established for net losses of prior periods.

The estimation of medical professional liability losses is inherently difficult. Injuries may not be discovered until years after an incident, or the claimant may delay pursuing the recovery of damages. Ultimate loss costs, even for similar events, vary significantly depending upon many factors, including but not limited to the nature of the injury and the personal situation of the claimant or the claimants' family, the judicial climate where the insured event occurred, general economic conditions and the trend of health care costs. Medical liability claims are typically resolved over an extended period of time, often five years or more. The combination of changing conditions and the extended time required for claim resolution results in a loss cost estimation process that requires actuarial skill and the application of judgment, and such estimates require periodic revision.

Losses for the personal lines segment primarily result from property claims. Such claims are typically settled and paid without litigation within one year after the claim is reported. The personal lines segment also incurs losses due to personal liability claims. Personal liability losses more closely resemble medical professional liability losses and are more complex to estimate. Injuries and their severity are subject to litigation and may take some years to determine.

Due to the size of our reserves, even a small percentage adjustment can have a material effect on our results of operations for the period in which the change is made.

We use reinsurance to provide capacity to write large limits of liability, to reduce losses of a catastrophic nature and to stabilize underwriting results in those years in which such losses occur. The purchase of reinsurance does not relieve us from the ultimate risk on our policies, but it does provide reimbursement from the reinsurer for certain losses paid by us.

We reinsure professional liability risks under treaties pursuant to which the reinsurer agrees to assume all or a portion of all risks that we insure above our individual risk retention of \$1 million per claim, up to the maximum individual limit offered (currently \$16 million). Historically, per claim retention levels have varied between the first \$200,000 and the first \$2 million depending on the coverage year and the state in which business was written. Periodically, we provide insurance to policyholders above the maximum limits of our primary reinsurance treaties. In those situations, we reinsure the excess risk above the limits of our reinsurance treaties on a facultative basis, whereby the reinsurer agrees to insure a particular risk up to a designated limit.

We currently reinsure our personal lines risks in excess of \$250,000 per loss. Individual property risks are covered up to \$1 million per risk and casualty risks are covered on an excess of loss basis up to \$3 million per occurrence. As a member of the MCCA, we receive coverage for auto personal liability losses in excess of \$350,000 per loss. The MCCA charges an annual assessment, based on the number of vehicles for which coverage is written, to cover the losses reported by all member companies. Michigan law provides that the MCCA assessments charged to member companies for this protection can be recognized in the rate-making process and passed on to policyholders. We treat any amounts due from the MCCA as reinsurance and the assessments due to MCCA as ceded premiums. Our personal lines segment is further covered by catastrophe reinsurance which provides additional protection from significant aggregate physical damage exposure arising from a single event such as windstorm, hail, tornado, earthquake, riot, blizzard, freezing temperatures or other extraordinary events. Our catastrophe coverage is up to \$34.5 million in excess of \$1.5 million subject to retention of 5%. We also cede 95% of our umbrella policy liabilities under a quota share reinsurance arrangement.

Our risk retention level is dependent upon numerous factors including the price and availability of reinsurance, volume of business, level of experience, our analysis of the potential underwriting results within each state and our assessment of our financial capacity to assume greater risk. Our 2004-2005 reinsurance treaties renewed with minimal change in terms or conditions from the prior year. We have structured the program to include a broader participation of reinsurers to further diversify our credit risk.

The following table, known as the Loss Reserve Development Table, presents information over the preceding ten years regarding the payment of our losses as well as changes to (the development of) our estimates of losses during that time period.

The table includes losses on both a direct and an assumed basis and is net of reinsurance recoverables. The gross liability for losses before reinsurance, as shown on the balance sheet, and the reconciliation of that gross liability to amounts net of reinsurance are reflected below the table. We do not discount our reserves to present value. Information presented in the table is cumulative and, accordingly, each amount includes the effects of all changes in amounts for prior years. The table presents the development of our balance sheet reserves; it does not present accident year or policy year development data. Conditions and trends that have affected the development of liabilities in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table.

The following may be helpful in understanding the Loss Reserve Development Table:

- The line entitled "Reserve for losses, undiscounted and net of reinsurance recoverables" reflects the Company's reserve for losses and loss adjustment expense, less the receivables from reinsurers, each as showing in the Company's consolidated financial statements at the end of each year (the Balance Sheet Reserves).
- The section entitled "Cumulative net paid, as of" reflects the cumulative amounts paid as of the end of each succeeding year with respect to the previously recorded Balance Sheet Reserves.
- The section entitled "Re-estimated net liability as of" reflects the re-estimated amount of the liability previously recorded as Balance Sheet Reserves that includes the cumulative amounts paid and an estimate of additional liability based upon claims experience as of the end of each succeeding year (the Net Re-estimated Liability).
- The line entitled "Net cumulative redundancy (deficiency)" reflects the difference between the previously recorded Balance Sheet Reserve for each applicable year and the Net Re-estimated Liability relating thereto as of the end of the most recent fiscal year.

ANALYSIS OF LOSSES AND LOSS RESERVE DEVELOPMENT
(IN THOUSANDS)

	DECEMBER 31,					
	1994	1995	1996	1997	1998	1999
Reserve for losses, undiscounted and net of reinsurance recoverables	\$295,541	\$352,521	\$ 440,040	\$ 464,122	\$ 480,741	\$ 486,279
Cumulative net paid, as of:						
One Year Later	24,102	27,532	48,390	67,383	89,864	133,832
Two Years Later	42,115	58,769	98,864	128,758	192,716	239,872
Three Years Later	58,793	80,061	136,992	194,139	257,913	313,993
Four Years Later	65,520	107,005	173,352	227,597	308,531	358,677
Five Years Later	76,291	120,592	191,974	252,015	331,796	387,040
Six Years Later	81,722	129,043	204,013	266,056	346,623	
Seven Years Later	82,605	135,620	212,282	276,052		
Eight Years Later	84,649	138,534	218,919			
Nine Years Later	85,008	140,712				
Ten Years Later	85,333					
Re-estimated Net Liability as of:						
End of Year	295,541	352,521	440,040	464,122	480,741	486,279
One Year Later	268,154	325,212	393,363	416,814	427,095	463,779
Two Years Later	239,243	280,518	347,258	364,196	398,308	469,934
Three Years Later	200,311	237,280	294,675	333,530	400,333	488,416
Four Years Later	157,836	190,110	264,714	323,202	414,008	487,366
Five Years Later	122,570	173,148	259,195	320,888	415,381	485,719
Six Years Later	105,779	168,828	248,698	321,232	412,130	
Seven Years Later	99,787	160,784	250,927	321,959		
Eight Years Later	94,192	161,717	251,584			
Nine Years Later	95,625	158,743				
Ten Years Later	94,399					
Net cumulative redundancy (deficiency)	\$201,142	\$193,778	\$ 188,456	\$ 142,163	\$ 68,611	\$ 560
Original gross liability - end of year	\$355,735	\$432,937	\$ 548,732	\$ 614,720	\$ 660,631	\$ 665,786
Less: reinsurance recoverables	(60,194)	(80,416)	(108,692)	(150,598)	(179,890)	(179,507)
Original net liability - end of year	\$295,541	\$352,521	\$ 440,040	\$ 464,122	\$ 480,741	\$ 486,279
Gross re-estimated liability - latest	\$123,173	\$182,961	\$ 295,291	\$ 416,516	\$ 517,812	\$ 587,501
Re-estimated reinsurance recoverables	(28,774)	(24,218)	(43,707)	(94,557)	(105,682)	(101,782)
Net re-estimated liability - latest	\$ 94,399	\$158,743	\$ 251,584	\$ 321,959	\$ 412,130	\$ 485,719
Gross cumulative redundancy (deficiency)	\$232,562	\$249,976	\$ 253,441	\$ 198,204	\$ 142,819	\$ 78,285

	DECEMBER 31,				
	2000	2001	2002	2003	2004
Reserve for losses, undiscounted and net of reinsurance recoverables	\$ 493,457	\$1,068,286	\$1,160,456	\$1,369,773	\$1,620,253
Cumulative net paid, as of:					
One Year Later	143,892	271,482	247,235	230,040	
Two Years Later	251,855	468,630	425,190		
Three Years Later	321,957	599,432			
Four Years Later	367,810				
Five Years Later					
Six Years Later					
Seven Years Later					
Eight Years Later					
Nine Years Later					
Ten Years Later					
Re-estimated Net Liability as of:					
End of Year	493,457	1,068,286	1,160,456	1,369,773	
One Year Later	507,275	1,076,714	1,149,575	1,353,157	
Two Years Later	529,698	1,069,435	1,149,092		
Three Years Later	527,085	1,078,936			
Four Years Later	534,382				
Five Years Later					
Six Years Later					
Seven Years Later					
Eight Years Later					
Nine Years Later					
Ten Years Later					
Net cumulative redundancy (deficiency)	\$ (40,925)	\$ (10,650)	\$ 11,364	\$ 16,616	

Original gross liability - end of year	\$ 659,659	\$1,442,341	\$1,622,468	\$1,814,584
Less: reinsurance recoverables	(166,202)	(374,055)	(462,012)	(444,811)
	-----	-----	-----	-----
Original net liability - end of year	\$ 493,457	\$1,068,286	\$1,160,456	\$1,369,773
	=====	=====	=====	=====
Gross re-estimated liability - latest	\$ 625,782	\$1,403,927	\$1,529,546	\$1,758,903
Re-estimated reinsurance recoverables	(91,400)	(324,991)	(380,454)	(405,746)
	-----	-----	-----	-----
Net re-estimated liability - latest	\$ 534,382	\$1,078,936	\$1,149,092	\$1,353,157
	=====	=====	=====	=====
Gross cumulative redundancy (deficiency)	\$ 33,877	\$ 38,414	\$ 92,922	\$ 55,681
	=====	=====	=====	=====

In years 2001 and thereafter the table reflects the reserves of ProAssurance, formed in 2001 in order to merge Medical Assurance and Professionals Group, and includes both professional liability segment and personal lines segment reserves. Amounts shown in the table for years prior to 2001 relate only to the reserves of Medical Assurance.

In each year reflected in the table, we have utilized actuarial methodologies, including incurred loss development, paid loss development and frequency-severity projections, to estimate reserves. These techniques are applied to the data and the resulting projections are evaluated by management to establish the estimate of reserves.

Factors that have contributed to the variation in loss development include the following:

- Our volume of business in the late 1980's and early 1990's, while substantial, was not of a sufficient size to fully support the actuarial projection process; thus, our data was supplemented with industry-based data. Substantially all of our business was derived from medical professional liability insurance written in Alabama until we began to geographically expand our business in the mid to late 1990s. We utilized a rigorous and disciplined approach to investigating, managing and defending claims. This philosophy generally produced results in Alabama that were better than industry averages in terms of loss payments and the proportion of claims closed without indemnity payment. Ultimately, actual results proved better than the industry data, creating redundancies.
- Our reserves established in the late 1980's and early 1990's were strongly influenced by the dramatically increased frequency and severity that we, and the industry as a whole, experienced during the mid-1980s. Some of these trends moderated, and in some cases, reversed, by the late 1980s or early 1990s. However, the ability to recognize the improved environment was delayed due to the extended time required for claims resolution. When these negative trends moderated, the reserves we established during those periods proved to be redundant.
- The professional liability legal environment deteriorated once again in the late 1990's. Beginning in 2000, we recognized adverse trends in claim severity causing increased estimates of certain loss liabilities. As a result, favorable development of prior year loss reserves slowed in 2000 and reversed in 2001 and 2002. We have addressed these trends through increased rates, stricter underwriting and modifications to claims handling procedures.
- Beginning in 2001 the table includes reserves for personal liability losses which are also initially difficult to estimate. We established reserves for these claims at levels that we consider reasonable but prudent, given rising medical costs and unpredictable litigation trends. As the claims matured, our reserve estimates were adjusted to reflect actual loss costs experienced.

RESULTS OF OPERATIONS - YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED
DECEMBER 31, 2003

Selected financial data for each period is summarized in the table below.

	Year Ended December 31		Increase (Decrease)
	2004	2003	
	In Thousands		
Revenues:			
Gross premiums written	\$789,660	\$740,110	\$49,550
	=====	=====	=====
Net premiums written	\$717,059	\$668,909	\$48,150
	=====	=====	=====
Premiums earned	\$765,643	\$698,347	\$67,296
Premiums ceded	(69,623)	(74,833)	5,210
	-----	-----	-----
Net premiums earned	696,020	623,514	72,506
Net investment income	87,225	73,619	13,606
Net realized investment gains (losses)	7,609	5,992	1,617
Other income	3,699	6,515	(2,816)
	-----	-----	-----
Total revenues	794,553	709,640	84,913
	-----	-----	-----
Expenses:			
Losses and loss adjustment expenses	596,070	576,043	20,027
Reinsurance recoveries	(23,189)	(24,667)	1,478
	-----	-----	-----
Net losses and loss adjustment expenses	572,881	551,376	21,505
Underwriting, acquisition and insurance expenses	117,689	104,216	13,473
Loss on early extinguishment of debt	--	305	(305)
Interest expense	6,515	3,409	3,106
	-----	-----	-----
Total expenses	697,085	659,306	37,779
	-----	-----	-----
Income before income taxes and minority interest	97,468	50,334	47,134
Income taxes (benefit)	24,657	11,450	13,207
	-----	-----	-----
Income before minority interest	72,811	38,884	33,927
Minority interest	--	(181)	181
	-----	-----	-----
Net Income	\$ 72,811	\$ 38,703	\$34,108
	=====	=====	=====
Net loss ratio	82.3%	88.4%	(6.1%)
Underwriting expense ratio	16.9%	16.7%	0.2%
	-----	-----	-----
Combined ratio	99.2%	105.1%	(5.9%)
Less: Investment income ratio	12.5%	11.8%	0.7%
	-----	-----	-----
Operating ratio	86.7%	93.3%	(6.6%)
	=====	=====	=====
Return on equity *	12.6%	7.4%	5.2%
	=====	=====	=====

* Net income divided by the average of beginning and ending stockholders' equity.

We measure performance in a number of ways, but particularly focus on the combined ratio and investment returns which directly affect our return on equity (ROE). We target a return on equity of 12% to 14%.

Our earnings are almost entirely derived from the operations of our insurance subsidiaries. We manage our insurance operations at a segment level because of the differing operating characteristics of each segment. We believe that a focus on a premium adequacy, selective underwriting and effective claims management is required if we are to achieve our ROE targets and we closely monitor premium revenues, losses and loss adjustment costs, and acquisition, underwriting and insurance expenses at the segment level.

Investment income and net realized investment gains and losses are managed and monitored both at the segment level and on a consolidated basis in order to meet the liquidity and profitability needs of each insurance company as well as to maximize after-tax income investment returns at a corporate level.

Our segments engage in activities that generate other income. Such activities, principally fee generating and agency services, do not constitute a significant source of revenues or profits on either a segment or a consolidated basis.

The 2004 increase in our ROE is primarily attributable to our success in reducing our net loss ratio. Both segments showed improvement in their net loss ratio. The improvement in the professional liability ratio had the most pronounced effect on ROE because 74% of 2004 consolidated net earned premiums are attributable to this segment.

Our 2004 operating results also benefited from additional investment income earned as a result of the growth in our invested assets.

PREMIUMS

Gross Premiums Written

	Year Ended December 31		Increase (Decrease)	Increase (Decrease) %
	2004	2003		
	In thousands			
Gross premiums written:				
Professional liability	\$573,592	\$543,323	\$30,269	5.6%
Personal lines	216,068	196,787	19,281	9.8%
	\$789,660	\$740,110	\$49,550	6.7%
	=====	=====	=====	

Professional liability written premiums vary from period to period for a number of reasons. Some of the more common differences result from changes to premium rates, the volume of new business written during the period, the loss of business to competitors or due to our own underwriting decisions, and the percentage of our policies that renew, which may also affect the level of tail premiums written. Strategic factors, such as our decision to convert our remaining occurrence policies to claims-made coverage, and market factors, such as the entry or exit of a competitor in a given market, may also affect written premiums from period to period. The effect of any of these changes also varies by the proportion of policies written or renewed during each period in the various geographical regions and classes of business in which we operate.

Professional liability premiums exhibited strong growth in 2004; however, the growth was at a slower pace than in 2003 primarily because we implemented smaller rate increases in 2004 as compared to 2003. Our rates are based on our expected losses for the coverages provided; the cumulative effect of the rate increases we have obtained in the past several years allowed us to pursue lower rate increases in some states in 2004. On average, renewals during the year ended December 31, 2004 have been at rates that are approximately 19% higher than expiring rates. Rate increases on 2003 renewals, on average, were at rates that were 28% higher than expiring rates. New business written in 2004 was largely offset by business that did not renew, including business that we selectively chose not to renew. We continue to aggressively pursue only that business that we believe we can write at a profitable rate.

Virtually all of the growth that we experienced in 2004 was related to physician coverages. This growth included an increase of approximately \$5.0 million related to physician tail policies. Tail policies are written to physicians that are discontinuing their claims-made coverage with us. We prefer not to write tail coverage due to the occurrence-like loss liability that it creates, but the decision to purchase this coverage is at the option of the departing policyholder. Premiums written for this coverage can vary significantly from year to year.

In the latter half of 2003, we began the process of converting our professional liability occurrence coverages to claims-made coverages and completed this process in 2004. First-year claims-made coverage has a significantly lower premium than occurrence coverage due to lower loss exposure, but steps through an increasing rate progression from first-year to mature, over a multi-year period which is generally five years. This increasing rate progression is the result of our increasing exposure to loss. During the period of rate progression, all else being equal, our premiums and our losses will increase.

Personal lines premium revenues are almost entirely comprised of auto and homeowners premiums with auto premiums representing 81% of 2004 written premiums and 82% of 2003 written premiums. During the year ended December 31, 2004 auto premiums increased by \$13.3 million while homeowner premiums grew by \$5.9 million. The growth of auto premiums is primarily attributable to rate increases and to increases in the value of insured autos and a small increase in the number of autos insured. The growth in homeowner premiums is due to increases in the number of insured homes, rate increases, and an increase in the value of the homes insured with no one factor predominating.

Premiums Earned

	Year Ended December 31		Increase (Decrease)	Increase (Decrease) %
	2004	2003		
	In thousands			
Premiums earned:				
Professional liability	\$555,524	\$509,260	\$46,264	9.1%
Personal lines	210,119	189,087	21,032	11.1%
	-----	-----	-----	
	\$765,643	\$698,347	\$67,296	9.6%
	=====	=====	=====	

Premiums are earned pro rata over the entire policy period (generally one year) after the policy is written. Thus the increase in 2004 earned premiums reflects on a pro rata basis the changes in written premiums that occurred during both 2004 and 2003.

Premiums ceded

	Year Ended December 31		Increase (Decrease)	Increase (Decrease) %
	2004	2003		
	In thousands			
Premiums ceded:				
Professional liability	\$42,869	\$56,014	\$(13,145)	(23.5%)
Personal lines	26,754	18,819	7,935	42.2%
	-----	-----	-----	
	\$69,623	\$74,833	\$ (5,210)	(7.0%)
	=====	=====	=====	

Premiums ceded represent the portion of earned premiums that we must ultimately pay to our reinsurers for their assumption of a portion of our losses.

In both 2004 and 2003, we reduced our estimates of prior year gross losses in our professional liability segment. As a result, we also reduced our estimates of ultimate ceded premiums. The reduction was \$8.9 million in 2004 and \$5.4 million in 2003. Professional liability premiums ceded were also reduced by \$1.6 million in 2004 due to the commutation of reinsurance treaties with Gerling. Additionally, as premium rates have risen, our insureds have purchased policies with lower coverage limits. We do not cede these premiums, and as a result, premiums ceded have declined.

Personal lines premiums ceded primarily increased because of a significant rise in the per car assessment charged by the MCCA, and also as a result of growth in the volume of premiums written.

LOSSES AND LOSS ADJUSTMENT EXPENSES

Calendar year losses may be divided into three components: (i) actuarial evaluation of incurred losses for the current accident year; (ii) actuarial re-evaluation of incurred losses for prior accident years; and (iii) actuarial re-evaluation of the reserve for the death, disability and retirement provision (DDR) in our claims-made policies.

Accident year refers to the accounting period in which the insured event becomes a liability of the insurer. For occurrence policies the insured event becomes a liability when the event takes place; for claims-made policies the insured event becomes a liability when the event is first reported to the insurer. We believe that measuring losses on an accident year basis is the most indicative measure of the underlying profitability of the premiums earned in that period since it associates policy premiums earned with our estimate of the losses incurred related to those policy premiums. Calendar year results include the operating results for the current accident year and, as discussed in critical accounting policies, any changes in estimates related to prior accident years.

Net Losses

The following table summarizes net losses and net loss ratios for the years ended December 31, 2004 and 2003 by separating losses between the current accident year and all prior accident years. The net loss ratios shown are calculated by dividing the applicable net losses by calendar year net premiums earned.

	DECEMBER 31, 2004		December 31, 2003		Net Loss Ratio Increase (Decrease)
	NET LOSSES	NET LOSS RATIO	Net Losses	Net Loss Ratio	
	-----		-----		
	In thousands		except percentage amounts		
Net losses - calendar year					
Professional liability	\$460,437	89.8%	\$439,368	96.9%	(7.1%)
Personal lines	112,444	61.3%	112,008	65.8%	(4.5%)
	-----		-----		
	\$572,881	82.3%	\$551,376	88.4%	(6.1%)
	=====		=====		
Net losses current accident year					
Professional liability	\$469,151	91.5%	\$439,418	96.9%	(5.4%)
Personal lines	120,346	65.6%	122,838	72.1%	(6.5%)
	-----		-----		
	\$589,497	84.7%	\$562,256	90.2%	(5.5%)
	=====		=====		
Change in prior accident year losses (favorable):					
Professional liability	\$ (8,714)	(1.7%)	\$ (50)	--%	(1.7%)
Personal lines	(7,902)	(4.3%)	(10,830)	(6.4%)	2.1%
	-----		-----		
	\$(16,616)	(2.4%)	\$(10,880)	(1.8%)	(0.6%)
	=====		=====		

Current accident year net losses in the professional liability segment increased by 6.8% or \$29.7 million in 2004 as compared to 2003. During 2004, we have continued to see an increase in loss severity, which has increased loss costs. Professional liability current accident year net loss ratios are lower in 2004 than in 2003 primarily because loss costs, while continuing to increase, have increased at a slower pace than premium rates. Loss ratios have also improved because we converted our occurrence policies to claims-made coverage as discussed under premiums. Generally, loss ratios associated with claims-made coverage are initially lower than those associated with occurrence coverage.

We decreased our estimate of professional liability prior year net losses by \$8.7 million in 2004 and \$50,000 in 2003. The 2004 amount represents 0.7% of 2003 professional liability net reserves. These adjustments were in response to actuarial evaluations of loss reserves performed during the period. No change was made to our estimates of the reserves required for death, disability and retirement during 2004 or 2003.

Personal lines losses have remained relatively stable, even though the number of insured risks has increased. We experienced an overall reduction in the frequency of auto collision and comprehensive claims reported in 2004, which more than offset increased water damage claims from severe thunderstorms in May 2004. The reduction in frequency is the primary reason that loss ratios improved in 2004.

As a result of favorable development related to the frequency and severity of prior year auto liability reserves, we reduced personal lines prior year net losses during both 2004 and 2003.

Gross Losses and Reinsurance Recoveries

The effect of adjustments made to reinsured losses is mitigated by the corresponding adjustment that is made to insurance recoveries. Thus, in any given year, we may make significant adjustments to gross losses that have little effect on our net losses. The following table reflects our losses by segment on both a gross and a net basis:

Year ended December 31			
	2004	2003	Increase (Decrease)
----- In thousands -----			
Gross Losses:			
Professional liability	\$447,521	\$414,828	\$ 32,693
Personal lines	148,549	161,215	(12,666)
	-----	-----	-----
	596,070	576,043	20,027
Reinsurance Recoveries:			
Professional liability	\$(12,916)	\$(24,540)	\$ 11,624
Personal lines	36,105	49,207	(13,102)
	-----	-----	-----
	23,189	24,667	(1,478)
Net Losses:			
Professional liability	\$460,437	\$439,368	\$ 21,069
Personal lines	112,444	112,008	436
	-----	-----	-----
	\$572,881	\$551,376	\$ 21,505
	=====	=====	=====

When discussing losses that are reinsured and losses that are retained, it is common to refer to "layers" of loss. The retained layer is the cumulative portion of each loss, on a per-claim basis, which is less than our reinsurance retention for a given coverage year. Likewise, the reinsured layer is the cumulative portion of each loss that exceeds the reinsurance retention. In 2004, as was also the case in 2003, our actuarial analysis of our professional liability reserves indicates that our claims severity has continued to increase as expected in our retained layers. However, we have not experienced the high level of losses in our reinsured layers that we originally anticipated and for which we established reserves. Accordingly, we reduced our estimates of prior accident year gross losses by approximately \$60.4 million during the year ended December 31, 2004 and \$74.2 million during the year ended December 31, 2003. These losses were heavily reinsured; therefore, we reduced expected reinsurance recoveries by \$51.7 million in 2004 and \$74.1 million in 2003. As previously discussed, these changes to prior year estimates reduced net losses by \$8.7 million in 2004 and nominally reduced net losses in 2003. In both 2004 and 2003, the decrease to reinsurance recoveries for prior accident years more than offset reinsurance recoveries for current accident years resulting in a non-traditional relationship between gross losses and recoveries.

Our personal lines segment gross losses and reinsurance recoveries also reflect large adjustments for heavily reinsured losses. We increased our loss estimates for auto personal injury losses ceded to the MCCA by approximately \$15.3 million during the year ended December 31, 2004 and \$30.0 million during the year ended December 31, 2003. In both years, these unfavorable adjustments were offset by favorable adjustments made to losses that were not heavily reinsured, primarily auto liability reserves. As previously discussed, these reserve adjustments decreased net losses by \$7.9 million in 2004 and \$10.8 million in 2003.

Assumptions used in establishing our reserves are regularly reviewed and updated by management as new data becomes available. Any adjustments necessary are reflected in current operations. Due to the size of our reserves, even a small percentage adjustment to the assumptions can have a material effect on our results of operations for the period in which the change is made.

NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS (LOSSES)

Net investment income is primarily derived from the interest income earned by our fixed maturity securities and includes interest income from short-term and cash equivalent investments, dividend income from equity securities, increases in the cash surrender value of business owned executive life insurance contracts, and rental income earned by our commercial real estate holdings. Investment fees and expenses and real estate expenses are deducted from investment income.

	2004	2003	Increase (Decrease)	% Increase (Decrease)
	-----	-----	-----	-----
	In thousands except percentage amounts			
Net investment income:				
Professional liability	\$75,029	\$63,099	\$11,930	18.9%
Personal lines	10,879	10,253	626	6.1%
Not attributed to segments	1,317	267	1,050	> 100%
	-----	-----	-----	
	\$87,225	\$73,619	\$13,606	18.5%
	=====	=====	=====	

The increase in our net investment income in 2004 as compared to 2003 is due to higher average invested funds in 2004, offset by a slight decline in the yield of our fixed maturity securities. While prevailing market interest rates have remained historically low, changes in the duration and asset mix of the portfolio have helped to stabilize the yield of the portfolio. We have increased the weighted average duration of the portfolio from 3.54 years at December 31, 2003 to 3.81 years at December 31, 2004 in order to take advantage of improved yields on certain longer-term securities. We have also increased the proportion of the portfolio that is invested in tax-exempt securities because of the higher after-tax yields available on these securities. However, we have continued to see some decline in our income yields as older, higher yielding securities mature or are sold. Our average income yield, on a consolidated basis, was 4.1% for the year ended December 31, 2004 as compared to 4.4% for the year ended December 31, 2003. Our average tax equivalent income yield on a consolidated basis was 4.5% for the year ended December 31, 2004 as compared to 4.8% for the year ended December 31, 2003.

Investment income is a more substantial revenue source for the professional liability segment both because of significantly higher premium collections and because, on average, professional liability premiums are collected some years before the related losses are paid. As a result, investment income is a less significant component of revenues for the personal lines segment than for the professional liability segment because the length of time between the collection of premiums and the settlement of claims is generally short. Thus premium growth, as compared to the professional liability segment, generally has a less significant effect on average invested funds. Personal lines investment income has increased due to higher average invested funds; however the improvement is less pronounced in this segment.

The components of net realized investment gains are shown in the following table.

	Year Ended December 31	
	-----	-----
	2004	2003
	-----	-----
	In thousands	
Net gains (losses) from sales	\$5,323	\$5,991
Other-than-temporary impairment losses	(611)	(322)
Trading portfolio gains (losses)	2,897	323
	-----	-----
Net realized investment gains (losses)	\$7,609	\$5,992
	=====	=====

UNDERWRITING, ACQUISITION AND INSURANCE EXPENSES

Underwriting, acquisition and insurance expenses are comprised of variable costs, such as commissions and premium taxes that are directly related to premiums earned, and fixed costs that have an indirect relationship to premium volume, such as salaries, benefits, and facility costs assessments. Underwriting, acquisition and insurance expenses increased in 2004 in both segments primarily because of higher variable costs. Underwriting, acquisition and insurance expenses increased in both segments, primarily due to additional commission expense incurred as a result of premium growth. In the professional liability segment, changes in the mix of premiums by state and coverage type also increased commission expense. Both segments also experienced increases in costs for salaries, benefits and professional fees, most significantly those fees related to Sarbanes-Oxley compliance. The expense ratio for the professional liability segment increased by 0.3% because of higher commission costs; there was no notable change in the personal lines expense ratio.

	Year Ended December 31			Expense Ratio		
	-----		Increase (Decrease)	-----		Increase (Decrease)
	2004	2003		2004	2003	
	-----			-----		
	In thousands					
Underwriting, acquisition and insurance expenses:						
Professional liability	\$ 77,141	\$ 66,638	\$10,503	15.0%	14.7%	0.3%
Personal lines	40,548	37,578	2,970	22.1%	22.1%	--
	-----	-----	-----			
	\$117,689	\$104,216	\$13,473	16.9%	16.7%	0.2%
	=====	=====	=====			

Guaranty fund assessments are amounts we are required to contribute to state insolvency or guaranty fund associations when so assessed by the state. Such assessments can and do vary significantly from period to period, but remained low throughout both 2004 and 2003. Guaranty fund assessments were approximately \$396,000 for the year ended December 31, 2004 as compared to approximately \$321,000 for the year ended December 31, 2003.

INTEREST EXPENSE

Interest expense increased in 2004 as compared to 2003 primarily because the average amount of debt outstanding was higher in 2004 but also because interest was paid at a higher rate in the first half of 2004 as compared to the first half of 2003. In the first half of 2003 our only debt was an outstanding bank term loan. In July 2003 we issued \$107.6 million of Convertible Debentures at a fixed rate of 3.9% and repaid a \$67.5 million bank term loan which carried a variable rate. We increased our debt again in April and May of 2004, when we issued Subordinated Debentures of \$46.5 million.

TAXES

Our effective tax rate for each period is significantly lower than the 35% statutory rate because a considerable portion of our net investment income is from tax-exempt interest and dividends. The effect of tax-exempt income on our effective tax rate is shown in the table below:

	Year ended December 31	
	-----	-----
	2004	2003
	----	----
Statutory rate	35%	35%
Tax-exempt income	(7%)	(11%)
Other	(3%)	(1%)
	---	---
Effective tax rate	25%	23%
	===	===

RESULTS OF OPERATIONS - YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002

Selected financial data for each period is summarized in the table below.

	Year Ended December 31		Increase (Decrease)
	2003	2002	
	In thousands		
Revenues:			
Gross premiums written	\$740,110	\$ 636,156	\$103,954
Net premiums written	\$668,909	\$ 537,123	\$131,786
Premiums earned	\$698,347	\$ 576,414	\$121,933
Premiums ceded	(74,833)	(99,006)	24,173
Net premiums earned	623,514	477,408	146,106
Net investment income	73,619	76,918	(3,299)
Net realized investment gains (losses)	5,992	(5,306)	11,298
Other income	6,515	6,747	(232)
Total revenues	709,640	555,767	153,873
Expenses:			
Losses and loss adjustment expenses	576,043	569,099	6,944
Reinsurance recoveries	(24,667)	(121,070)	96,403
Net losses and loss adjustment expenses	551,376	448,029	103,347
Underwriting, acquisition and insurance expenses	104,216	91,253	12,963
Loss on early extinguishment of debt	305	-	305
Interest expense	3,409	2,875	534
Total expenses	659,306	542,157	117,149
Income before income taxes	50,334	13,610	36,724
Income taxes (benefit)	11,450	(188)	11,638
Income before minority interest and cumulative effect of accounting change	38,884	13,798	25,086
Minority interest	(181)	(3,285)	3,104
Income before cumulative effect of accounting change	38,703	10,513	28,190
Cumulative effect of accounting change, net of tax	--	1,694	(1,694)
Net Income	\$ 38,703	\$ 12,207	\$ 26,496
Net loss ratio	88.4%	93.8%	(5.4%)
Underwriting expense ratio	16.7%	19.1%	(2.4%)
Combined ratio	105.1%	112.9%	(7.8%)
Less: Investment income ratio	11.8%	16.1%	(4.3%)
Operating ratio	93.3%	96.8%	(3.5%)
Return on equity *	7.4%	2.7%	4.7%

* Net income divided by the average of beginning and ending stockholders' equity.

Our ROE improved in 2003 primarily because we reduced our net loss ratio by more than five points as compared to 2002. The net loss ratio of our professional liability segment, which produced 73% of 2003 net earned premiums, was reduced from 107.2% to 96.9%; this improvement contributed significantly to the increase in our 2003 ROE.

PREMIUMS

GROSS PREMIUMS WRITTEN

	Year Ended December 31		Increase (Decrease)	Increase (Decrease)
	2003	2002		
	In thousands			%
Gross premiums written:				
Professional liability	\$543,323	\$461,715	\$ 81,608	18%
Personal lines	196,787	174,441	22,346	13%
	-----	-----	-----	-----
	\$740,110	\$636,156	\$103,954	16%
	=====	=====	=====	

The increase in professional liability gross written premiums is principally due to rate increases. On average, renewals during the year ended December 31, 2003 were at rates that were approximately 28% higher than expiring rates. We also experienced premium growth in 2003 from new business in states where competitors had left the professional liability market. The growth in new business was largely offset by policies that did not renew due to higher rates or our own underwriting decisions.

In addition, in 2003 we were able to convert a substantial majority of our remaining occurrence policies to claims-made policies. First-year claims-made coverage has a significantly lower premium than occurrence coverage due to lower loss exposure, and the conversion reduced 2003 premiums written as compared to 2002 by approximately \$13.5 million.

The 2003 increase in personal lines gross premiums written reflects a \$14.2 million increase in auto premiums, primarily due to increases in the number and value of autos insured. Homeowner premiums increased by \$8.0 million due to higher premium rates and increases in the number and value of insured homes.

PREMIUMS EARNED

	Year Ended December 31		Increase (Decrease)	Increase (Decrease)
	2003	2002		
	In thousands			%
Premiums earned:				
Professional liability	\$509,260	\$412,656	\$ 96,604	23%
Personal lines	189,087	163,758	25,329	15%
	-----	-----	-----	-----
	\$698,347	\$576,414	\$121,933	21%
	=====	=====	=====	

Premiums are earned pro rata over the entire policy period (generally one year) after the policy is written. The increase in 2003 earned premiums therefore reflects on a pro rata basis the changes in written premiums that occurred during both 2003 and 2002.

PREMIUMS CEDED

	Year Ended December 31		Increase (Decrease)	Increase (Decrease)
	2003	2002		
	In thousands			%
Premiums ceded:				
Professional liability	\$56,014	\$85,011	\$(28,997)	(34%)
Personal lines	18,819	13,995	4,824	34%
	-----	-----	-----	-----
	\$74,833	\$99,006	\$(24,173)	(24%)
	=====	=====	=====	

Under reinsurance contracts that became effective in October 2002, our retention levels for insured medical liability events became \$1.0 million in all states whereas previously our retention in many states was as low as \$250,000. The change in retention reduced premiums ceded in our professional liability segment in 2003, both in total dollars and as a percentage of premiums earned.

Additionally in 2003, as discussed in more detail under "Losses and Loss Adjustment Expenses" we reduced our estimates of certain prior year gross losses, as well as the related reinsurance recoveries. Some of our reinsurance agreements adjust the premium due to the reinsurer based upon the losses reimbursed under the agreement. Consequently the estimate of ultimate ceded premiums was reduced by \$5.4 million as a result of this change.

Personal lines premiums ceded increased due to the increased volume of our business and increased rates charged by our reinsurers.

LOSSES AND LOSS ADJUSTMENT EXPENSES

Net Losses

The following table summarizes net losses and net loss ratios for the years ended December 31, 2003 and 2002 by separating losses between the current accident year and all prior accident years. The net loss ratios shown are calculated by dividing the applicable net losses by calendar year net premiums earned.

	(\$ in thousands)				Net Loss Ratio Increase (Decrease)
	DECEMBER 31, 2003		December 31, 2002		
	NET LOSSES	NET LOSS RATIO	Net Losses	Net Loss Ratio	
Net losses - calendar year					
Professional liability	\$439,368	96.9%	\$351,320	107.2%	(10.3%)
Personal lines	112,008	65.8%	96,709	64.6%	1.2%
	-----		-----		
	\$551,376	88.4%	\$448,029	93.8%	(5.4%)
	=====		=====		
Net losses - current accident year					
Professional liability	\$439,418	96.9%	\$333,160	101.7%	(4.8%)
Personal lines	122,838	72.2%	106,440	71.1%	1.1%
	-----		-----		
	\$562,256	90.2%	\$439,600	92.1%	(1.9%)
	=====		=====		
Change in prior accident year losses (favorable):					
Professional liability	\$ (50)	--	\$ 18,160	5.5%	(5.5%)
Personal lines	(10,830)	(6.4%)	(9,731)	(6.5%)	0.1%
	-----		-----		
	\$(10,880)	(1.8%)	\$ 8,429	1.7%	(3.5%)
	=====		=====		

Current accident year net losses for the professional liability segment have increased in 2003 as compared to 2002 by \$106.3 million or 31.9%. There is little change in the number of insured risks during 2003 as compared to 2002; net losses increased during 2003 primarily because of higher loss costs. The current accident year net loss ratio for the year ended December 31, 2003 decreased to 96.9% as compared to 101.7% for the same period in 2002. The 2003 loss ratio is lower than the 2002 ratio because premium rates increased at a faster pace than did loss costs.

Personal lines current accident year net losses are \$16.4 million higher than 2002 losses, a 15.4% increase. Net losses increased in 2003 primarily due to growth in the number of insureds but also due to higher loss costs for auto liability coverages and higher homeowner losses from an isolated ice storm and the August 2003 Midwestern power outage. The current accident year net loss ratios for 2003 reflect the beneficial effect of rate increases, which were more than offset by the previously listed increases to loss costs.

Change in Prior Accident Year Losses and Change in DDR Reserves

We decreased our estimate of professional liability prior year net losses by \$50,000 in 2003 and increased our estimates by \$18.2 million in 2002. These adjustments were in response to actuarial evaluations of loss reserves performed during the period. No significant change was made to our estimates of the reserves required for death, disability and retirement during 2003 or 2002.

In our personal lines segment, we reduced net losses by \$10.8 million in 2003 and \$9.7 million in 2002 as a result of favorable developments in our estimates of prior years' auto liability reserves. We established initial reserves, particularly liability reserves, at levels that considered our estimates of rising costs and unpredictable litigation trends. More favorable results are recognized if and when they materialize.

Gross Losses and Reinsurance Recoveries

	Year ended December 31		Increase (Decrease)
	2003	2002	

In thousands			
Gross Losses:			
Professional liability segment	\$414,828	\$460,289	\$ (45,461)
Personal lines segment	161,215	108,810	52,405
	-----	-----	-----
	576,043	569,099	6,944
Reinsurance Recoveries:			
Professional liability segment	\$(24,540)	\$108,969	\$(133,509)
Personal lines segment	49,207	12,101	37,106
	-----	-----	-----
	24,667	121,070	(96,403)
Net Losses:			
Professional liability segment	\$439,368	\$351,320	\$ 88,048
Personal lines segment	112,008	96,709	15,299
	-----	-----	-----
	\$551,376	\$448,029	\$ 103,347
	=====	=====	=====

Our actuarial analysis of our professional liabilities reserve indicates that our claims severity has continued to increase as expected in our retained layers. However, we have not experienced the high level of losses in our reinsured layers that we originally anticipated and for which we established reserves. Accordingly we reduced our estimates of prior accident year gross loss and loss adjustment expenses by approximately \$74.2 million during the year ended December 31, 2003. Since these losses were reinsured, we reduced expected reinsurance recoveries by approximately the same amount. The reduction of \$74.1 million for prior accident years more than offset current accident year recoveries of \$49.6 million, thus creating a non-traditional relationship between gross losses and recoveries for 2003. These changes in estimates had a nominal effect on 2003 net losses.

Assumptions used in establishing our reserves are regularly reviewed and updated by management as new data becomes available. Any adjustments necessary are reflected in current operations. Due to the size of our reserves, even a small percentage adjustment to the assumptions can have a material effect on our results of operations for the period in which the change is made.

NET INVESTMENT INCOME AND NET REALIZED INVESTMENT GAINS (LOSSES)

Our net investment income is primarily derived from the interest income earned by our fixed maturity securities but also includes interest income from short-term and cash equivalent investments, dividend income from equity securities, increases in the cash surrender value of business owned executive life insurance contracts, and rental income earned by our commercial real estate holdings. Investment fees and expenses and real estate expenses are deducted from investment income. Our consolidated net investment income for 2003 is comprised of the following:

	2003	2002	Increase (Decrease)	Increase (Decrease)
	-----	-----	-----	-----
	In thousands			
Net investment income:				
Professional liability segment	\$63,099	\$66,790	\$(3,691)	(5.5%)
Personal lines segment	10,253	10,071	182	1.8%
Not attributed to segments	267	57	210	>100%
	-----	-----	-----	
	\$73,619	\$76,918	\$(3,299)	(4.3%)
	=====	=====	=====	

The decrease in our net investment income in 2003 as compared to 2002 is primarily due to lower fixed maturity yields. Prevailing market interest and equity yields were at historically low levels throughout 2003 and 2002. The low market rates available for the investment of new and matured funds have reduced average yields. As a result, net investment income is lower even though our average invested funds increased. Our average tax equivalent income yield of our fixed maturity investments is 4.8% for the year ended December 31, 2003 as compared to 6.2% for the same period in 2002. Also, in the fourth quarter of 2002 we sold a significant portion of our fixed maturity portfolio in order to realize capital gains and these proceeds were reinvested during 2003 at substantially lower rates.

Investment income is a more substantial revenue source for the professional liability segment than for the personal lines segment. The professional liability segment writes, and therefore collects, significantly more premiums and those premiums are collected some years before the related losses are paid. In the personal lines segment, the length of time between the collection of premiums and the settlement of claims is generally short. The decline in yields has had a more pronounced effect on our professional liability segment because the professional liability segment holds significantly more investments than the personal lines segment. At December 31, 2003 the professional liability segment held fixed maturity securities having a book value of \$1.502 billion; the personal lines segment held fixed maturity securities having a book value of \$234.6 million.

The components of net realized investment gains (losses) are shown in the following table.

	Year ended December 31	
	2003	2002
	-----	-----
	In thousands	
Net gains (losses) from sales	\$5,991	\$ 15,998
Other than temporary impairment losses	(322)	(21,304)
Trading portfolio gains/losses	323	--
	-----	-----
Net realized investment gains (losses)	\$5,992	\$ (5,306)
	=====	=====

UNDERWRITING, ACQUISITION AND INSURANCE EXPENSES

Underwriting, acquisition and insurance expenses are comprised of variable costs, such as commissions and premium taxes that are directly related to premiums earned, and fixed costs that have no direct relationship to premium volume, such as salaries, benefits, facility costs and guaranty fund assessments. Underwriting, acquisition and insurance expenses by segment for the years ending December 31, 2003 and 2002 are as follows:

	Year Ended December 31			Expense Ratio		
	Year Ended December 31		Increase (Decrease)	Year Ended December 31		Increase (Decrease)
	2003	2002		2003	2002	
	----- In thousands -----					
Underwriting, acquisition and insurance expenses:						
Professional liability	\$ 66,638	\$56,613	\$10,025	14.7%	17.3%	(2.6%)
Personal lines	37,578	34,640	2,938	22.1%	23.1%	(1.0%)
	-----	-----	-----			
	\$104,216	\$91,253	\$12,963	16.7%	19.1%	(2.4%)
	=====	=====	=====			

Underwriting, acquisition and insurance expenses increased in 2003 in both segments primarily because of higher variable costs, due largely to additional commission expense incurred as a result of premium growth.

In the professional liability segment, the increased premium related costs were offset by a \$1.8 million reduction in guaranty fund assessments. Also, late in the second quarter of 2003 we ceased to provide medical credentialing services. Expenses associated with this business activity were \$1.4 million for the year ended December 31, 2003 as compared to \$2.8 million for the year ended December 31, 2002. In our personal lines segment, the increase in premium related costs was partially offset by a decline in the amount of mandatory statutory assessments.

Our underwriting expense ratio decreased in the professional liability segment because there was no significant change in our fixed costs, other than the previously discussed decrease in guaranty fund assessments, while premiums earned increased significantly in 2003. The personal lines ratio is lower for 2003 due to operating efficiencies and a decrease in mandatory statutory assessments.

Guaranty fund assessments vary widely from year to year. Guaranty fund assessments totaled \$321,000 for the year ended December 31, 2003 as compared to \$2.2 million for the year ended December 31, 2002.

INTEREST EXPENSE

Interest expense increased to \$3.4 million for the year ended December 31, 2003 as compared to \$2.9 million for the same period in 2002. The increase results from higher costs during the third and fourth quarters of 2003 as compared to 2002 because the debentures issued in July 2003 carried a higher rate than did the bank term loan and because the total outstanding amount of debt increased. Management elected to replace the term loan with the debentures because the debentures provided a longer-term source of capital at a fixed interest rate. Interest expense was lower in the first six months of 2003 as compared to 2002 because both the average outstanding balance on the term loan and the variable interest rate on the term loan were lower in 2003.

TAXES

Our effective tax rate for each period is significantly lower than the 35% statutory rate because a considerable portion of our net investment income is from tax-exempt interest and dividends. The effect of tax-exempt income on our effective tax rate is shown in the table below.

	Year ended December 31	
	2003	2002
	-----	-----
Statutory rate	35%	35%
Tax-exempt income	(11%)	(42%)
Other	(1%)	6%
	-----	-----
Effective tax rate	23%	(1%)
	=====	=====

MINORITY INTEREST

Minority interest in both 2003 and 2002 relates entirely to the minority interest in the income of MEEIC Holdings. As discussed under "Liquidity and Capital Resources and Financial Condition" we purchased this minority interest on January 29, 2003. In 2003, earnings were allocable to the minority interest only for the period from January 1 to January 29. In 2002, earnings were allocable to the minority interest for the entire period.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe that we are principally exposed to three types of market risk related to our investment operations. These risks are interest rate risk, credit risk and equity price risk.

The term market risk refers to the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity prices and foreign currency exchange rates.

As of December 31, 2004, our fair value investment in fixed maturity securities was \$2,258 million. These securities are subject primarily to interest rate risk and credit risk. We have not and currently do not intend to enter into derivative transactions.

Interest Rate Risk

Our fixed maturities portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, market values of fixed income portfolios fall and vice versa. We believe we are in a position to keep our fixed income investments until maturity as we do not invest in fixed maturity securities for trading purposes.

Interest Rates	2004			2003	
	PORTFOLIO VALUE \$ MILLIONS	CHANGE IN VALUE \$ MILLIONS	MODIFIED DURATION YEARS	Portfolio Value \$ Millions	Modified Duration Years
200 basis point rise	\$2,082	\$(176)	4.11	\$1,664	3.73
100 basis point rise	\$2,170	\$(88)	4.00	\$1,727	3.63
Current rate *	\$2,258	\$ --	3.81	\$1,791	3.54
100 basis point decline	\$2,344	\$ 86	3.70	\$1,854	3.45
200 basis point decline	\$2,434	\$ 176	3.79	\$1,919	3.52

* Current rates are as of December 31, 2004 and 2003

At December 31, 2004, the fair value of our investment in preferred stocks was \$21.2 million, including net unrealized gains of \$725 thousand. Preferred stocks are primarily subject to interest rate risk because they bear a fixed rate of return. The investments in the above table do not include preferred stocks.

Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the existing level and composition of fixed income security assets, and should not be relied on as indicative of future results.

Certain shortcomings are inherent in the method of analysis presented in the computation of the fair value of fixed rate instruments. Actual values may differ from those projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities, including non-parallel shifts in the term structure of interest rates and changing individual issuer credit spreads.

ProAssurance's cash and short-term investment portfolio at December 31, 2004 was on a cost basis which approximates its fair value. This portfolio lacks significant interest rate sensitivity due to its short duration.

Credit Risk

We have exposure to credit risk primarily as a holder of fixed income securities. We control this exposure by emphasizing investment grade credit quality in the fixed income securities we purchase.

As of December 31, 2004, 99.6% of our fixed income portfolio consisted of securities rated investment grade. We believe that this concentration in investment grade securities reduces our exposure to credit risk on these fixed income investments to an acceptable level. However, in the current environment even investment grade securities can rapidly deteriorate and result in significant losses.

Equity Price Risk

At December 31, 2004 the fair value of our investment in common stocks was \$18.2 million, which included net unrealized gains of \$3 million and net holding gains of approximately \$410 thousand. These securities are subject to equity price risk, which is defined as the potential for loss in market value due to a decline in equity prices. A hypothetical 10% increase in the market prices as of December 31, 2004 would increase the fair value of these securities to \$20.0 million; a hypothetical 10% decrease in the price of each of these marketable securities would reduce the fair value to \$16.4 million. The selected hypothetical change does not reflect what could be considered the best or worst scenarios.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Consolidated Financial Statements and Financial Statement Schedules of ProAssurance Corporation and subsidiaries listed in Item 15(a) have been included herein beginning on page 61. The Supplementary Financial Information required by Item 302 of Regulation S-K is included in Note 18 of the Notes to Consolidated Financial Statements of ProAssurance and its subsidiaries.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of our disclosure controls and procedures within ninety (90) days of the filing of this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. There were no significant changes in the internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information, required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2004 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

56

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of ProAssurance Corporation

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that ProAssurance Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ProAssurance Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that ProAssurance Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, ProAssurance Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ProAssurance Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in capital and cash flow for each of the three years in the period ended December 31, 2004, and our report dated March 14, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Birmingham, Alabama
March 14, 2005

57

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item regarding executive officers is included in Part I of the Form 10K (Pages 24 and 25) in accordance with Instruction 3 of the Instructions to Paragraph (b) of Item 401 of Regulation S-K.

The information required by this Item regarding directors is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance's definitive proxy statement for the 2005 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or before April 29, 2005.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance's definitive proxy statement for the 2005 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or before April 29, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance's definitive proxy statement for the 2005 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or before April 29, 2005.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance's definitive proxy statement for the 2005 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or before April 29, 2005.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance's definitive proxy statement for the 2005 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or before April 29, 2005.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) Financial Statements. The following consolidated financial statements of ProAssurance Corporation and subsidiaries are included herein in accordance with Item 8 of Part II of this report.

Report of Independent Auditors

Consolidated Balance Sheets - December 31, 2004 and 2003

Consolidated Statements of Changes in Capital - years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Income - years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows - years ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

Financial Statement Schedules. The following consolidated financial statement schedules of ProAssurance Corporation and subsidiaries are included herein in accordance with Item 14(d):

Schedule I - Summary of Investments - Other than Investments in Related Parties

Schedule II - Condensed Financial Information of ProAssurance Corporation (Registrant Only)

Schedule III - Supplementary Insurance Information

Schedule IV - Reinsurance

Schedule VI - Supplementary Property and Casualty Insurance Information

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

- (b) The exhibits required to be filed by Item 15(b) are listed herein in the Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this the 14th day of March 2005.

PROASSURANCE CORPORATION

By: /s/ A. Derrill Crowe, M.D.

A. Derrill Crowe, M.D.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name -----	Title -----	Date -----
/s/ A. Derrill Crowe, M.D. ----- A. Derrill Crowe, M.D.	Chairman of the Board and Chief Executive Officer (Principal Executive Officer) and Director	March 14, 2005
/s/ Howard H. Friedman ----- Howard H. Friedman	Senior Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 14, 2005
/s/ Victor T. Adamo, Esq. ----- Victor T. Adamo, Esq.	Director	March 14, 2005
/s/ Paul R. Butrus ----- Paul R. Butrus	Director	March 14, 2005
/s/ Lucian F. Bloodworth ----- Lucian F. Bloodworth	Director	March 14, 2005
/s/ Robert E. Flowers, M.D. ----- Robert E. Flowers, M.D.	Director	March 14, 2005
/s/ John J. McMahon, Jr., Esq. ----- John J. McMahon, Jr., Esq.	Director	March 14, 2005
/s/ John P. North, Jr. ----- John P. North, Jr.	Director	March 14, 2005
/s/ Ann F. Putallaz, Ph.D. ----- Ann F. Putallaz, Ph.D.	Director	March 14, 2005
/s/ William H. Woodhams, M.D. ----- William H. Woodhams, M.D.	Director	March 14, 2005

/s/ Wilfred W. Yeargan, Jr., M.D.

Director

March 14, 2005

Wilfred W. Yeargan, Jr., M.D.

ProAssurance Corporation and Subsidiaries
Consolidated Financial Statements

Years ended December 31, 2004, 2003 and 2002

TABLE OF CONTENTS

Report of Independent Registered Public Accounting Firm.....	62
Audited Consolidated Financial Statements	
Consolidated Balance Sheets.....	63
Consolidated Statements of Changes in Capital...	65
Consolidated Statements of Income.....	66
Consolidated Statements of Cash Flow.....	67
Notes to Consolidated Financial Statements	68

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED
FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of
ProAssurance Corporation

We have audited the accompanying consolidated balance sheets of ProAssurance Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of changes in capital, income and cash flow for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ProAssurance Corporation and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flow for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 13 to the consolidated financial statements, in 2002 ProAssurance changed its method of accounting for goodwill and intangible assets.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ProAssurance Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

Birmingham, Alabama
March 14, 2005

PROASSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT SHARE DATA)

	DECEMBER 31 2004	December 31 2003
	-----	-----
ASSETS		
Investments:		
Fixed maturities available for sale, at fair value	\$ 2,257,985	\$ 1,790,778
Equity securities available for sale, at fair value	35,230	42,136
Equity securities, trading portfolio, at fair value	4,150	5,863
Real estate, net	19,244	17,262
Short-term investments	41,423	114,767
Business owned life insurance	54,138	51,706
Other	42,883	38,247
	-----	-----
Total investments	2,455,053	2,060,759
Cash and cash equivalents	30,084	42,045
Premiums receivable	131,736	132,255
Receivable from reinsurers on unpaid losses and loss adjustment expenses	409,339	444,811
Prepaid reinsurance premiums	18,888	17,651
Deferred taxes	80,107	73,118
Other assets	113,991	108,713
	-----	-----
	\$ 3,239,198	\$ 2,879,352
	=====	=====

See accompanying notes.

PROASSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT SHARE DATA)

	DECEMBER 31 2004	December 31 2003
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Policy liabilities and accruals:		
Reserve for losses and loss adjustment expenses	\$ 2,029,592	\$ 1,814,584
Unearned premiums	314,179	290,134
Reinsurance premiums payable	69,507	68,510
	-----	-----
Total policy liabilities	2,413,278	2,173,228
Other liabilities	63,421	55,030
Long-term debt	151,480	104,789
	-----	-----
Total liabilities	2,628,179	2,333,047
Commitments and contingencies	-	-
Stockholders' Equity:		
Common stock, par value \$0.01 per share		
100,000,000 shares authorized;		
29,326,228 and 29,226,774 shares		
issued, in 2004 and 2003, respectively	293	292
Additional paid-in capital	313,957	312,030
Accumulated other comprehensive income, net of		
deferred tax expense of \$13,139 and \$18,537,		
respectively	24,397	34,422
Retained earnings	272,428	199,617
	-----	-----
	611,075	546,361
Less treasury stock, at cost, 121,765 shares	(56)	(56)
	-----	-----
Total stockholders' equity	611,019	546,305
	-----	-----
	\$ 3,239,198	\$ 2,879,352
	=====	=====

See accompanying notes.

PROASSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL
(IN THOUSANDS)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2002	\$ 259	\$ 260,788	\$ 3,533	\$ 148,707	\$ (56)	\$ 413,231
Common stock issued for compensation	-	980	-	-	-	980
Stock options exercised	-	265	-	-	-	265
Offering of common stock	31	46,468	-	-	-	46,499
Comprehensive income:						
Change in fair value of securities available for sale, net of deferred taxes, reclassification adjustments and minority interest	-	-	32,012	-	-	
Net Income	-	-	-	12,207	-	
Total comprehensive income						44,219
Balance at December 31, 2002	290	308,501	35,545	160,914	(56)	505,194
Common stock issued for compensation	-	1,061	-	-	-	1,061
Stock options exercised	2	2,468	-	-	-	2,470
Change in minority interest	-	-	886	-	-	886
Comprehensive income:						
Change in fair value of securities available for sale, net of deferred taxes, and reclassification adjustments	-	-	(2,009)	-	-	
Net Income	-	-	-	38,703	-	
Total comprehensive income						36,694
Balance at December 31, 2003	292	312,030	34,422	199,617	(56)	546,305
Common stock issued for compensation	1	1,710	-	-	-	1,711
Stock options exercised	-	217	-	-	-	217
Comprehensive income:						
Change in fair value of securities available for sale, net of deferred taxes, and reclassification adjustments	-	-	(10,025)	-	-	
Net Income	-	-	-	72,811	-	
Total comprehensive income						62,786
Balance at December 31, 2004	\$ 293	\$ 313,957	\$ 24,397	\$ 272,428	\$ (56)	\$ 611,019

See accompanying notes.

PROASSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS EXCEPT PER SHARE DATA)

	Year ended December 31		
	2004	2003	2002
Revenues:			
Gross premiums written	\$ 789,660	\$ 740,110	\$ 636,156
	=====	=====	=====
Net premiums written	\$ 717,059	\$ 668,909	\$ 537,123
	=====	=====	=====
Premiums earned	\$ 765,643	\$ 698,347	\$ 576,414
Premiums ceded	(69,623)	(74,833)	(99,006)
	-----	-----	-----
Net premiums earned	696,020	623,514	477,408
Net investment income	87,225	73,619	76,918
Net realized investment gains (losses)	7,609	5,992	(5,306)
Other income	3,699	6,515	6,747
	-----	-----	-----
Total revenues	794,553	709,640	555,767
Expenses:			
Losses and loss adjustment expenses	596,070	576,043	569,099
Reinsurance recoveries	(23,189)	(24,667)	(121,070)
	-----	-----	-----
Net losses and loss adjustment expenses	572,881	551,376	448,029
Underwriting, acquisition and insurance expenses	117,689	104,216	91,253
Loss on early extinguishment of debt	-	305	-
Interest expense	6,515	3,409	2,875
	-----	-----	-----
Total expenses	697,085	659,306	542,157
	-----	-----	-----
Income before income taxes, minority interest and cumulative effect of accounting change	97,468	50,334	13,610
Provision for income taxes:			
Current expense (benefit)	23,550	11,357	(275)
Deferred expense (benefit)	1,107	93	87
	-----	-----	-----
	24,657	11,450	(188)
	-----	-----	-----
Income before minority interest and cumulative effect of accounting change	72,811	38,884	13,798
Minority interest	-	(181)	(3,285)
	-----	-----	-----
Income before cumulative effect of accounting change	72,811	38,703	10,513
Cumulative effect of accounting change, net of tax	-	-	1,694
	-----	-----	-----
Net income	\$ 72,811	\$ 38,703	\$ 12,207
	=====	=====	=====
Earnings per share (basic):			
Income before cumulative effect of accounting change	\$ 2.50	\$ 1.34	\$ 0.40
Cumulative effect of accounting change, net of tax	-	-	0.07
	-----	-----	-----
Net income	\$ 2.50	\$ 1.34	\$ 0.47
	=====	=====	=====
Earnings per share (diluted):			
Income before cumulative effect of accounting change	\$ 2.37	\$ 1.32	\$ 0.39
Cumulative effect of accounting change, net of tax	-	-	0.07
	-----	-----	-----
Net income	\$ 2.37	\$ 1.32	\$ 0.46
	=====	=====	=====
Weighted average number of common shares outstanding			
Basic	29,164	28,956	26,231
	=====	=====	=====
Diluted	31,984	30,389	26,254
	=====	=====	=====

See accompanying notes.

PROASSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(IN THOUSANDS)

	Year ended December 31		
	2004	2003	2002
	-----	-----	-----
OPERATING ACTIVITIES			
Net income	\$ 72,811	\$ 38,703	\$ 12,207
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	3,880	3,804	4,337
Amortization	23,146	19,708	10,707
Increase in cash surrender value of business owned life insurance	(2,432)	(1,706)	-
Net realized investment (gains) losses	(7,609)	(5,992)	5,306
Deferred income taxes	1,107	93	87
Policy acquisition costs deferred, net of related amortization	(4,059)	(874)	(7,241)
Other	(622)	(577)	(812)
Changes in assets and liabilities:			
Trading portfolio securities, excluding net holding gains	4,610	(5,540)	-
Premiums receivable	519	(21,227)	(32,963)
Receivable from reinsurers	35,472	17,201	(87,956)
Prepaid reinsurance premiums	(1,237)	3,643	(1,029)
Other assets	(3,551)	(4,777)	8,275
Reserve for losses and loss adjustment expenses	215,008	192,116	180,127
Unearned premiums	24,045	41,763	59,742
Reinsurance premiums payable	997	5,961	13,845
Other liabilities	11,456	321	9,044
Minority interest in net income	-	181	3,285
Net cash provided by operating activities	----- 373,541	----- 282,801	----- 176,961
INVESTING ACTIVITIES			
Purchases of:			
Fixed maturities available for sale	(1,196,991)	(1,082,573)	(897,928)
Equity securities available for sale	(856)	(3,019)	(10,932)
Other investments	(4,205)	(19,110)	(15,000)
Business owned life insurance	-	(50,000)	-
Proceeds from sale or maturities of:			
Fixed maturities available for sale	699,434	612,480	900,641
Equity securities available for sale	8,854	26,296	20,235
Net decrease (increase) in short-term investments	73,352	138,087	(116,841)
Other	(10,032)	(6,905)	(2,785)
Net cash (used by) investing activities	----- (430,444)	----- (384,744)	----- (122,610)
FINANCING ACTIVITIES			
Net proceeds from stock issuance	-	-	46,499
Net proceeds from long-term debt	44,907	104,641	-
Repayment of debt	-	(72,500)	(10,000)
Purchase of minority interest	-	(33,304)	(707)
Other	35	1,845	-
Net cash provided by financing activities	----- 44,942	----- 682	----- 35,792
Increase (decrease) in cash and cash equivalents	(11,961)	(101,261)	90,143
Cash and cash equivalents at beginning of period	42,045	143,306	53,163
Cash and cash equivalents at end of period	----- \$ 30,084	----- \$ 42,045	----- \$ 143,306
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Net cash paid (received) during the year for income taxes	\$ 23,081	\$ 14,312	\$ (8,884)
Cash paid during the year for interest	\$ 5,501	\$ 3,136	\$ 2,714
	=====	=====	=====

See accompanying notes.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ProAssurance Corporation (a Delaware corporation) and its subsidiaries (ProAssurance). All significant intercompany accounts and transactions between consolidated companies have been eliminated.

Basis of Presentation

The preparation of financial statements in accordance with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting policies followed by ProAssurance that materially affect financial reporting are summarized in these notes to the consolidated financial statements.

Segment Information

ProAssurance operates in the United States of America (U.S.) in two reportable industry segments. As discussed in Note 2, the professional liability segment principally provides professional and general liability insurance for providers of health care services, and to a lesser extent, providers of legal services. The personal lines segment provides private passenger automobile, homeowner, boat, and umbrella insurance products primarily for educational employees and their families.

Investments

Fixed Maturities and Equity Securities Available for Sale

ProAssurance considers all fixed maturity securities as available-for-sale. Equity securities are considered as either available-for-sale or trading portfolio securities. Available-for-sale securities are carried at fair value, and unrealized gains and losses on such available-for-sale securities are excluded from earnings and included, net of related tax effects, in stockholders' equity as "Accumulated other comprehensive income (loss)" until realized.

Fair values for fixed maturity and equity securities are based on quoted market prices, where available. For fixed maturity and equity securities not actively traded, fair values are estimated using values obtained from independent pricing services.

Investment income includes amortization of premium and accretion of discount related to debt securities acquired at other than par value. Debt securities and mandatorily redeemable preferred stock with maturities beyond one year when purchased are classified as fixed maturities.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. ACCOUNTING POLICIES (CONTINUED)

Equity Securities, Trading Portfolio

ProAssurance has designated certain equity security purchases as trading portfolio securities. A trading portfolio is carried at fair value with the holding gains and losses included in realized investment gains and losses in the current period. Fair values are based on quoted market prices.

Real Estate

Real estate properties are classified as investment real estate. All balances are reported at cost, less allowances for depreciation. Depreciation is computed over the estimated useful lives of the related property using the straight-line method. Rental income and expenses are included in net investment income.

Short-term Investments

Short-term investments, which have an original maturity of one year or less, are primarily composed of investments in U.S. Treasury obligations and commercial paper. All balances are reported at cost, which approximates fair value.

Other Investments

Other investments are primarily comprised of equity interests in non-public investment partnerships/limited liability companies. Interests where ProAssurance has virtually no influence over the operating and financial policies of the entity and for which there is no readily determinable fair value are accounted for using the cost method. Interests where ProAssurance has a greater than minor interest in the entity are accounted for using the equity method.

Business Owned Life Insurance (BOLI)

ProAssurance owns life insurance contracts on certain key management employees. The life insurance contracts are carried at their current cash surrender value. Changes in the cash surrender value are included in income in the current period as investment income. Death proceeds from the contracts are recorded when the proceeds become payable under the policy terms.

Cash and Cash Equivalents

For purposes of the consolidated balance sheets and statements of cash flow, ProAssurance considers all demand deposits and overnight investments to be cash equivalents.

Realized Gains and Losses

Realized gains and losses on sales of investments are recognized on the specific identification basis.

Reclassifications

Certain reclassifications have been made to the prior year balance sheet and statement of cash flow to conform to the current year presentation.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. ACCOUNTING POLICIES (CONTINUED)

Impairments

In accordance with Statement of Financial Accounting Standard (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," ProAssurance evaluates its investment securities on at least a quarterly basis for declines in market value below cost for the purpose of determining whether these declines represent other than temporary declines. A decline in the fair value of a security below cost judged to be other than temporary is recognized as a loss in the then current period and reduces the cost basis of the security. In subsequent periods, ProAssurance measures any gain or loss or decline in value against the adjusted cost basis of the security. The following factors are considered in determining whether an investment's decline is other than temporary:

- the extent to which the market value of the security is less than its cost basis,
- the length of time for which the market value of the security has been less than its cost basis,
- the financial condition and near-term prospects of the security's issuer, taking into consideration the economic prospects of the issuer's industry and geographical region, to the extent that information is publicly available, and
- ProAssurance's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Reinsurance

ProAssurance enters into reinsurance agreements whereby other insurance entities agree to assume a portion of the risk associated with the policies issued by ProAssurance. In return, ProAssurance agrees to pay a premium to the reinsurer. ProAssurance purchases (cedes) reinsurance to provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

Receivable from reinsurers is the estimated amount of future loss payments that will be recoverable from reinsurers. Reinsurance recoveries are the portion of losses incurred during the period that are estimated to be allocable to reinsurers. Premiums ceded are the estimated premiums that will be due to reinsurers with respect to premiums earned and losses incurred during the period.

These estimates are based upon management's estimates of ultimate losses and the portion of those losses that are allocable to reinsurers under the terms of the related reinsurance agreements. Given the uncertainty of the ultimate amounts of losses, these estimates may vary significantly from the eventual outcome. Management regularly reviews these estimates and any adjustments necessary are reflected in the period in which the estimate is changed. Due to the size of the receivable from reinsurers, even a small adjustment to the estimates could have a material effect on ProAssurance's results of operations for the period in which the change is made.

Reinsurance contracts do not relieve ProAssurance from its obligations to policyholders. A contingent liability exists with respect to reinsurance ceded to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements. ProAssurance continually monitors its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Any amount found to be uncollectible is written off in the period in which the uncollectible amount is identified.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. ACCOUNTING POLICIES (CONTINUED)

Goodwill

Intangible assets consist primarily of the excess of cost over the fair value of net assets acquired (i.e., goodwill). In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is not amortized. Goodwill is tested annually for impairment. ProAssurance regularly reviews its goodwill and other intangibles to determine if any adverse conditions exist that could indicate impairment. Conditions that could trigger impairment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset or an adverse action or assessment by a regulator. ProAssurance does not believe that any of its recorded goodwill or intangible assets has suffered impairment.

Deferred Policy Acquisition Costs

Costs that vary with and are directly related to the production of new and renewal premiums (primarily premium taxes, commissions and underwriting salaries) are deferred to the extent they are recoverable against unearned premiums and are amortized as related premiums are earned.

Reserve for Losses and Loss Adjustment Expenses (Reserve for Losses)

ProAssurance establishes its reserve for loss and loss adjustment expenses (reserve for losses) based on estimates of the future amounts necessary to pay claims and expenses (losses) associated with the investigation and settlement of claims. The reserve for losses is determined on the basis of individual claims and payments thereon as well as actuarially determined estimates of future losses based on past loss experience, available industry data and projections as to future claims frequency, severity, inflationary trends, judicial trends, legislative changes and settlement patterns.

ProAssurance believes that the methods it uses to establish the reserve for losses are reasonable and appropriate. Independent actuaries review the reserve for losses of each insurance subsidiary at least semi-annually and prepare reports that include recommendations as to the level of reserves. ProAssurance considers these recommendations and other factors, such as known, anticipated or estimated changes in frequency and severity of claims, loss retention levels and premium rates in establishing its reserves. Estimating casualty insurance reserves, and particularly liability reserves, is a complex process. Claims may be resolved over an extended period of time, often five years or more, and may be subject to litigation. Estimating losses for liability claims requires ProAssurance to make and revise judgments and assessments regarding multiple uncertainties over an extended period of time. As a result, reserve estimates may vary significantly from the eventual outcome. Reserve estimates and the assumptions on which these estimates are predicated are regularly reviewed and updated as new information becomes available. Any adjustments necessary are reflected in then current operations. Due to the size of ProAssurance's reserve for losses, even a small percentage adjustment to these estimates could have a material effect on earnings in the period in which the adjustment is made.

The effect of adjustments made to reinsured losses is mitigated by the corresponding adjustment that is made to insurance recoveries. Thus, in any given year, the Company may make significant adjustments to gross losses that have little effect on its net losses.

Recognition of Revenues

Insurance premiums are recognized as revenues pro rata over the terms of the policies.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation

ProAssurance accounts for stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations (APB 25). The following table illustrates the effect on net income and earnings per share as if ProAssurance had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to outstanding options. See Note 12 for additional information regarding outstanding options.

	YEAR ENDED DECEMBER 31		
	2004	2003	2002

	In thousands except per share data		
Net income as reported	\$ 72,811	\$ 38,703	\$ 12,207
Add: Stock-based employee compensation expense recognized under APB 25 related to the exercise of options, net of related tax effects	218	130	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,234)	(697)	(564)

Pro forma net income	\$ 71,795	\$ 38,136	\$ 11,643
	=====		
Earnings per share:			
Basic--as reported	\$ 2.50	\$ 1.34	\$ 0.47
	=====		
Basic--pro forma	\$ 2.46	\$ 1.32	\$ 0.44
	=====		
Diluted--as reported	\$ 2.37	\$ 1.32	\$ 0.46
	=====		
Diluted--pro forma	\$ 2.34	\$ 1.30	\$ 0.44
	=====		

Income Taxes

ProAssurance files a consolidated federal income tax return. Deferred income taxes are provided for temporary differences between financial and income tax reporting relating primarily to unrealized gains on securities, discounting of losses for income tax reporting, and the limitation of the unearned premiums deduction for income tax reporting.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. ACCOUNTING POLICIES (CONTINUED)

Accounting Changes

On December 16, 2004 the Financial Accounting Standards Board (FASB) issued SFAS 123(revised 2004), Share-Based Payment, hereafter referred to as SFAS 123(R), which is a revision of SFAS 123, Accounting for Stock-Based Compensation. SFAS 123(R) supersedes APB 25, Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS 123(R) is effective for public companies at the beginning of the first interim or annual period beginning after June 15, 2005; early adoption is permitted. ProAssurance plans to adopt SFAS 123(R) on its effective date using the "modified prospective" method permitted by the statement.

Under the "modified prospective" method stock based compensation is recognized (a) under the requirements of SFAS 123(R) for all share-based payments granted after the effective data of SFAS 123(R) and (b) under the requirements of SFAS 123 for all non-vested share-based payments granted prior to the adoption of SFAS 123(R).

As permitted by SFAS 123, ProAssurance currently accounts for stock options awarded to employees using APB 25's intrinsic value method and, as such, generally recognizes no compensation cost related to such awards. SFAS 123(R) differs from SFAS 123 in several key computational areas, and implementation of SFAS 123(R) will require ProAssurance to select among various assumptions in order to perform the computations required under SFAS 123(R). Those assumptions have not yet been selected, thus the effect that SFAS 123(R) would have had on prior periods has not been computed. The effect of adoption of SFAS 123 (R) on future operating results cannot be predicted at this time because the effect will depend on the levels of share based payments granted in the future and the methods and assumptions used to determine the fair value of those share based payments. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature.

In September, 2004 the Emerging Issues Task Force of the FASB reached a consensus regarding Issue 04-08-"Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted EPS" ("EITF 04-8"). Under the new guidance, issuers of contingently convertible (Co-Co) debt instruments must include the potential common shares underlying the Co-Co (the Co-Co shares) in diluted earnings per share computations (if dilutive) regardless of whether the market price contingency has been met or not. The consensus is effective for financial statements ending after December 15, 2004 and is to be retroactively applied to all periods presented. Previously, following commonly accepted interpretations of SAFS 128, "Earnings Per Share", ProAssurance did not include the potential common shares underlying its Convertible Debentures in the calculation of diluted earnings per share because the market price contingency had not been met. Implementation of EITF 04-8 reduced diluted net income per share by \$0.11 and \$0.01 per share for the years ended December 31, 2004 and 2003, respectively.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

2. SEGMENT INFORMATION

ProAssurance operates in the U.S. in two reportable industry segments: the professional liability insurance segment and the personal lines segment.

The professional liability insurance segment principally provides professional liability insurance for providers of health care services principally in the Southeast and Midwest. The professional liability segment includes the operating results of three significant insurance companies: The Medical Assurance Company, Inc., ProNational Insurance Company, and Red Mountain Casualty Insurance Company, Inc. ProAssurance also writes professional liability insurance through Medical Assurance of West Virginia, Inc.

The personal lines segment provides personal auto, homeowners, boat and umbrella coverages principally in the state of Michigan primarily to educational employees and their families through a single insurance company, MEEMIC Insurance Company (MEEMIC).

The accounting policies of each segment are consistent with those described in the summary of significant accounting policies in Note 1. Other than cash and securities owned directly by the parent company, the assets of ProAssurance are attributable to the reportable operating segments. Other than investment income earned directly by the parent company and interest expense attributable to long-term debt held by the parent company, all revenues and expenses of ProAssurance are attributable to the operating segments for purposes of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Revenue is primarily from unaffiliated customers and the effect of transactions between segments has been eliminated.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

2. SEGMENT INFORMATION (CONTINUED)

The table below provides a reconciliation of segment information to total consolidated information.

	Year ended December 31		
	2004	2003	2002
	----- In thousands -----		
Revenues:			
Professional liability segment:			
Net premiums earned	\$ 512,655	\$ 453,246	\$ 327,645
Net investment income	75,029	63,099	66,790
Other revenues	6,173	10,318	(1,139)
	-----	-----	-----
Total segment revenues	\$ 593,857	\$ 526,663	\$ 393,296
Personal lines segment:			
Net premiums earned	183,365	170,268	149,763
Net investment income	10,879	10,253	10,071
Other revenues	2,395	2,189	2,580
	-----	-----	-----
Total segment revenues	196,639	182,710	162,414
Corporate (not attributed to segments)	4,057	267	57
	-----	-----	-----
Total revenues	\$ 794,553	\$ 709,640	\$ 555,767
	=====	=====	=====
Income (loss) before taxes, minority interest and cumulative effect of accounting change:			
Professional liability	\$ 56,279	\$ 20,657	\$ (14,637)
Personal lines	43,647	33,124	31,065
Corporate (not attributed to segments)	(2,458)	(3,447)	(2,818)
	-----	-----	-----
Income before taxes, minority interest and cumulative effect of accounting changes	\$ 97,468	\$ 50,334	\$ 13,610
	=====	=====	=====

	December 31	
	2004	2003
	----- In thousands -----	
Assets:		
Professional liability	\$ 2,682,987	\$ 2,413,043
Personal lines	495,903	431,264
Corporate (not attributed to segments)	60,308	35,045
	-----	-----
Total assets	\$ 3,239,198	\$ 2,879,352
	=====	=====

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

3. INVESTMENTS

The amortized cost and estimated fair value of available-for-sale fixed maturities and equity securities are as follows:

	AMORTIZED COST	DECEMBER 31, 2004		ESTIMATED FAIR VALUE
		GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	
IN THOUSANDS				
Fixed Maturities				
U.S. Treasury securities	\$ 171,256	\$ 1,167	\$ (1,076)	\$ 171,347
State and municipal bonds	823,951	16,503	(1,533)	838,921
Corporate bonds	658,177	19,601	(3,439)	674,339
Asset-backed securities	570,744	4,696	(2,062)	573,378
	2,224,128	41,967	(8,110)	2,257,985
Equity securities	31,548	3,878	(196)	35,230
	\$ 2,255,676	\$ 45,845	\$ (8,306)	\$ 2,293,215

	Amortized Cost	December 31, 2003		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized (Losses)	
In thousands				
Fixed Maturities				
U.S. Treasury securities	\$ 305,564	\$ 2,471	\$ (839)	\$ 307,196
State and municipal bonds	377,833	18,053	(211)	395,675
Corporate bonds	597,514	26,919	(2,752)	621,681
Asset-backed securities	460,048	6,215	(1,107)	465,156
Other	1,069	1	-	1,070
	1,742,028	53,659	(4,909)	1,790,778
Equity securities	37,923	4,303	(90)	42,136
	\$ 1,779,951	\$ 57,962	\$ (4,999)	\$ 1,832,914

ProAssurance held certain available-for-sale securities in an unrealized loss position at December 31, 2004, as summarized in the following table. After an evaluation of each security, Management concluded that these securities have not suffered an other than temporary impairment in value. Each fixed maturity security has paid all scheduled contractual payments. Management believes that each issuer has the capacity to meet the remaining contractual obligations of the security, including payment at maturity, and that ProAssurance has the capacity to hold the security until the scheduled maturity date. Management also believes each of the equity securities, given the characteristics of the underlying company, industry, and price volatility of the security, has a reasonable expectation of being valued at or above book value in the near term.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

3. INVESTMENTS (CONTINUED)

	TOTAL		LESS THAN 12 MONTHS		MORE THAN 12 MONTHS	
	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS
	IN THOUSANDS					
Fixed maturities, available for sale						
U.S. Treasury securities	\$ 104,993	\$ (1,076)	\$ 95,180	\$ (803)	\$ 9,813	\$ (273)
State and municipal bonds	184,136	(1,533)	180,268	(1,426)	3,868	(107)
Corporate bonds	256,105	(3,439)	208,521	(1,924)	47,584	(1,515)
Asset-backed securities	267,806	(2,062)	247,354	(1,710)	20,452	(352)
	-----	-----	-----	-----	-----	-----
	813,040	(8,110)	731,323	(5,863)	81,717	(2,247)
Equity securities available for sale	3,746	(196)	3,614	(184)	132	(12)
	-----	-----	-----	-----	-----	-----
Available for sale securities held with unrealized losses	\$ 816,786	\$ (8,306)	\$ 734,937	\$ (6,047)	\$ 81,849	\$ (2,259)
	=====	=====	=====	=====	=====	=====

The amortized cost and estimated fair value of fixed maturities at December 31, 2004, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. ProAssurance uses the call date as the contractual maturity for prerefunded state and municipal bonds which are 100% backed by U.S. Treasury obligations.

	AMORTIZED COST	ESTIMATED FAIR VALUE
	-----	-----
	IN THOUSANDS	
Due in one year or less	\$ 95,979	\$ 96,375
Due after one year through five years	578,222	585,478
Due after five years through ten years	542,354	561,087
Due after ten years	436,829	441,667
Asset-backed securities	570,744	573,378
	-----	-----
	\$ 2,224,128	\$ 2,257,985
	=====	=====

Excluding investments in bonds and notes of the U.S. Government, a U.S. Government agency, or prerefunded state and municipal bonds which are 100% backed by U.S. Treasury obligations, no investment in any person or its affiliates exceeded 10% of stockholders' equity at December 31, 2004.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

3. INVESTMENTS (CONTINUED)

At December 31, 2004 ProAssurance had available-for-sale securities with a carrying value of \$12.8 million on deposit with various state insurance departments to meet regulatory requirements.

Business Owned Life Insurance

During 2003 ProAssurance purchased BOLI policies on executive employees at a cost of approximately \$50 million. The primary purpose of the program is to offset future employee benefit expenses through earnings on the cash value of the policies. ProAssurance is the owner and principal beneficiary of these policies; however, \$50,000 of each death benefit is payable to beneficiaries designated by the insured employee.

Real Estate

Real estate consists of two properties currently in use as corporate offices and a parcel of land expected to be developed as an additional corporate office. One property includes 78,000 square feet of office space which is leased or available for lease. Accumulated depreciation was approximately \$9.8 million and \$8.7 million at December 31, 2004 and 2003, respectively.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

3. INVESTMENTS (CONTINUED)

Net Investment Income / Net Realized Investment Gains (Losses)

Investment income by investment category is as follows:

	Year ended December 31		
	2004	2003	2002
	-----	-----	-----
	In thousands		
Fixed maturities	\$ 80,830	\$ 68,381	\$ 73,008
Equities	1,831	2,510	3,435
Real estate	1,078	1,120	1,428
Short-term investments	1,585	2,637	2,922
Other invested assets	4,592	1,664	-
Business owned life insurance	2,432	1,706	-
Other	4	-	174
	-----	-----	-----
Investment expenses	92,352 (5,127)	78,018 (4,399)	80,967 (4,049)
	-----	-----	-----
Net investment income	\$ 87,225 =====	\$ 73,619 =====	\$ 76,918 =====

Gross investment gains and losses are primarily from sales of investment securities. Net realized investment gains (losses) are as follows:

	Year ended December 31		
	2004	2003	2002
	-----	-----	-----
	In thousands		
Gross gains	\$ 7,066	\$ 9,388	\$ 26,040
Gross losses	(1,743)	(3,397)	(10,042)
Other than temporary impairments	(611)	(322)	(21,304)
Trading portfolio gains	2,897	323	-
	-----	-----	-----
Net realized investment gains (losses)	\$ 7,609 =====	\$ 5,992 =====	\$ (5,306) =====

Net gains related to fixed maturities included in the above table are \$3.7 million, \$2.3 million and \$11.7 million during 2004, 2003 and 2002, respectively.

ProAssurance's net realized investment gains and losses on available-for-sale securities are shown in the table below. The amounts recognized in the income statement were reclassified from "Other Accumulated Comprehensive Income (Loss)" in accordance with the provisions of SFAS 115.

	Year ended December 31		
	2004	2003	2002
	-----	-----	-----
	In thousands		
Net realized investment gains (losses)	\$ 5,315	\$ 5,458	\$ (5,306)
Related tax expense (benefit)	1,860	1,910	(1,857)
	-----	-----	-----
Reclassified gains (losses)	\$ 3,455 =====	\$ 3,548 =====	\$ (3,449) =====

Proceeds from sales (excluding maturities and paydowns) of available-for-sale securities were \$505.7 million, \$358.5 million and \$646.4 million during 2004, 2003 and 2002, respectively.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

4. REINSURANCE

ProAssurance has various quota share, excess of loss, and cession reinsurance agreements. Historically, professional liability per claim retention levels have varied between the first \$200,000 and the first \$2 million depending on the coverage year and the state in which business was written. ProAssurance also insures some large professional liability risks that are above the limits of its basic reinsurance treaties. These risks are reinsured on a facultative basis, whereby the reinsurer agrees to insure a particular risk up to a designated limit. Personal lines retention levels historically have been \$250,000 per loss. Individual property risks are covered up to \$1 million per risk and casualty risks are covered on an excess of loss basis up to \$3 million per occurrence, with catastrophe reinsurance arrangements in place to provide coverage for aggregate property loss events.

The effect of reinsurance on premiums written and earned is as follows:

	2004 PREMIUMS		2003 Premiums		2002 Premiums	
	WRITTEN	EARNED	Written	Earned	Written	Earned
	-----	-----	-----	-----	-----	-----
	In thousands					
Direct	\$ 789,564	\$ 765,547	\$ 737,602	\$ 695,839	\$ 634,142	\$ 573,423
Assumed	96	96	2,508	2,508	2,014	2,991
Ceded	(72,601)	(69,623)	(71,201)	(74,833)	(99,033)	(99,006)
	-----	-----	-----	-----	-----	-----
Net premiums	\$ 717,059	\$ 696,020	\$ 668,909	\$ 623,514	\$ 537,123	\$ 477,408
	=====	=====	=====	=====	=====	=====

Reinsurance contracts do not relieve ProAssurance from its obligations to policyholders. A contingent liability exists with respect to reinsurance ceded to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements. ProAssurance continually monitors its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

At December 31, 2004, all reinsurance recoverables are considered collectible. As required by the various state insurance laws, reinsurance recoverables totaling approximately \$32.7 million are collateralized by letters of credit or funds withheld.

At December 31, 2004 amounts due from individual reinsurers that exceed 5% of stockholders' equity are as follows:

Reinsurer	Amount Due From Reinsurer
-----	-----
	In millions
Michigan Catastrophic Claims Association	\$115.1
Hannover Ruckversicherung AG	\$ 50.5
General Reinsurance Corp	\$ 31.0

During 2004, ProAssurance commuted (terminated) its various agreements with one of its reinsurers, Gerling Global Reinsurance Corporation of America. As a result of that commutation, ProAssurance reduced its receivable from reinsurers by approximately \$5.6 million (net of \$12.3 million cash received) and reduced its reinsurance liabilities by approximately \$1.6 million.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

5. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of ProAssurance's deferred tax liabilities and assets are as follows:

	December 31	
	2004	2003
	-----	-----
	In thousands	
Deferred tax assets		
Unpaid loss discount	\$ 72,151	\$ 64,843
Unearned premium adjustment	22,166	20,186
Alternative minimum tax credits	-	8,440
Tax basis in intangibles	8,943	9,588
Other	6,032	3,697
	-----	-----
Total deferred tax assets	109,292	106,754
	-----	-----
Deferred tax liabilities		
Deferred acquisition costs	9,682	8,261
Unrealized gains on investments, net	13,139	18,537
Other	6,364	6,838
	-----	-----
Total deferred tax liabilities	29,185	33,636
	-----	-----
Net deferred tax assets	\$ 80,107	\$ 73,118
	=====	=====

In management's opinion, it is more likely than not that ProAssurance will realize the benefit of the deferred tax assets, and therefore, no valuation allowance has been established.

A reconciliation of "expected" income tax expense (35% of income before income taxes) to actual income tax expense in the accompanying financial statements follows:

	Year ended December 31		
	2004	2003	2002
	-----	-----	-----
	In thousands		
Computed "expected" tax expense	\$ 34,114	\$ 17,617	\$ 4,764
Tax-exempt income	(6,830)	(5,307)	(5,757)
Other	(2,627)	(860)	805
	-----	-----	-----
Actual tax (benefit)	\$ 24,657	\$ 11,450	\$ (188)
	=====	=====	=====

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

6. DEFERRED POLICY ACQUISITION COSTS

Underwriting and insurance costs directly related to the production of new and renewal premiums are considered as acquisition costs and are capitalized and amortized to expense over the period in which the related premiums are earned. Reinsurance ceding commissions due ProAssurance are considered as a reduction of acquisition costs, and therefore reduce the total amount capitalized.

Amortization of deferred acquisition costs amounted to approximately \$63.4 million, \$54.9 million, and \$41.8 million for the years ended December 31, 2004, 2003 and 2002, respectively. Unamortized deferred acquisition costs are included in other assets on the consolidated balance sheets and amounted to approximately \$27.7 million and \$23.6 million at December 31, 2004 and 2003, respectively.

7. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

ProAssurance establishes its reserve for losses based on estimates of the future amounts necessary to pay claims and expenses associated with the investigation and settlement of claims. These estimates consist of case reserves and bulk reserves. Case reserves are estimates of future losses for reported claims and are established by ProAssurance's claims department. Bulk reserves, which include a provision for losses that have occurred but have not been reported to ProAssurance as well as anticipated changes to losses on reported claims, are the difference between (i) the sum of case reserves and paid losses and (ii) an actuarially determined estimate of the total losses necessary for the ultimate settlement of all reported and incurred but not reported claims, including amounts already paid.

The reserve for losses is established based on estimates of individual claims and actuarially determined estimates of future losses based on ProAssurance's past loss experience, available industry data and projections as to future claims frequency, severity, inflationary trends and settlement patterns. Estimating reserves, and particularly liability reserves, is a complex process. Claims may be resolved over an extended period of time, often five years or more, and may be subject to litigation. Estimating losses for liability claims requires ProAssurance to make and revise judgments and assessments regarding multiple uncertainties over an extended period of time. As a result, reserve estimates may vary significantly from the eventual outcome. The assumptions used in establishing ProAssurance's reserves are regularly reviewed and updated by management as new data becomes available. Changes to estimates of previously established reserves are included in earnings in the period in which the estimate is changed.

ProAssurance believes that the methods it uses to establish reserves are reasonable and appropriate. Each year, ProAssurance obtains an independent actuarial review of the reserve for losses of each insurance subsidiary. The independent actuaries prepare reports that include recommendations as to the level of reserves. ProAssurance considers these recommendations as well as other factors, such as known, anticipated or estimated changes in frequency and severity of claims and loss retention levels and premium rates, in establishing the amount of its reserve for losses. The statutory filings of each insurance company with the insurance regulators must be accompanied by an actuary's certification as to their respective reserves in accordance with the requirements of the National Association of Insurance Commissioners (NAIC).

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

7. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES (CONTINUED)

Activity in the reserve for losses and loss adjustment expenses is summarized as follows:

	Year ended December 31		
	2004	2003	2002
	----- In thousands -----		
Balance, beginning of year	\$ 1,814,584	\$ 1,622,468	\$ 1,442,341
Less reinsurance recoverables	444,811	462,012	374,056
	-----	-----	-----
Net balance, beginning of year	1,369,773	1,160,456	1,068,285
Net losses:			
Current year	589,497	562,256	439,600
Unfavorable (favorable) development of reserves established in prior years	(16,616)	(10,880)	8,429
	-----	-----	-----
Total	572,881	551,376	448,029
Paid related to:			
Current year	(92,361)	(94,824)	(84,376)
Prior years	(230,040)	(247,235)	(271,482)
	-----	-----	-----
Total paid	(322,401)	(342,059)	(355,858)
	-----	-----	-----
Net balance, end of year	1,620,253	1,369,773	1,160,456
Plus reinsurance recoverables	409,339	444,811	462,012
	-----	-----	-----
Balance, end of year	\$ 2,029,592	\$ 1,814,584	\$ 1,622,468
	=====	=====	=====

As discussed in Note 1, estimating liability reserves is complex and requires the use of many assumptions. As time passes and ultimate losses for prior years are either known or become subject to a more definite estimation, ProAssurance increases or decreases the reserve estimates established in prior periods. The prior year development recognized in 2004 and 2003 decreased the net loss reserve at the end of the prior year by 1.2% and 0.9% and increased the net loss reserve at end of the prior year in 2002 by 0.8%. This development was recognized in response to annual actuarial reviews that resulted in estimates of ultimate loss costs for prior years that differed from the prior estimates of those loss costs.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

8. COMMITMENTS AND CONTINGENCIES

ProAssurance is involved in various legal actions arising primarily from claims related to insurance policies and claims handling, including but not limited to claims asserted by policyholders. The legal actions arising from these claims have been considered by ProAssurance in establishing its reserves. While the outcome of all legal actions is not presently determinable, ProAssurance's management is of the opinion, based on consultation with legal counsel, that the resolution of these actions will not have a material adverse effect on ProAssurance's financial position. However, to the extent that the cost of resolving these actions exceeds the corresponding reserves, the legal actions could have a material effect on ProAssurance's results of operations for the period in which any such action is resolved.

ProAssurance is involved in a number of operating leases primarily for office space, office equipment, and communication lines. The following is a schedule of future minimum lease payments for operating leases that had initial or remaining noncancelable lease terms in excess of one year as of December 31, 2004.

Operating Leases	

In thousands	
2005	\$ 3,786
2006	3,004
2007	876
2008	658
2009	278
Thereafter	121

Total minimum lease payments	\$ 8,723
	=====

ProAssurance had rent expense of \$4.1 million in the year ended December 31, 2004 and \$4.3 million in the years ended December 31, 2003 and 2002.

9. MINORITY INTEREST

On January 29, 2003 ProAssurance's indirect subsidiary, MEEMIC Holdings, Inc. (MEEMIC Holdings) repurchased all of the outstanding shares of its common stock that were not owned by ProAssurance's subsidiary, ProNational Insurance Company. MEEMIC Holdings used cash and investment resources of approximately \$34.1 million to complete the transaction. ProAssurance recognized goodwill of \$7.6 million related to the transaction. Income for the year ended December 31, 2003 was reduced by the income attributable (16%) to the MEEMIC Holdings minority interest for the period from January 1, 2003 to January 29, 2003. MEEMIC Holdings is the 100% owner of MEEMIC.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

10. LONG-TERM DEBT

Outstanding long-term debt, as of December 31, 2004 and December 31, 2003, consisted of the following:

	December 31	
	2004	2003

	\$ In thousands	
Convertible Debentures due June 30, 2023, unsecured and bearing a fixed interest rate of 3.9%, net of unamortized original issuer's discounts of \$2,515 and \$2,811 at December 31, 2004 and December 31, 2003, respectively.	\$ 105,085	\$ 104,789
Trust Preferred Subordinated Debentures, unsecured, and bearing floating interest rate, adjustable quarterly, at three-month LIBOR plus 3.85%.		
Due	December 31, 2004 Rate	
April 29, 2034	6.14%	13,403
May 12, 2034	6.14%	10,310
May 12, 2034	6.14%	22,682
	\$ 151,480	\$ 104,789
	=====	=====

Convertible Debentures Due June 30, 2023

In early July 2003, ProAssurance issued \$107.6 million of 3.9% Convertible Debentures in a Private Offering transaction, net of an initial purchaser's discount of \$3.0 million. ProAssurance used the net proceeds to pay off its existing term loan having an outstanding principal balance of \$67.5 million.

Summarized information regarding the structure and terms of the Convertible Debentures follows:

Issue Price. The Convertible Debentures were issued at 100.0% of their principal amount and each Convertible Debenture has a principal amount at maturity of \$1,000.

Maturity Date. June 30, 2023.

Ranking. The Convertible Debentures are unsecured obligations and rank equally in right of payment with all other existing and future unsecured and unsubordinated obligations. The Convertible Debentures are not guaranteed by any of ProAssurance's subsidiaries.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

10. LONG-TERM DEBT (CONTINUED)

and, accordingly, the Convertible Debentures are effectively subordinated to the indebtedness and other liabilities of ProAssurance's subsidiaries, including insurance policy-related liabilities.

Interest. Interest is payable on June 30 and December 30 of each year, beginning December 30, 2003, at an annual rate of 3.90%. In addition, ProAssurance may be required to pay contingent interest, as set forth below under Contingent Interest.

Contingent Interest. Contingent interest is due to the holders of the Convertible Debentures during any six-month period from June 30 to December 29 and from December 30 to June 29 commencing with the six-month period beginning June 30, 2008, if the average market price of a Convertible Debenture for the five trading days ending on the second trading day immediately preceding the relevant six-month period equals 120% or more of the principal amount of the Convertible Debentures. The amount of contingent interest payable in respect of any six-month period will equal 0.1875% of the average market price of a Convertible Debenture for the five trading day period referred to above.

Conversion Rights. At December 31, 2004 the Convertible Debentures are not eligible for conversion; however, holders may convert the Convertible Debentures at any time prior to stated maturity from and after the date of the following events:

- if the sale price of ProAssurance's common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the immediately preceding fiscal quarter exceeds 120% of the conversion price on that 30th trading day,
- if ProAssurance calls the Convertible Debentures for redemption, or
- upon the occurrence of certain corporate transactions.

For each \$1,000 principal amount of Convertible Debentures surrendered for conversion, holders initially will receive 23.9037 shares of common stock. This represents an initial conversion price of approximately \$41.83 per share of common stock. The conversion rate may be adjusted for certain reasons, but will not be adjusted for accrued interest or contingent interest, if any. Upon conversion, holders will generally not receive any cash payment representing accrued interest or contingent interest, if any. Instead, accrued interest and contingent interest will be deemed paid by the common stock received by the holders on conversion. Convertible Debentures called for redemption may be surrendered for conversion until the close of business two business days prior to the redemption date.

Upon conversion, ProAssurance has the right to deliver, in lieu of common stock, cash or a combination of cash and shares of common stock.

Payment at Maturity. Each holder of \$1,000 Convertible Debentures will be entitled to receive \$1,000 at maturity, plus accrued interest, including contingent interest, if any.

Sinking Fund. None.

Optional Redemption. ProAssurance may not redeem the Convertible Debentures prior to July 7, 2008. ProAssurance may redeem some or all of the Convertible Debentures for cash on or after July 7, 2008, upon at least 30 days but not more than 60 days notice by mail to holders at par.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

Repurchase Right of Holders. Each holder of the Convertible Debentures may require ProAssurance to repurchase all or a portion of the holder's Convertible Debentures on June 30, 2008, June 30, 2013 and June 30, 2018 at a purchase price equal to the principal amount of the Convertible Debentures plus accrued and unpaid interest, including contingent interest, if any, to the date of repurchase. ProAssurance may choose to pay the purchase price in cash, shares of common stock, or a combination of cash and shares of common stock. If ProAssurance elects to pay all or a portion of the repurchase price in common stock, the shares of common stock will be valued at 97.5% of the average sale price for the 20 trading days immediately preceding and including the third day prior to the repurchase date.

Change of Control. Upon a change of control of ProAssurance, holders may require ProAssurance, subject to conditions, to repurchase all or a portion of the Convertible Debentures. Depending upon the date at which the change of control occurs, ProAssurance will pay a purchase price equal to a varying percentage of the applicable principal amount of such Convertible Debentures plus accrued and unpaid interest, including contingent interest and additional amounts, if any. The percentage ranges from 108% for dates before June 29, 2005 to 100% for dates after June 30, 2008. ProAssurance may choose to pay the repurchase price in cash, shares of common stock, shares of common stock of the surviving corporation or a combination of cash and shares of the applicable common stock. If ProAssurance elects to pay all or a portion of the repurchase price in shares of common stock, the shares of the applicable common stock will be valued at 97.5% of the average sale price of the applicable common stock for 20 trading days commencing after the third trading day following notice of the occurrence of a change of control.

Events of Default. If there is an event of default under the Convertible Debentures, the principal amount of the Convertible Debentures, plus accrued interest, including contingent interest, if any, may be declared immediately due and payable. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.

Registration Rights. On December 15, 2003 ProAssurance filed a shelf registration statement with the SEC with respect to the resale of the Convertible Debentures and the shares of common stock issuable upon conversion of the Convertible Debentures pursuant to a registration rights agreement. ProAssurance has agreed to keep the shelf registration statement effective until the earliest of:

- two years after the last date of original issuance of any of the Convertible Debentures,
- the date when the holders of the Convertible Debentures and common stock issuable upon conversion of the Convertible Debentures are able to sell all such securities immediately pursuant to Rule 144 under the Securities Act,
- the date when all of the Convertible Debentures and common stock issuable upon conversion of the Convertible Debentures are registered upon the shelf registration statement and sold in accordance with it, or
- the date when all of the Convertible Debentures and common stock issuable upon conversion of the Convertible Debentures have ceased to be outstanding.

The Convertible Debentures do not require ProAssurance to maintain minimum financial covenants.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

10. LONG-TERM DEBT (CONTINUED)

Trust Preferred Subordinated Debentures

In April and May 2004, ProAssurance formed two business trusts, ProAssurance Capital Trust I and ProAssurance Capital Trust II (the Trusts), as the holder of all voting securities issued by the Trusts, for the sole purpose of issuing, in private placement transactions, \$45.0 million of trust preferred securities (TPS) and using the proceeds thereof, together with the equity proceeds received from ProAssurance in the initial formation of the Trusts, to purchase subordinated debentures issued by ProAssurance. The only assets of the Trusts are \$46.4 million variable rate ProAssurance subordinated debentures (Subordinated Debentures). The terms and maturities of the Subordinated Debentures mirror those of the TPS. The Trusts will meet the obligations of the TPS with the interest and principal ProAssurance pays to the Trusts on the Subordinated Debentures. ProAssurance is not the primary beneficiary of the Trusts, and therefore, in accordance with the provisions of FIN 46, the Trusts are not consolidated by ProAssurance. ProAssurance's equity investment in the Trusts is included in other assets and the Subordinated Debentures payable to the Trusts are included as long-term debt in the accompanying Condensed Consolidated Balance Sheets.

The Subordinated Debentures and the TPS have the same maturities and other applicable terms and features. They are uncollateralized and bear a floating interest rate equal to the three-month LIBOR plus 3.85%, adjustable and payable quarterly, with a maximum rate within the first five years of 12.5%. ProAssurance has the right under the Subordinated Debentures to extend interest payment periods up to twenty consecutive quarterly periods, and as a consequence, dividends on the preferred securities may be deferred (but will continue to accumulate, together with additional dividends on any accumulated but unpaid dividends at the dividend rate) during any such extended interest payment periods. ProAssurance may not pay any stockholder dividends during any extended interest payment period or at any time ProAssurance is in default under the Subordinated Debentures. The Subordinated Debentures and the TPS have stated maturities of thirty years but may be redeemed at any time after five years. The Subordinated Debentures do not require ProAssurance to maintain minimum financial covenants.

ProAssurance received net proceeds from the TPS transactions, after commissions and other costs of issuance, of \$44.9 million. Issue costs of \$1.5 million were capitalized and are being amortized over five years as a component of amortization expense. The proceeds are available for general corporate purposes, including providing statutory capital for ProAssurance's professional liability insurance subsidiaries.

ProAssurance has guaranteed that amounts paid to the Trusts related to the Subordinated Debentures will be remitted to the holders of the TPS. The guarantee, when taken together with the obligations of ProAssurance under the Subordinated Debentures, the Indenture pursuant to which the Subordinated Debentures were issued, and the related trust agreements (including its obligations to pay related trust cost, fees, expenses, debts and other obligations of the Trusts other than with respect to the TPS and the common securities of the Trusts), provides a full and unconditional guarantee of amounts due on the TPS. The amounts guaranteed are not expected to at any time exceed the obligations of the Subordinated Debentures, and no additional liability has been recorded related to the TPS or the guarantee.

At December 31, 2004 the fair value of our Convertible Debentures is approximately 114.5% of face value based on available independent market quotes. The fair value of our Subordinated Debentures approximates the face value of those debentures.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

11. STOCKHOLDERS' EQUITY

At December 31, 2004 ProAssurance had 100 million shares of authorized common stock and 50 million shares of authorized preferred stock. The Board of Directors has the authorization to determine the provisions for the issuance of shares of the preferred stock, including the number of shares to be issued, the designations, powers, preferences and rights, and the qualifications, limitations or restrictions of such shares. At December 31, 2004, the Board of Directors had not authorized the issuance of any preferred stock nor determined any provisions for the preferred stock.

At December 31, 2004 approximately 2.9 million of ProAssurance's authorized shares of common stock are reserved by the Board of Directors of ProAssurance for the award or issuance of shares under incentive compensation plans as described in Note 12. Additionally, approximately 1.1 million common shares are reserved for the exercise of outstanding options, also discussed in Note 12.

"Accumulated other comprehensive income (loss)" shown in the Consolidated Statements of Changes in Capital is solely comprised of net unrealized gains (losses) on securities available for sale, net of taxes.

On November 13, 2002, ProAssurance sold 2.65 million common shares at an offering price of \$16.55 per share. The offering generated net proceeds of \$40.6 million. ProAssurance used the net proceeds from the sale of the newly issued shares to support the growth of its professional liability insurance business and for general corporate purposes. The underwriting agreement granted the underwriters a thirty-day over-allotment option for up to 375,000 shares that was exercised on December 4, 2002 and that generated additional net proceeds of \$5.9 million.

ProAssurance has on file a universal shelf registration statement with the Securities and Exchange Commission, allowing up to \$250 million in common stock, preferred stock or debt securities. ProAssurance may sell any class of the registered securities or combinations thereof in one or more separate offerings at a total price up to the amount registered with the amount, price and terms of the securities sold in each offering to be determined at the time of sale. ProAssurance has no present commitments to sell securities under the shelf registration.

12. STOCK OPTIONS

ProAssurance provides performance-based stock compensation to employees under the ProAssurance 2004 Equity Incentive Plan (the 2004 Plan) and the ProAssurance Corporation Incentive Compensation Stock Plan (the 1995 Plan). The 2004 Plan was adopted in May 2004 and is intended as a replacement for the 1995 Plan. Under both plans, the terms and conditions of all grants are at the discretion of the compensation committee. At December 31, 2004 there were 10,000 options outstanding under the 2004 Plan and 1,039,337 options outstanding under the 1995 Plan. All options have been granted at a price equal to the market price of the stock on the date of grant. The stock options granted in 2004, 2003 and 2002 expire ten years after the grant date and vest at a rate of 20% each year, beginning six months after the grant date. The remaining options outstanding under the plan were granted in 1997, 1998 and 1999; these options expire ten years after the grant date and were fully vested at the grant date.

As a part of the consolidation with Professionals Group, ProAssurance assumed all options outstanding under Professionals Group, Inc.'s 1996 Long-term Stock Incentive Plan (the Professionals Plan). The options assumed were fully vested. At December 31, 2004 there were 56,036 options outstanding under the Professionals Plan. No additional options are expected to be issued related to the Professionals Plan.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

12. STOCK OPTIONS (CONTINUED)

Information regarding ProAssurance's outstanding options for the years ending December 31, 2004, 2003, and 2002 follows:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	----- 2004 -----		----- 2003 -----		----- 2002 -----	
Outstanding at beginning of year	993,576	\$ 20.72	1,103,037	\$ 19.46	719,313	\$ 20.82
Granted	291,329	\$ 33.28	303,000	\$ 22.00	415,000	\$ 16.80
Exercised	(141,832)	\$ 19.50	(348,815)	\$ 18.23	(31,276)	\$ 15.54
Forfeited	(37,700)	\$ 26.58	(63,646)	\$ 18.72	-	-
	-----		-----		-----	
Outstanding at end of year	1,105,373	\$ 24.03	993,576	\$ 20.72	1,103,037	\$ 19.46
	=====		=====		=====	
Options exercisable at end of year	585,994	\$ 22.74	552,176	\$ 21.75	771,037	\$ 20.60
	=====		=====		=====	

Outstanding ProAssurance options as of December 31, 2004 consisted of the following:

RANGE OF EXERCISE PRICES	NUMBERS	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
		WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
-----	-----	-----	-----	-----	-----
\$ 9.57 - \$ 14.27	19,096	2.9 YEARS	\$ 12.98	19,096	\$ 12.98
\$ 16.80 - \$ 17.38	288,684	6.5 YEARS	\$ 16.87	142,684	\$ 16.93
\$ 18.66 - \$ 21.01	38,247	4.4 YEARS	\$ 20.75	38,247	\$ 20.75
\$ 22.00 - \$ 22.00	213,000	8.7 YEARS	\$ 22.00	63,000	\$ 22.00
\$ 24.68 - \$ 26.03	270,517	3.1 YEARS	\$ 24.89	270,517	\$ 24.89
\$ 33.28 - \$ 33.28	262,250	9.7 YEARS	\$ 33.28	52,450	\$ 33.28
\$ 36.46 - \$ 38.52	13,579	8.3 YEARS	\$ 37.00	-	-
	-----			-----	
ALL	1,105,373	6.7 YEARS	\$ 24.03	585,994	\$ 22.74
	=====			=====	

The weighted average fair value of options granted during 2004, 2003 and 2002 was \$13.10, \$8.46 and \$6.97, respectively. The fair values have been estimated as of the date of grant using the Black-Scholes option pricing model, based on the following assumptions (on a weighted-average basis):

	2004	2003	2002
	-----	-----	-----
Risk-free interest rate	3.4%	3.1%	4.6%
Expected volatility	0.34	0.34	0.34
Dividend yield	0%	0%	0%
Expected average term (in years)	6	6	6

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

13. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

ProAssurance adopted SFAS No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002.

In accordance with SFAS No. 142, as of January 1, 2002 ProAssurance discontinued amortizing its recorded goodwill and deferred credits, and recognized the unamortized balance of deferred credits of \$1.7 million that existed at December 31, 2001 related to business combinations completed prior to July 1, 2001. The write-off has been recognized as the cumulative effect of a change in accounting principle. There is no tax effect related to the write-off because the deferred credits were not amortizable for tax purposes.

14. EARNINGS PER SHARE

The following represents a reconciliation from the basic to the diluted numerator and denominator used in calculating the diluted earnings per share:

	Year ended December 31		
	2004	2003	2002
	-----	-----	-----
	In thousands except per share data		
Basic earnings per share calculation:			
Numerator:			
Income before cumulative effect of accounting change	\$ 72,811	\$ 38,703	\$ 10,513
Cumulative effect of accounting change	-	-	1,694
	-----	-----	-----
Net income	\$ 72,811	\$ 38,703	\$ 12,207
	=====	=====	=====
Denominator:			
Weighted average number of common shares outstanding	29,164	28,956	26,231
	=====	=====	=====
Basic earnings per share:			
Income before cumulative effect of accounting change	\$ 2.50	\$ 1.34	\$ 0.40
Cumulative effect of accounting change	-	-	0.07
	-----	-----	-----
Net income	\$ 2.50	\$ 1.34	\$ 0.47
	=====	=====	=====
Diluted earnings per share calculation:			
Numerator:			
Income before cumulative effect of accounting change	\$ 72,811	\$ 38,703	\$ 10,513
Effect of MEEMIC Holdings stock options held by minority stockholders	-	-	(210)
Effect of assumed conversion of contingently convertible debt instruments	2,967	1,425	-
	-----	-----	-----
Income before cumulative effect of accounting change - diluted computation	75,778	40,128	10,303
Cumulative effect of accounting change	--	--	1,694
	-----	-----	-----
Net income-diluted computation	\$ 75,778	\$ 40,128	\$ 11,997
	=====	=====	=====
Denominator:			
Weighted average number of common shares outstanding	29,164	28,956	26,231
Assumed conversion of dilutive stock options and awards	248	188	23
Assumed conversion of contingently convertible debt instruments	2,572	1,245	-
	-----	-----	-----
Diluted weighted average equivalent shares	31,984	30,389	26,254
	=====	=====	=====
Diluted earnings per share:			
Income before cumulative effect of accounting change	\$ 2.37	\$ 1.32	0.39
Cumulative effective of accounting change	-	-	0.07
	-----	-----	-----
Net income	\$ 2.37	\$ 1.32	\$ 0.46
	=====	=====	=====

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

14. EARNINGS PER SHARE (CONTINUED)

In accordance with SFAS 128 "Earnings per Share", the diluted weighted average number of shares outstanding includes an incremental adjustment for the assumed exercise of dilutive stock options. The adjustment is computed quarterly; the annual incremental adjustment is the average of the quarterly adjustments. Stock options are considered dilutive stock options if the assumed conversion of the options, using the treasury stock method as specified by SFAS 128, produces an increased number of outstanding shares. Options are not dilutive when the exercise price of the option is below the average share price during the quarter. During years ended December 31, 2004, 2003 and 2002 certain of ProAssurance's outstanding options were not considered to be dilutive, because the strike price of the options was below the average ProAssurance share price during the quarter. The number of options not considered to be dilutive during the years ended December 31, 2004, 2003, and 2002 averaged 126,400, 83,500 and 638,000, respectively.

In compliance with the consensus reached in EITF 04-8, ProAssurance has assumed conversion of its outstanding convertible debt in the computation of diluted earnings per share for the year ended December 31, 2004 and has restated diluted earnings per share for the year ending December 31, 2003 to assume conversion of its convertible debt for the period in which the debt was outstanding in 2003. The restatement reduced previously reported diluted earnings per share for the year ending December 31, 2003 by \$0.01. Diluted earnings per share for the year ending December 31, 2002 was not restated because there was no outstanding convertible debt in 2002.

15. BENEFIT PLANS

ProAssurance currently maintains several defined contribution employee benefit plans that are intended to provide additional income to eligible employees upon retirement. ProAssurance's contributions to the plans are primarily based upon employee contributions to the plans. ProAssurance's expense under these benefit plans was \$3.3 million during the year ended December 31, 2004 and \$3.1 million during each of the years ended December 31, 2003 and 2002.

16. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

ProAssurance's insurance subsidiaries are required to file statutory financial statements with state insurance regulatory authorities. GAAP differs from statutory accounting practices prescribed or permitted by regulatory authorities. Differences between financial statement net income and statutory net income are principally due to: (a) policy acquisition costs which are deferred under GAAP but expensed for statutory purposes; (b) investments in affiliates which are valued and carried on the cost or equity method for statutory purposes but consolidated under GAAP; and (c) deferred income taxes which are recorded under GAAP but not for statutory purposes.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

16. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS (CONTINUED)

The NAIC specifies risk-based capital requirements for property and casualty insurance providers. At December 31, 2004, statutory capital for each insurance subsidiary was sufficient to satisfy regulatory requirements. Statutory surplus and net income (loss) for each of ProAssurance's insurance subsidiaries for the years ended December 31, 2004 and 2003 are as follows:

	STATUTORY SURPLUS AS OF DECEMBER 31, 2004	STATUTORY NET INCOME (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2004

In thousands		
The Medical Assurance Company, Inc.	\$276,909	\$ 17,555
ProNational Insurance Company	241,825	32,448
Red Mountain Casualty Insurance Company, Inc.	16,511	1,233
Medical Assurance of West Virginia, Inc.	8,285	(2,608)
MEEMIC Insurance Company	142,753	24,033

	Statutory Surplus as of December 31, 2003	Statutory Net Income (Loss) for the year ended December 31, 2003

In thousands		
The Medical Assurance Company, Inc.	\$238,740	\$ 11,719
ProNational Insurance Company	187,937	(8,971)
Red Mountain Casualty Insurance Company, Inc.	16,785	963
Medical Assurance of West Virginia, Inc.	10,202	(42)
MEEMIC Insurance Company	116,780	17,677

Consolidated retained earnings are comprised primarily of subsidiaries' retained earnings. ProAssurance's insurance subsidiaries are permitted to pay dividends of approximately \$58 million during the next year to ProAssurance or its directly owned non-insurance subsidiaries without prior approval. However, the payment of any dividend requires prior notice to the insurance regulator in the state of domicile and the regulator may prevent the dividend if, in its judgment, payment of the dividend would have an adverse effect on the surplus of the insurance subsidiary.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

17. VARIABLE INTEREST ENTITIES

ProAssurance holds passive investments in four limited partnerships/limited liability companies that are considered to be VIE's under FIN 46(R) guidance. ProAssurance is not the primary beneficiary relative to these entities and is not required to consolidate the entities under FIN 46(R). These investments are included in Other Investments and total \$39.3 million at December 31, 2004 and \$37.1 million at December 31, 2003. The entities are all non-public investment pools formed for the purpose of achieving diversified equity and debt returns. ProAssurance's investment in one of the entities approximates \$6.1 million (a 31% interest) and is accounted for using the equity method of accounting; this investment was acquired in 2002. The remaining three investments each represent less than 10% interests in the investee, and ProAssurance uses the cost method of accounting. These investments were acquired between 2001 and 2003. ProAssurance's maximum loss exposure relative to each of the entities is limited to the carrying value of ProAssurance's investment in the entity.

ProAssurance also holds all the voting securities issued by two Trusts, ProAssurance Capital Trust I and ProAssurance Capital Trust II, that are considered to be VIE's. See Note 10. The Trusts are not consolidated because ProAssurance is not the primary beneficiary of either trust. Accordingly, within the accompanying December 31, 2004 condensed consolidated balance sheet, the Subordinated Debentures issued by ProAssurance to the Trusts are included in long-term debt, and ProAssurance's \$1.4 million equity investment in the Trusts is included in Other Assets.

18. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of unaudited quarterly results of operations for 2004 and 2003:

	2004			
	1st	2nd	3rd	4th
	IN THOUSANDS EXCEPT PER SHARE DATA			
Net premiums earned	\$ 167,842	\$ 165,897	\$ 175,346	\$ 186,934
Net losses and loss adjustment expenses	141,920	136,779	144,281	149,901
Net income	15,981	15,804	19,518	21,509
Basic earnings per share	0.55	0.54	0.67	0.74
Diluted earnings per share	0.52	0.52	0.63	0.69
Diluted earnings per share, as reported prior to the implementation of EITF 04-08	0.54	0.54	0.66	NOT APPLICABLE
	2003			
	1st	2nd	3rd	4th
Net premiums earned	\$ 138,196	\$ 147,684	\$ 165,430	\$ 172,204
Net losses and loss adjustment expenses	125,048	131,300	145,783	149,245
Net income	6,349	8,792	9,735	13,827
Basic earnings per share	0.22	0.30	0.34	0.48
Diluted earnings per share	0.22	0.30	0.33	0.46
Diluted earnings per share, as reported prior to the implementation of EITF 04-08	0.22	0.30	0.33	0.47

The sum of the above amounts may vary from the annual amounts because of rounding.

As discussed in Note 1, ProAssurance has adopted the provisions of EITF 04-08 and diluted earnings per share for all periods presented includes the dilutive effect of common shares potentially issuable related to ProAssurance's contingently convertible debt. ProAssurance had no contingently convertible debt outstanding in the 1st and 2nd quarters of 2003.

PROASSURANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

19. SUBSEQUENT EVENTS

On February 28, 2005 ProAssurance Corporation and NCRIC Group, Inc. (NASDAQ: NCRI) reached an agreement to merge NCRIC into ProAssurance in a \$69.6 million, all-stock transaction which values NCRIC at \$10.10 per share, based on the closing price of ProAssurance common stock on Friday, February 25, 2005.

Under the terms of the agreement each holder of common stock of NCRIC will have the right to receive 0.25 of a share of ProAssurance common stock for each share of NCRIC common stock. This exchange ratio is subject to adjustment in the event that the market price of the ProAssurance stock prior to the closing either exceeds \$44 or is less than \$36 such that the exchange ratio would then be adjusted such that the value per NCRIC share would neither exceed \$11 nor be less than \$9, respectively. The transaction is subject to required regulatory approvals and a vote of NCRIC stockholders and is expected to close early in the third quarter of 2005.

The proposed transaction will be submitted to NCRIC Group's stockholders for their consideration. ProAssurance and NCRIC Group will file with the SEC a registration statement and a proxy statement/prospectus and other relevant documents concerning the proposed transaction.

ProAssurance Corporation and Subsidiaries
Schedule I - Summary of Investments - Other Than Investments in Related Parties
December 31, 2004

TYPE OF INVESTMENT	COST OR AMORTIZED COST	FAIR VALUE	AMOUNT AT WHICH SHOWN IN THE BALANCE SHEET
-----	-----	-----	-----
	In thousands		
Fixed Maturities:			
U.S. Treasury securities	\$ 171,256	\$ 171,347	\$ 171,347
State and municipal bonds	823,951	838,921	838,921
Corporate bonds	658,177	674,339	674,339
Asset-backed securities	570,744	573,378	573,378
Certificates of deposit	-	-	-
	-----	-----	-----
Total fixed maturities	2,224,128	\$ 2,257,985	2,257,985
		=====	
Equity securities:			
Available for sale	31,548	35,230	35,230
Trading	3,739	4,150	4,150
	-----	-----	-----
Total equity securities	35,287	\$ 39,380	39,380
		=====	
Real Estate, net	19,244		19,244
Short-term investments	41,423		41,423
Other invested assets	42,883		42,883
Business owned life insurance	54,138		54,138
	-----	-----	-----
Total investments	\$ 2,417,103		\$ 2,455,053
	=====		=====

PROASSURANCE CORPORATION AND SUBSIDIARIES
SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

ProAssurance Corporation - Registrant Only
Condensed Balance Sheet

	2004	December 31 2003
	-----	-----
		In thousands
ASSETS		
Investment in subsidiaries, at equity	\$ 661,575	\$ 610,297
Fixed maturities available for sale, at fair value	56,889	5,501
Equity securities, trading portfolio, at fair value	-	5,226
Short-term investments	2,676	23,440
Cash and cash equivalents	743	878
Due from subsidiaries	11,956	-
Other assets	29,827	30,215
	-----	-----
	\$ 763,666	\$ 675,557
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Payable to subsidiaries	\$ -	\$ 23,868
Other liabilities	1,167	595
Long-term debt	151,480	104,789
	-----	-----
	152,647	129,252
Stockholders' Equity:		
Common stock	293	292
Other stockholders' equity, including unrealized gains (losses) on securities of subsidiaries	610,726	546,013
	-----	-----
Total stockholders' equity	611,019	546,305
	-----	-----
	\$ 763,666	\$ 675,557
	=====	=====

ProAssurance Corporation - Registrant Only
Condensed Statements of Income

	Year ended December 31		
	2004	2003	2002
	----	----	----
		In thousands	
Revenues:			
Investment income	\$ 1,317	\$ 267	\$ 57
Other Income	2,779	308	-
	-----	-----	-----
	4,096	575	57
Expenses:			
Loss on early extinguishment of debt	-	305	-
Interest expense	6,515	3,409	2,875
Other expenses	3,882	1,702	1,441
	-----	-----	-----
	10,397	5,416	4,316
Loss before income tax (benefit) and equity in net income of subsidiaries			
	(6,301)	(4,841)	(4,259)
Income tax (benefit)	(2,319)	(967)	(1,491)
	-----	-----	-----
Loss before equity in net income of subsidiaries	(3,982)	(3,874)	(2,768)
Equity in net income of subsidiaries	76,793	42,577	14,975
	-----	-----	-----
Net income	\$ 72,811	\$ 38,703	\$ 12,207
	=====	=====	=====

PROASSURANCE CORPORATION AND SUBSIDIARIES
SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

ProAssurance Corporation - Registrant Only
Condensed Statements of Cash Flow

	Year ended December 31		
	2004	2003	2002
	----- In thousands -----		
Cash used by operating activities	\$ (11,896)	\$ (9,733)	\$ (6,533)
Investing activities			
Purchases of fixed maturities	(101,172)	(134,661)	-
Proceeds from sale or maturities of :			
Fixed maturities available for sale	50,480	129,160	-
Equity securities available for sale	7,791	-	-
Net decrease/increase in short-term investments	20,764	(23,440)	-
Dividends from subsidiaries	28,350	-	-
Contribution of capital to subsidiaries	(38,000)	(25,483)	-
Other	(1,395)	-	-
	-----	-----	-----
	(33,182)	(54,424)	-
Financing activities			
Proceeds from long-term debt	44,907	104,641	-
Repayment of debt	-	(72,500)	(10,000)
Proceeds from stock offering	-	-	46,499
Other	36	2,881	-
	-----	-----	-----
	44,943	35,022	36,499
Increase (decrease) in cash and cash equivalents	(135)	(29,135)	29,966
Cash and cash equivalents, beginning of period	878	30,013	47
	-----	-----	-----
Cash and cash equivalents, end of period	\$ 743	\$ 878	\$ 30,013
	=====	=====	=====

NOTES TO CONDENSED FINANCIAL STATEMENTS OF REGISTRANT

1. Basis of Presentation

ProAssurance Corporation (PRA Holding) was formed for the purpose of consolidating Medical Assurance, Inc. (Medical Assurance) and Professionals Group, Inc. (Professionals Group); the consolidation date was June 27, 2001. The registrant-only financial statements should be read in conjunction with ProAssurance's consolidated financial statements. At December 31, 2004 and 2003 PRA Holding's investment in subsidiaries is stated at the initial consolidation value plus equity in the undistributed earnings of subsidiaries since the date of acquisition less dividends received from the subsidiaries.

2. Other Assets

Other assets includes goodwill of \$15.6 million related to PRA Holding's acquisition of Professionals Group and goodwill of \$7.6 million related to the 2003 acquisition of the minority interest of MEEMIC Holdings, Inc., a subsidiary of Professionals Group.

PROASSURANCE CORPORATION AND SUBSIDIARIES
SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

NOTES TO CONDENSED FINANCIAL STATEMENTS OF REGISTRANT (CONTINUED)

3. Long-term Debt

Outstanding long-term debt, as of December 31, 2004 and December 31, 2003, consisted of the following:

	December 31 2004	December 31 2003
	-----	-----
	\$ In thousands	
Convertible Debentures due June 30, 2023 (Convertible Debentures), unsecured and bearing a fixed interest rate of 3.9%, net of unamortized original issuer's discounts of \$2,515 and \$2,811 at December 31, 2004 and December 31, 2003, respectively.	\$ 105,085	\$ 104,789
Trust Preferred Subordinated Debentures (Subordinated Debentures), unsecured, and bearing floating interest rate, adjustable quarterly, at three-month LIBOR plus 3.85%.		
Due	December 31, 2004 Rate	
April 29, 2034	6.14%	13,403
May 12, 2034	6.14%	10,310
May 12, 2034	6.14%	22,682

		\$ 151,480

		\$ 104,789
		=====

PRA Holding issued \$107.6 million of 3.9% Convertible Debentures in a Private Offering transaction, net of an initial purchaser's discount of \$3.0 million, in July 2003. The Convertible Debentures are due June 30, 2023 but may be repaid or called prior to that date. PRA Holding used the net proceeds of the Convertible Debentures to pay off its existing term loan having an outstanding principal balance of \$67.5 million.

In April and May 2004, PRA Holding formed two business trusts (the Trusts), as the holder of all voting securities issued by the Trusts, for the sole purpose of issuing, in private placement transactions, \$45.0 million of trust preferred securities (TPS) and using the proceeds thereof, together with the equity proceeds received from ProAssurance in the initial formation of the Trusts, to purchase Subordinated Debentures issued by ProAssurance. The Subordinated Debentures and the TPS have the same maturities and other applicable terms and features. They are uncollateralized and bear a floating interest rate equal to the three-month LIBOR plus 3.85%, adjustable and payable quarterly, with a maximum rate within the first five years of 12.5%.

See Note 10 of the Notes to the consolidated financial statements of ProAssurance and its subsidiaries included herein for a detailed description of the terms of the Convertible Debentures and the Subordinated Debentures.

4. Related Party Transactions

PRA Holding received dividends of \$28.4 million from its subsidiaries in 2004. No dividends were received in 2003. PRA Holding contributed capital of \$18 million in 2004 to its subsidiaries. In 2003, PRA Holding contributed \$45 million to its subsidiaries, of which \$20 million was paid in 2004.

All of PRA Holding's treasury shares are owned by its subsidiaries. In the registrant-only financial statements, stockholders' equity has been reduced by the cost of these treasury shares and PRA Holding's investment in subsidiaries has been reduced by the cost of the treasury shares owned by the subsidiaries.

5. Income Taxes

Under terms of PRA Holding's tax sharing agreement with its subsidiaries, income tax provisions for individual companies are allocated on a separate company basis.

PROASSURANCE CORPORATION AND SUBSIDIARIES
SCHEDULE III - SUPPLEMENTARY INSURANCE INFORMATION
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

	2004	2003	2002
	In thousands		
Deferred policy acquisition costs.....	\$ 27,662	\$ 23,603	\$ 22,729
Reserve for losses and loss adjustment expenses.....	2,029,592	1,814,584	1,622,468
Unearned premiums.....	314,179	290,134	248,371
Net premiums earned.....	696,020	623,514	477,408
Premiums assumed from other companies.....	96	2,508	2,991
Net investment income.....	87,225	73,619	76,918
Net losses and loss adjustment expenses.....	572,881	551,376	448,029
Underwriting, acquisition and insurance expenses:			
Amortization of deferred policy acquisition costs...	63,370	54,863	41,800
Other underwriting, acquisition and			
insurance expenses.....	54,319	49,353	49,453
Net premiums written.....	717,059	668,909	537,123

PROASSURANCE CORPORATION AND SUBSIDIARIES
SCHEDULE IV - REINSURANCE
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

	2004 -----	2003 -----	2002 -----
		In thousands	
PROPERTY AND CASUALTY			
Premiums earned	\$ 765,547	\$ 695,839	\$ 573,091
Premiums ceded	(69,623)	(74,833)	(98,918)
Premiums assumed	280	2,495	2,516
	-----	-----	-----
Net premiums earned	\$ 696,204 =====	\$ 623,501 =====	\$ 476,689 =====
Percentage of amount assumed to net	0.04% =====	0.40% =====	0.53% =====
ACCIDENT AND HEALTH			
Premiums earned	-	-	332
Premiums ceded	-	-	(88)
Premiums assumed	(184)	13	475
	-----	-----	-----
Net premiums earned	\$ (184) =====	\$ 13 =====	\$ 719 =====
Percentage of amount assumed to net	100% =====	100% =====	66.06% =====
Total net premiums earned	\$ 696,020 =====	\$ 623,514 =====	\$ 477,408 =====

PROASSURANCE CORPORATION AND SUBSIDIARIES
SCHEDULE VI - SUPPLEMENTARY PROPERTY AND CASUALTY INSURANCE INFORMATION
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

	2004	2003	2002
	-----	-----	-----
	In thousands		
Deferred policy acquisition costs	\$ 27,662	\$ 23,603	\$ 22,729
Reserve for losses and loss adjustment expenses	2,029,592	1,814,584	1,622,468
Unearned premiums	314,179	290,134	248,371
Net premiums earned	696,020	623,514	477,408
Net investment income	87,225	73,619	76,918
Losses and loss adjustment expenses incurred related to current year, net of reinsurance	589,497	562,256	439,600
Losses and loss adjustment expenses incurred related to prior year, net of reinsurance	(16,616)	(10,880)	8,429
Amortization of deferred policy acquisition costs	63,370	54,863	41,800
Paid losses and loss adjustment expenses related to current year losses, net of reinsurance	(92,362)	(94,824)	(84,376)
Paid losses and loss adjustment expenses related to prior year losses, net of reinsurance	(230,040)	(247,235)	(271,482)

EXHIBIT INDEX

Exhibit Number -----	Description -----
2.1	Agreement to Consolidate by and between Medical Assurance, Inc. and Professionals Group, Inc. dated June 22, 2000 as amended as of November 1, 2000. (1)
2.2	Agreement and Plan of Merger dated as of July 9, 2002 among ProNational Insurance Company, MEEMIC Merger Corp. and MEEMIC Holdings (2)
2.3	Amendment No. 1 to Agreement and Plan of Merger dated as of July 9, 2002 among ProNational Insurance Company, MEEMIC Merger Corp. and MEEMIC Holdings, Inc. made on September 18, 2002 (3)
2.4	Agreement and Plan of Merger among ProAssurance, NCRIC Group, Inc. and NCP Merger Corporation, dated February 28, 2005 (4)
3.1(a)	Certificate of Incorporation of ProAssurance (1)
3.1(b)	Certificate of Amendment of ProAssurance (5)
3.2	Bylaws of ProAssurance
4.1	Purchase Agreement, dated July 1, 2003, between Registrant and the representatives of the initial purchasers of the Debentures (without exhibits) (6)
4.2	Indenture dated July 7, 2003, between and among Registrant and the initial purchasers of the Debentures (7)
4.3	Registration Rights Agreement, dated July 7, 2003, between and among Registrant and the initial purchasers of the Debentures (7)
4.4	ProAssurance Corporation Floating Rate Junior Subordinated Debenture due 2034 issued as on April 29, 2004 in original principal amount of \$13,403,000 (8)
4.5	Indenture between ProAssurance Corporation and Wilmington Trust Company as Trustee dated as of April 29, 2004 (8)
4.6	Certificate for 13,000 Preferred Securities of ProAssurance Capital Trust I (Liquidation Amount \$1,000 per Preferred Security) issued on April 29, 2004 (8)
4.7	Amended and Restated Declaration of Trust of ProAssurance Capital Trust I dated as of April 29, 2004 (8)
4.8	Preferred Securities Guarantee Agreement ProAssurance Capital Trust I dated as of April 29, 2004 (8)

- 4.9 ProAssurance Corporation Floating Rate Junior Subordinated Debenture due 2034 issued as on May 26, 2004 in original principal amount of \$22,682,000 (9)
- 4.10 ProAssurance Corporation Floating Rate Junior Subordinated Debenture due 2034 issued as on May 12, 2004 in original principal amount of \$10,310,000 (9)
- 4.11 Amended and Restated Declaration of Trust of ProAssurance Capital Trust II dated as of May 12, 2004 (9)
- 4.12 Preferred Securities Guarantee Agreement ProAssurance Capital Trust II dated as of May 12, 2004 (9)
- 4.13 Indenture between ProAssurance Corporation and Wilmington Trust Company as Trustee dated as of May 12, 2004 (9)
- 10.1(a) Medical Assurance, Inc. Incentive Compensation Stock Plan (formerly known as the Mutual Assurance, Inc. 1995 Stock Award Plan) (10)
- 10.1(b) Amendment and Assumption Agreement by and between ProAssurance and Medical Assurance, Inc. (5)
- 10.1(c) Amendment and Assumption Agreement by and between Mutual Assurance, Inc. and MAIC Holdings, Inc. dated April 8, 1996 (11)
- 10.2 Professionals Insurance Company Management Group 1996 Long Term Incentive Plan (12)
- 10.3 ProAssurance Corporation 2004 Equity Incentive Plan (13)
- 10.4(a) Release and Severance Agreement between Victor T. Adamo and ProAssurance (14)
- 10.4(b) Amendment to Release and Severance Compensation Agreement of Victor T. Adamo (15)
- 10.4(c) Release and Severance Agreement between Lynn M. Kalinowski and ProAssurance (16)
- 10.4(d) Release and Severance Agreement between Howard H. Friedman and ProAssurance (15)
- 10.4(e) Release and Severance Agreement between James J. Morello and ProAssurance (15)
- 10.4(f) Release and Severance Agreement between Frank B. O'Neil and ProAssurance (3)
- 10.5 Employment Agreement of A. Derrill Crowe, as amended (15)

- 10.6 Form of Indemnification Agreement between ProAssurance and each of the following named executive officers and directors of ProAssurance: (3)
- Victor T. Adamo
Lucian F. Bloodworth
Paul R. Butrus
A. Derrill Crowe
Robert E. Flowers
Howard H. Friedman
Lynn M. Kalinowski
John J. McMahon
James J. Morello
John P. North
Frank B. O'Neil
Ann F. Putallaz
Edward N. Rand
- 10.7 ProAssurance Group Employee Benefit Plan which includes the Executive Supplemental Life Insurance Program (Article VIII)
- 10.8 ProAssurance Group 2004 Deferred Compensation Plan dated October 11, 2004, of which A. Derrill Crowe is the sole participant
- 10.9 Development Agreement Between Kero Development LLC and MEEIC Insurance Company dated November 18, 2004 (without Rider and Exhibits)
- 21.1 Subsidiaries of ProAssurance Corporation
- 23.1 Consent of Ernst &Young - Report on Consolidated Financial Statements of Registrant and Subsidiaries
- 31.1 Certification of Principal Executive Officer of ProAssurance as required under SEC Rule 13a-14(a)
- 31.2 Certification of Principal Financial Officer of ProAssurance Corporation required under SEC Rule 13a-14(a)
- 32.1 Certification of Principal Executive Officer of ProAssurance as required under SEC Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as amended (18 U.S.C. 1350)
- 32.2 Certification of Principal Financial Officer of ProAssurance as required under SEC Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as amended (18 U.S.C. 1350)

Footnotes

- (1) Filed as an Exhibit to ProAssurance's Registration Statement on Form S-4 (File No. 333-49378) and incorporated herein by reference pursuant to Rule 12b-32 of the Securities and Exchange Commission ("SEC").
- (2) Filed as an Exhibit to ProAssurance's Quarterly Report on Form 10-Q for the period ended June 30, 2002 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32.
- (3) Filed as an Exhibit to ProAssurance's Annual Report on Form 10-K for the year ended December 31, 2002 (Commission File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32.
- (4) Filed as an Exhibit to ProAssurance's Current Report on Form 8-K for event occurring on February 28, 2005 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32.
- (5) Filed as an Exhibit to ProAssurance's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32.
- (6) Filed as an Exhibit to ProAssurance's Registration Statement on Form S-3 (File No. 333-109972) and incorporated by reference pursuant to SEC Rule 12b-32.
- (7) Filed as an Exhibit to ProAssurance's Quarterly Report on Form 10-Q for the period ended June 30, 2003 (File No. 001-16533) and incorporated by reference pursuant to SEC Rule 12b-32.
- (8) Filed as an Exhibit to ProAssurance's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (File No. 001-16533) and incorporated herein by this reference pursuant to SEC Rule 12b-32.
- (9) Filed as an Exhibit to ProAssurance's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (File No. 001-16533) and incorporated herein by this reference pursuant to SEC Rule 12b-32.
- (10) Filed as an Exhibit to MAIC Holding's Registration Statement on Form S-4 (File No. 33-91508) and incorporated herein by reference pursuant to SEC Rule 12b-32.
- (11) Filed as an Exhibit to MAIC Holding's Proxy Statement for the 1996 Annual Meeting (File No. 0-19439) is incorporated herein by reference pursuant to SEC Rule 12b-32.
- (12) Filed as an Exhibit to Professionals Group's Registration Statement on Form S-4 (File No. 333-3138) and incorporated herein by reference pursuant to SEC Rule 12b-32.
- (13) Filed as an Exhibit to ProAssurance's Definitive Proxy Statement (File No. 001-165333) on April 16, 2004 and incorporated herein by reference pursuant to SEC Rule 12b-32.

- (14) Filed as an Exhibit to ProAssurance's Form 10-Q (File No. 001-16533) for the quarter ended June 30, 2001 and incorporated herein by reference pursuant to SEC Rule 12b-32.
- (15) Filed as an Exhibit to ProAssurance's Registration Statement on Form S-3 (File No. 333-100526) and incorporated herein by reference pursuant to SEC Rule 12b-32.
- (16) Filed as an Exhibit to ProAssurance's Form 10-Q (File No. 001-16533) for the quarter ended September 30, 2001 and incorporated herein by reference pursuant to SEC Rule 12b-32.

108

</TEXT>
</DOCUMENT>

FIRST RESTATEMENT OF THE
BY-LAWS
OF
PROASSURANCE CORPORATION

ARTICLE I

OFFICES

SECTION 1. The registered office of ProAssurance Corporation (herein called the "Corporation"), in the State of Delaware shall be in the City of Wilmington, County of New Castle, State of Delaware.

SECTION 2. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

SECTION 3. This First Restatement of the By-Laws of the Corporation has been adopted by the Board of Directors of the Corporation to serve as the By-Laws of the Corporation effective December 3, 2003, and this First Restatement of the By-Laws amends, supersedes and replaces all provisions of the By-Laws previously adopted by the Board of Directors, including all prior amendments thereto.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 1. Meetings of stockholders may be held at such time and place, within or without the State of Delaware, as shall be determined from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed Waiver of Notice thereof. In the event that no place is designated, or if a special meeting is otherwise called, the place of the meeting shall be the principal office of the Corporation.

SECTION 2. Annual meetings of stockholders, commencing with the year 2002, shall be held on the second Tuesday in the month of May, if not a legal holiday, and if a legal holiday, then on the next succeeding business day, at 10:00 A.M., or at such other date and time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, for the purpose of electing directors and for the transaction of such other business as may properly come before the meeting. If the annual meeting is not held on the date designated therefor, the Board of Directors shall cause the meeting to be held as soon thereafter as convenient.

SECTION 3. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

SECTION 4. The officer or agent who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 5. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the Chairman of the Board, the Vice Chairman of the Board, or the President, and shall be called by the President or Secretary at the request in writing of eighty percent (80%) of the Board of Directors. Such request shall state the purpose or purposes of the proposed meeting.

SECTION 6. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting, to each stockholder entitled to vote at such meeting.

SECTION 7. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice therefor.

SECTION 8. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, at each meeting of stockholders the presence in person or by proxy of the holders of shares of stock having one-third of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote at the meeting shall be necessary and sufficient to constitute a quorum. Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

SECTION 9. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in his or her absence by the Vice Chairman of the Board, if any, or in his or her absence by the President, or in his or her absence by a Vice President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting. The chairman of the meeting shall announce at the meeting of stockholders the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote.

SECTION 10. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A stockholder may grant authority to another person or persons to act for him or her by proxy by any valid means permitted by law, or the Certificate of Incorporation or the By-Laws of the Corporation. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by delivering a proxy in accordance with applicable law bearing a later date to the Secretary of the Corporation. Voting at meetings of stockholders need not be by written ballot and, unless otherwise required by law, need not be conducted by inspectors of election unless so determined by the holders of shares of stock having a majority of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote thereon which are present in person or by proxy at such meeting. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by law, the Certificate of Incorporation or these By-Laws, be decided by the vote of the holders of shares of stock having a majority of the votes which could be cast by the holders of all shares of stock outstanding and entitled to vote thereon.

SECTION 11. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors and which record date: (1) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than sixty nor less than ten days before the date of such meeting; and (2) in the case of any other action, shall not be more than sixty days prior to such other action. If no record date is fixed: (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; and (2) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 12. The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the

meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

SECTION 13. The chairman of the meeting may adjourn any meeting of the stockholders from time to time, whether or not a quorum is present, without notice other than an announcement at the meeting. At such adjourned meeting, at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 14. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the Certificate of Incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question.

SECTION 15. A stockholder may propose a matter that is a proper subject for action by the stockholders for consideration at the annual meeting of the stockholders of the Corporation in accordance with the following procedure. Nominations for election to the Board of Directors shall be made only as provided in Article III, Section 9 of these By-Laws. A stockholder may submit not more than one proposal (excluding any for which a meeting has been called and is specified in the notice of the meeting) by delivery of written notice of such stockholder's intent to make such proposal, either by personal delivery or by United States mail, postage prepaid, to the secretary of the Corporation not later than December 1 in the year preceding the annual meeting at which the proposal is to be considered or such other date as may be established by the Board of Directors for a particular annual meeting by written notice to the stockholder or in a report or proxy statement filed with the Securities and Exchange Commission. Each such notice shall set forth: (a) a brief description of the matter or matters desired to be brought before the meeting (including the complete text of the resolutions to be presented at the meeting) and the reasons for considering such matter or matters at the meeting; (b) the name and address of the stockholder who intends to propose such matter or matters, as they appear on the Corporation's books, or evidence from the record holder in the Corporation's books that the person sending the notice is the owner of the shares; (c) a representation that the stockholder has been a holder of shares of the Corporation entitled to vote as such meeting for a period of one year and intends to hold such shares through the date of the annual meeting and to appear in person or by proxy at the meeting to bring before the meeting the matter specified in the notice; (iv) a description of all arrangements, understandings or relationships between the stockholder and any other person or persons (naming such person or persons) with respect to shares of capital stock of the Corporation or the matter specified in the notice; and (v) any material interest of the stockholder

in the matter specified in the notice. A stockholder proposal, including any accompanying statement, may not exceed five hundred (500) words. Stockholders may not submit proposals for consideration at a special meeting of the stockholders of the Corporation. The presiding officer at a meeting of the stockholders may refuse to acknowledge the proposal of any stockholder not made in compliance with the foregoing.

SECTION 16. A shareholder may not participate at an annual meeting or special meeting of shareholders by a conference telephone or other similar communications equipment.

ARTICLE III

DIRECTORS

SECTION 1. The business and affairs of the Corporation shall be managed by its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation directed or required to be exercised or done by the stockholders or officers of the Corporation.

SECTION 2. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware.

SECTION 3. A regular meeting of the Board of Directors shall be held without other notice than this By-Law immediately after, and at the same place as, the annual meeting of stockholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Delaware, for the holding of additional regular meetings without other notice than such resolution.

SECTION 4. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board of Directors, or the Vice-Chairman of the Board of Directors, or the President, and shall be called by the President at the request of at least sixty-six and two-thirds percent (66-2/3%) of the directors then serving on the Board of Directors.

SECTION 5. Notice of any special meeting shall be given at 24 hours before the time such special meeting is to be held. Said notice shall be in writing and delivered personally or by commercial courier, electronic mail or facsimile, to each director at his business address, or by telegram. If notice be given by facsimile or electronic mail, such notice shall be deemed to be delivered upon confirmation of the transmission of the notice to the business address of the director. If notice be given by courier, such notice shall be deemed to be delivered when the notice is delivered to the commercial courier. Any director may waive notice of any meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

SECTION 6. At all meetings of the Board of Directors, or of a committee thereof, a majority of the directors shall constitute a quorum for the transaction of business and the act of a

majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, or such committee, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board of Directors, or such committee, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 7. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

SECTION 8. By resolution of the Board of Directors, the directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid compensation for attendance at each meeting of the Board of Directors or fixed compensation as a director or both. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 9.

(a) Nominations for election to the Board of Directors shall be made by the Nominating/Corporate Governance Committee of the Board of Directors, or if none, by the independent Directors. The nominations for directors shall take into consideration the likelihood that a sufficient number of nominees will be determined to be independent directors so that the Board of Directors will have a majority of independent directors after their election to the Board. The Board of Directors shall determine the independence of directors and nominees for election as directors not less frequently than annually and prior to the solicitation of proxies from the stockholders for election of directors. The determination of the independence of a director or nominee shall comply with the rules and regulations of the Securities and Exchange Commission and the rules and listing standards of any regulatory or self-regulatory organization applicable to the Corporation, including without limitation, the New York Stock Exchange, Inc. For purposes of the By-Laws, the term "independent directors" shall refer to the directors and nominees elected as directors that the Board of Directors has determined are independent in accordance with these By-Laws.

(b) Any stockholder of any outstanding class of capital stock entitled to vote for the election for directors may nominate one or more persons for election as directors at an annual meeting of the stockholders only in accordance with the nomination procedure herein set forth. Nominations by a stockholder shall be made only by delivery of written notice of such stockholder's intent to make such nomination or nominations, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than December 1 in the year preceding the annual meeting at which the nomination(s) is proposed to be made or such other date as may be established by the Board of Directors for a particular annual meeting by notice to the stockholders in a proxy statement or report filed with the Securities and Exchange Commission. Each such notice shall be set forth: (a) the name and address of the stockholder, as they appear on the Corporation's books, who intends to make the nomination and

the name and address of the person or persons to be nominated; (b) a representation that the stockholder is a holder of shares of the Corporation entitled to vote at such meeting and a representation that the stockholder intends to be a holder on date of the meeting and to appear in person or by proxy to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the Board of Directors solicited proxies for the election of such nominee at the meeting; and (e) the consent of each nominee to serve as a director of the Corporation if so elected.

(c) The Board of Directors shall have no obligation to solicit proxies from the stockholders for election of any directors other than those nominated by the Nominating/Corporate Governance Committee or the Board of Directors, as the case may be. The presiding officer at the meeting of the stockholders may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

SECTION 10. Members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this By-Law shall constitute presence in person at such meeting.

SECTION 11. No person shall be nominated to serve on the Board of Directors if such person would be 72 years of age on or after January 1 of the first year of the term for which such person is proposed to be nominated; except that the Chairman of the Board of Directors may be nominated for election so long as such nominee would not be 76 years of age on or after January 1 of the first year of the term the director is proposed to be elected.

ARTICLE IV

COMMITTEES OF THE BOARD OF DIRECTORS

SECTION 1.

(a) The Board of Directors may appoint an Executive Committee of the Board of Directors. The Executive Committee shall be comprised of at least three (3) directors appointed by the Chairman of the Board of Directors. Unless another member is designated, the Chairman of the Board of Directors shall be designated as Chairman of the Executive Committee. The members of the Executive Committee need not be independent directors. The members of the Executive Committee shall be subject to ratification by the Board of Directors.

(b) During the intervals between the meetings of the Board of Directors, the Executive Committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, subject to Article IV, Section 6 below, and may authorize the seal of the Corporation to be affixed to all papers which

may require it; provided, however, that (i) the Executive Committee shall not have the power to amend or repeal any resolution of the Board of Directors that by its terms shall not be subject to amendment or repeal by the Executive Committee, or any resolution of the Board of Directors concerning the establishment or membership of the Executive Committee; and (ii) the Executive Committee shall not have the authority of the Board of Directors in reference to matters required to be passed upon by the full Board, by the independent directors, or by a committee comprised of independent directors; and (iii) the Executive Committee shall not have authority to act on matters delegated to the Audit Committee, the Nominating and Corporate Governance Committee, and the Compensation Committee in their respective charters.

(c) The Executive Committee shall meet from time to time on call of its Chairman. Meetings of the Executive Committee may be held at such place or places, within or without the State of Delaware, as the Executive Committee shall determine or as may be specified or fixed in the respective notices or waivers of such meetings. The Executive Committee may fix its own rules of procedure, including provision for notice of its meetings. It shall keep a written record of its proceedings and shall report these proceedings to the Board of Directors at the meeting thereof held next after they have been taken.

(d) The Executive Committee shall act by majority vote of its members.

SECTION 2.

(a) There is hereby created a Nominating/Corporate Governance Committee of the Board of Directors to be comprised of at least three (3) directors who meet the criteria as set forth in subparagraph (b) below; one of whom shall be designated as Chairman of the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee shall be elected by the full Board of Directors at the first meeting following the annual meeting of the stockholders. In its election of the members of the Nominating/Corporate Governance Committee, the Board of Directors shall consider nominees that are recommended by the Chairman of the Board of Directors, and nominees that may be recommended by the independent directors.

(b) All of the directors serving on the Nominating/Corporate Governance Committee must be independent directors in accordance with the independence standards for members of the Nominating/Corporate Governance Committee or other committee having similar functions under the rules and listing requirements of the regulatory and self-regulatory organization applicable to the Corporation, including without limitation the Securities and Exchange Commission and the New York Stock Exchange, Inc. Prior to their election to the Nominating/Corporate Governance Committee, the Board of Directors shall determine that each member of the Nominating/Corporate Governance Committee is an independent director as required in these By-Laws.

(c) The Board of Directors shall adopt a written charter for the Nominating/Corporate Governance Committee that sets forth the committee's purposes and responsibilities and that requires an annual performance evaluation of the committee. The purposes and responsibilities of the committee shall include, without limitation, such duties and responsibilities as may from time to time be required or suggested for the Nominating/Corporate

Governance Committee, or other committee of the Board of Directors performing similar functions, under the rules and regulations of the Securities and Exchange Commission and rules and requirements of other regulatory and self-regulatory organizations applicable to the Corporation, including without limitation, the New York Stock Exchange, Inc.

(d) The Nominating/Corporate Governance Committee shall meet from time to time on call of its Chairman. Meetings of the Nominating/Corporate Governance Committee may be held at such place or places, within or without the State of Delaware, as the Nominating/Corporate Governance Committee shall determine or as may be specified or fixed in the respective notices or waivers of such meetings. The Nominating/Corporate Governance Committee may fix its own rules of procedure, including provision for notice of its meetings. It shall keep a written record of its proceedings and shall report these proceedings to the Board of Directors at the meeting thereof held next after they have been taken.

(e) The Nominating/Corporate Governance Committee shall act by a majority vote of its members.

SECTION 3.

(a) There is hereby created a Audit Committee of the Board of Directors to be comprised of at least three (3) directors who meet the criteria set forth in subparagraph (b) hereof; one of whom shall be designated as the Chairman of the Audit Committee. The Audit Committee shall be elected by the full Board of Directors at its first meeting following the annual stockholders meeting. In its election of the members of the Audit Committee, the Board of Directors shall consider nominees that are recommended by the Chairman of the Board of Directors and nominees that may be recommended by the independent directors.

(b) All of the directors serving on the Audit Committee must be independent directors in accordance with the independence standards for members of the audit committee or other committee having similar functions under the provisions of Section 10A of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder and other independence standards for directors under the rules and requirements of regulatory and self-regulatory organizations applicable to the Corporation, including without limitation, the New York Stock Exchange, Inc. Prior to their election to the Audit Committee, the Board of Directors shall determine that each member of the Audit Committee is an independent director as required in these By-Laws and shall further determine, using business judgment in interpreting such qualifications, that each member is financially literate and that at least one member has accounting or related financial expertise. The Board of Directors shall also determine whether or not at least one member of the Audit Committee is an "audit committee financial expert" as defined under the rules and regulations promulgated under Section 407 of the Sarbanes-Oxley Act of 2002 not less frequently than annually.

(c) The Board of Directors shall adopt a written charter for the Audit Committee that sets forth the purposes and responsibilities of the committee and that requires an annual evaluation of the Audit Committee. The purposes and responsibilities shall include, without limitation, such purposes and responsibilities as may from time to time be required or suggested for the Audit Committee, or other committee of the Board of Directors performing

similar functions, under the rules and regulations of the Securities and Exchange Commission and rules and requirements of other regulatory and self-regulatory organizations applicable to the Corporation, including without limitation, the New York Stock Exchange, Inc.

(d) The Audit Committee shall meet from time to time on call of its Chairman. Meetings of the Audit Committee may be held at such place or places, within or without the State of Delaware, as the Audit Committee shall determine or as may be specified or fixed in the respective notices or waivers of such meetings. The Audit Committee may fix its own rules of procedure, including provision for notice of its meetings. It shall keep a written record of its proceedings and shall report these proceedings to the Board of Directors at the meeting thereof held next after they have been taken.

(e) The Audit Committee shall act by a majority vote of its members.

SECTION 4.

(a) There is hereby created a Compensation Committee of the Board of Directors to be comprised of at least three (3) directors who meet the criteria set forth in subparagraph (b) below; one of whom shall be designated as Chairman of the Compensation Committee. The full Board of Directors shall elect the Compensation Committee at the first meeting following the annual meeting of stockholders. In its election of the Compensation Committee, the Board of Directors shall consider nominees that are recommended by the Chairman and nominees that may be recommended by the independent directors.

(b) All of the directors serving on the Compensation Committee must be independent directors in accordance with the independence standards for members of the Compensation Committee or other committee having similar functions under the rules and listing requirements of the regulatory and self-regulatory organization applicable to the Corporation, including without limitation the Securities and Exchange Commission and the New York Stock Exchange, Inc. Prior to their election to the Compensation Committee, the Board of Directors shall determine that each member of the Compensation Committee is an independent director as required in these By-Laws.

(c) The Board of Directors shall adopt a written charter for the Compensation Committee that sets forth the committee's purposes and responsibilities and that requires an annual performance evaluation of the committee. The purposes and responsibilities of the Compensation Committee shall include without limitation, such purposes and responsibilities as may from time to time be required or suggested for the Compensation Committee, or other committee of the Board of Directors performing similar functions, under the rules and regulations of the Securities and Exchange Commission and the rules and requirements of other regulatory and self-regulatory organizations applicable to the Corporation, including without limitation, the New York Stock Exchange, Inc.

(d) The Compensation Committee shall meet from time to time on call of its Chairman. Meetings of the Compensation Committee may be held at such place or places, within or without the State of Delaware, as the Compensation Committee shall determine or as may be specified or fixed in the respective notices or waivers of such meetings. The

Compensation Committee may fix its own rules of procedure, including provision for notice of its meetings. It shall keep a written record of its proceedings and shall report these proceedings to the Board of Directors at the meeting thereof held next after they have been taken.

(e) The Compensation Committee shall act by a majority vote of its members.

SECTION 5. The Board of Directors, by resolution adopted by a majority of the entire Board, may create one or more additional committees, which shall have and may exercise such powers of the Board of Directors as may be determined from time to time by the Board of Directors. Each committee shall be comprised of at least three (3) directors appointed by the Chairman of the Board of Directors subject to ratification by the Board of Directors.

SECTION 6. No committee of the Board of Directors shall have the power or authority to approve or adopt, or recommend to stockholders, any action or matter expressly required by applicable law to be submitted to stockholders for approval or to adopt, amend or repeal any By-Law of the Corporation. No committee of the Board of Directors shall have the power or authority to declare a distribution, or dividend or to authorize the issuance of stock. Any committee of the Board of Directors, and each member thereof, shall serve at the pleasure of the Board of Directors.

SECTION 7. The Board of Directors and each of its committees shall have the authority to engage independent counsel and other advisers as each of them determines necessary to carry out its purposes and responsibilities, and the Corporation shall provide appropriate funding for the payment of compensation to independent counsel and other advisers engaged by any of the Board and its committees and for the payment of ordinary administrative expenses that are necessary or appropriate for carrying out any of their respective duties. In addition, the Corporation shall provide appropriate funding as determined by the Audit Committee for the payment of compensation to the independent auditor engaged to prepare or issue an audit report or to perform other audit, review or attest services for the Corporation.

ARTICLE V

NOTICES

SECTION 1. Whenever, under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, notice is required to be given to any stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail.

SECTION 2. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE VI

OFFICERS

SECTION 1. The officers of the Corporation shall be a Chairman of the Board of Directors, a Chief Executive Officer, one or more Vice Chairmen of the Board of Directors, a President, one or more Vice Presidents, a Treasurer, a Secretary, and such Assistant Treasurers, Assistant Secretaries, and other officers (including, without limitation, a Chief Operating Officer) as may from time to time be elected or appointed as herein provided. Any two or more offices may be held by the same person. Two or more offices may be held by the same person but an officer shall not execute, acknowledge or verify an instrument in more than one capacity if the instrument is required by law or the Certificate of Incorporation or By-Laws to be executed, acknowledged or verified by two or more officer.

SECTION 2. The officers of the Corporation shall be elected annually by the Board of Directors at the regular meetings of the Board of Directors held after each annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is practicable. Each officer shall hold office until his or her successor shall have been duly elected and shall have qualified, or until his or her death, or until he or she shall resign or shall have been removed in the manner hereinafter provided. The Board of Directors or the Chairman of the Board may appoint agents and employees to serve for such time and to have such duties and authority as the Board of Directors or the Chairman of the Board may determine.

SECTION 3. Any officer or agent elected or appointed by the Board of Directors or the Chief Executive Officer may be removed, with or without cause, at any time, by the Board of Directors, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create any contract right in favor of such officer or agent.

SECTION 4. Vacancies occurring in any office filled by the Board of Directors because of death, resignation, removal, and disqualification or otherwise, shall be filled by the Nominating Committee of the Board of Directors, or if none, by the Board of Directors, for the unexpired portion of the term. A vacancy in any other office for any reason shall be filled by the Chairman of the Board of Directors for the unexpired portion of the term.

SECTION 5. The Chairman of the Board of Directors shall, when present, preside at all meetings of the stockholders and of the Board of Directors. Unless otherwise determined by the Board of Directors, the Chairman of the Board of Directors shall be the Chief Executive Officer of the Corporation, and in general shall perform all duties incident to the office of the Chairman of the Board of Directors and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 6. The Chief Executive Officer, subject to the control of the Board of Directors, shall in general supervise control of the business and affairs of the Corporation. The Chief Executive Officer may sign, with the Secretary or any Assistant Secretary, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the

Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other officers or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of the Chief Executive Officer and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 7. The Vice Chairman of the Board of Directors (or in the event there be more than one Vice Chairman, the Vice Chairman in the order designated by the Board of Directors at the time of their election or from time to time thereafter, or in the absence of any designation, then in the order of the Vice Chairman who has held such office for the longest consecutive period) shall preside at meetings of the stockholders and the Board of Directors in the absence of the Chairman of the Board of Directors, or in the event of his or her death, inability or refusal to act. The Vice Chairman of the Board of Directors shall perform all duties incident to the office of Vice Chairman of the Board of Directors and such other duties as from time to time may be assigned to him or her by the Board of Directors or the Chairman of the Board of Directors.

SECTION 8. The Chief Operating Officer, subject to the control of the Board of Directors and the Chief Executive Officer, shall in general supervise the administrative affairs of the Corporation. The Chief Operating Officer may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other officers or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of the Chief Operating Officer and such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer from time to time.

SECTION 9. The President shall have such administrative and supervisory duties as are assigned to the President by the Board of Directors or the Chief Executive Officer. The President may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other officers or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 10. The Board may elect one or more Vice-Presidents with such designations as determined by the Board. In the absence of the President or in the event of their death, inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors at the time of their election or from time to time thereafter, or in the absence of any designation, then in the order of the Vice President who has held such office for the longest period) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties as from time

to time may be assigned to him or her by the Chief Executive Officer, the Chief Operating Officer, or by the Board of Directors.

SECTION 11. The Secretary shall: (a) keep the minutes of the proceedings of the stockholders and of the Board of Directors (including each committee of the Board of Directors) in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-Laws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; (d) keep a register of the post office address of each stockholder which shall be furnished to the Secretary by such stockholder; (e) sign with the Chairman of the Board of Directors, Vice Chairman of the Board of Directors, President, or a Vice President, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the Corporation; and (g) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him or her by the Chief Executive Officer, the Chief Operating Officer, or by the Board of Directors.

SECTION 12. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation; (b) receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected by the Board of Directors; and (c) in general perform all of the duties as from time to time may be assigned to him or her by the Chief Executive Officer, the Chief Operating Officer, or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the Board of Directors shall determine.

SECTION 13. The Assistant Treasurers shall perform the duties of the Treasurer during his absence or incapacity. The Assistant Secretaries shall perform the duties of the Secretary during his absence or incapacity. The Assistant Secretaries may sign with the Chairman of the Board of Directors, Vice Chairman of the Board of Directors, President, or a Vice President certificates for shares of the Corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, by the Chief Executive Officer, the Chief Operating Officer, or by the Board of Directors. The Assistant Treasurers shall, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the Chief Executive Officer, the Chief Operating Officer, or the Board of Directors.

SECTION 14. The salaries of all officers, employees and agents of the Corporation, including the Chairman of the Board of Directors, Chief Executive Officer, Vice Chairman of the Board of Directors, Chief Operating Officer, President, Secretary and Treasurer, shall be fixed from time to time by the Board of Directors; provided, however, that the Board of Directors may delegate to any committee of the Board of Directors, or to any officer(s) of the Corporation, the

power to fix the compensation of any officer, employee or agent of the Corporation. No officer shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the Corporation.

ARTICLE VII

CERTIFICATES OF STOCK

SECTION 1. Every holder of stock in the Corporation shall be entitled to have a certificate, signed by, or in the name of, the Corporation by the Chairman of the Board of Directors, the President, or a Vice President, and the Secretary or an Assistant Secretary, of the Corporation, certifying the number of shares owned by such holder in the Corporation.

SECTION 2. Where a certificate is countersigned (1) by a transfer agent other than the Corporation, or (2) by a registrar other than the Corporation, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

SECTION 3. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond or indemnity agreement in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

SECTION 4. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation, subject to any restrictions on transfer noted conspicuously on such certificate or imposed by law, to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

SECTION 5. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of the stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a

meeting of stockholders shall apply to any adjournment of the meeting subject to the provisions of Article II, Section 10 hereof.

SECTION 6. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be found to recognize any equitable or other claim to interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the applicable law.

ARTICLE VIII

GENERAL PROVISIONS

SECTION 1. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

SECTION 2. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

SECTION 3. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

SECTION 4. The fiscal year of the Corporation shall be as established from time to time by the Board of Directors.

SECTION 5. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE IX

INDEMNIFICATION

SECTION 1. The Corporation shall indemnify and hold harmless any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the

Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the person's conduct was unlawful.

SECTION 2. The Corporation shall indemnify and hold harmless any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. To the extent that a present or former director, officer, employee or agent of the Corporation has been successful on the merits or otherwise, including the dismissal of an action without prejudice, the disposition of a claim or issue by partial summary judgment, or any other partial success, or the settlement of any action without admission of liability, in defense of any action, suit or proceeding referred to in Sections 1 or 2 of this Article IX, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

SECTION 4. Expenses incurred in defending or investigating a civil, criminal, administrative, or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent of the Corporation to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation.

SECTION 5. The indemnification and advancement of expenses provided by, or granted pursuant to, the other portions of this Article IX shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any

By-Law, agreement, vote of stockholders or disinterested directors, court order or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. It is the policy of the Corporation that indemnification shall be made to the fullest extent permitted by law (as it presently exists or may hereafter be amended). All rights to indemnification under this Article IX shall be deemed to be provided by a contract between the Corporation and the director, officer, employee or agent of the Corporation who serves in such capacity at any time while these By-Laws and other relevant provisions of the General Corporation Law of the State of Delaware and other applicable law, if any, are in effect. Any repeal or modification thereof shall not effect any rights or obligations then existing.

SECTION 6. Any indemnification or advance shall be made promptly and in any event within forty-five (45) days, upon the written request of the director, officer, employee or agent of the Corporation, unless a determination is reasonably and promptly made that such director, officer, employee or agent failed to meet the applicable standard of conduct set forth in Sections 1 or 2 of this Article IX. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of disinterested directors, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (4) by the stockholders. If the request for indemnification involves an action, suit or proceeding that arises from the merger, consolidation, reorganization, liquidation, sale of all or substantially all of the assets, or other extraordinary transaction of the Corporation, the inquiry and resolution thereof required by this Section 6, at the option of the person seeking indemnification, shall be made by a neutral person mutually acceptable to the Corporation and the person seeking indemnification (the "Neutral Person"). If no disposition of such claim for indemnification is made within forty-five (45) days, a favorable determination of entitlement to indemnification shall be deemed to have been made. The expenses (including attorney's fees) incurred by the person seeking indemnification in connection with successfully establishing such person's right to indemnification, in whole or in part, shall also be indemnified by the Corporation.

SECTION 7. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article IX shall continue as to a person who has ceased to be a director, officer, employee or agent of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person.

SECTION 8. Neither the repeal or modification of this Article IX nor the adoption of any provision of the Certificate of Incorporation or the By-Laws inconsistent with this Article IX shall adversely affect the rights of any director, officer, employee or agent of the Corporation with respect to causes of action, suits or claims that accrue or arise prior to such repeal, modification or adoption of an inconsistent provision. If this Article IX or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee and agent against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding whether civil, criminal, administrative or investigative, and whether internal or external, including a grand jury proceeding and an action or suit brought by or in the right of the Corporation, to the fullest extent permitted by applicable portions of this Article IX that shall not have been invalidated, or by any other applicable law.

SECTION 9. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article IX.

SECTION 10. Upon resolution adopted by the Board of Directors, the Corporation may establish a trust or other designated account, grant a security interest or use other means (including, without limitation, a letter of credit), to ensure the payment of certain of its obligations arising under this Article IX and/or agreements which may be entered into between the Corporation and directors, officers, employees, or agents of the Corporation from time to time.

SECTION 11. For purposes of this Article X, references to "the Corporation" shall include, in addition to the resulting or surviving corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power to indemnify its directors, officers and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article IX with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued; references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed against a person with respect to any employee benefit plan; references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to any employee benefit plan, its participants, or beneficiaries; references to "director, officer, employee or agent of the Corporation" shall include any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article IX.

SECTION 12. If a director, officer, employee or agent of the Corporation is entitled to indemnification under Sections 1 or 2 of this Article IX for a portion of expenses, including attorneys' fees, judgments, penalties, fines, and amounts paid in settlement, but not for the total amount, the Corporation shall indemnify the director, officer, employee or agent of the Corporation for the portion of the expenses, judgments, penalties, fines, or amounts paid in settlement for which such director, officer, employee or agent of the Corporation is entitled to be indemnified.

SECTION 13. Each and every paragraph, sentence, term and provision of this Article IX shall be considered severable in that, in the event a court finds any paragraph, sentence, term or provision to be invalid or unenforceable, the validity and enforceability, operation, or effect of

the remaining paragraphs, sentences, terms, or provisions shall not be affected, and this Article IX shall be construed in all respects as if the invalid or unenforceable matter had been omitted.

SECTION 14. If the Delaware General Corporation Law is amended to authorize further expansion of the rights of any director, officer, employee or agent of the Corporation to indemnification by the Corporation, then the rights of such director, officer, employee or agent of the Corporation to such indemnification hereunder shall be expanded to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

ARTICLE X

AMENDMENTS

SECTION 1. To the extent permitted by the Certificate of Incorporation, these By-Laws may be altered, amended or repealed or new By-Laws may be adopted by the stockholders or by the Board of Directors at any regular meeting of the stockholders or of the Board of Directors or at any special meeting of the stockholders or of the Board of Directors if notice of such alteration, amendment, repeal or adoption of new By-Laws be contained in the notice of such meeting. Amendment of these By-Laws by the Board of Directors shall require the vote of not less than a majority of the members of the Board of Directors then in office.

PROASSURANCE GROUP
EMPLOYEE BENEFIT PLAN

TABLE OF CONTENTS

PAGE

ARTICLE I		
DEFINITIONS		
ARTICLE II		
PARTICIPATION		
SECTION 2.01	ELIGIBILITY.....	3
SECTION 2.02	EFFECTIVE DATE OF PARTICIPATION.....	4
SECTION 2.03	APPLICATION TO PARTICIPATE.....	4
SECTION 2.04	TERMINATION OF PARTICIPATION.....	4
SECTION 2.05	CHANGE OF EMPLOYMENT STATUS.....	4
SECTION 2.06	TERMINATION OF EMPLOYMENT.....	5
SECTION 2.07	DEATH.....	5
ARTICLE III		
CONTRIBUTIONS TO THE PLAN		
SECTION 3.01	SALARY REDIRECTION.....	6
SECTION 3.02	APPLICATION OF CONTRIBUTIONS.....	6
SECTION 3.03	PERIODIC CONTRIBUTIONS.....	6
ARTICLE IV		
BENEFITS		
SECTION 4.01	BENEFITS.....	7
SECTION 4.02	HEALTH CARE REIMBURSEMENT PROGRAM.....	7
SECTION 4.03	DEPENDENT CARE ASSISTANCE PROGRAM.....	7
SECTION 4.04	HEALTH INSURANCE BENEFIT.....	7
SECTION 4.05	GROUP LIFE INSURANCE BENEFIT.....	8
SECTION 4.06	DISABILITY INSURANCE BENEFIT.....	8
SECTION 4.07	EXECUTIVE SUPPLEMENTAL LIFE INSURANCE BENEFIT.....	8
SECTION 4.08	NONDISCRIMINATION REQUIREMENTS.....	8

ARTICLE V
PARTICIPANT ELECTIONS FOR CAFETERIA BENEFITS

SECTION 5.01	INITIAL ELECTIONS.....	9
SECTION 5.02	SUBSEQUENT ANNUAL ELECTIONS.....	9
SECTION 5.03	FAILURE TO ELECT.....	10
SECTION 5.04	CHANGE OF ELECTIONS.....	10

ARTICLE VI
HEALTH CARE REIMBURSEMENT PROGRAM

SECTION 6.01	ESTABLISHMENT OF PROGRAM.....	13
SECTION 6.02	DEFINITIONS.....	13
SECTION 6.03	FORFEITURES.....	14
SECTION 6.04	LIMITATION ON ALLOCATIONS.....	14
SECTION 6.05	NONDISCRIMINATION REQUIREMENTS.....	14
SECTION 6.06	COORDINATION WITH CAFETERIA PLAN.....	15
SECTION 6.07	HEALTH CARE REIMBURSEMENT CLAIMS.....	15

ARTICLE VII
DEPENDENT CARE ASSISTANCE PROGRAM

SECTION 7.01	ESTABLISHMENT OF PROGRAM.....	16
SECTION 7.02	DEFINITIONS.....	16
SECTION 7.03	DEPENDENT CARE ASSISTANCE ACCOUNTS.....	17
SECTION 7.04	INCREASES IN DEPENDENT CARE ASSISTANCE ACCOUNTS.....	18
SECTION 7.05	DECREASES IN DEPENDENT CARE ASSISTANCE ACCOUNTS.....	18
SECTION 7.06	ALLOWABLE DEPENDENT CARE ASSISTANCE REIMBURSEMENT.....	18
SECTION 7.07	STATEMENT OF BENEFITS.....	18
SECTION 7.08	FORFEITURES.....	18
SECTION 7.09	LIMITATION ON PAYMENTS.....	18
SECTION 7.10	NONDISCRIMINATION REQUIREMENTS.....	18
SECTION 7.11	COORDINATION WITH CAFETERIA PLAN.....	19
SECTION 7.12	DEPENDENT CARE ASSISTANCE PROGRAM CLAIMS.....	19

ARTICLE VIII
EXECUTIVE SUPPLEMENTAL LIFE INSURANCE PROGRAM

SECTION 8.01	ESTABLISHMENT OF PLAN.....	20
SECTION 8.02	PARTICIPATION &TERMINATION.....	20
SECTION 8.03	COORDINATION WITH CAFETERIA PLAN.....	21

ARTICLE IX
ERISA PROVISIONS

SECTION 9.01	CLAIM FOR BENEFITS.....	21
SECTION 9.02	APPLICATION OF BENEFIT PLAN SURPLUS.....	23
SECTION 9.03	NAMED FIDUCIARY.....	24
SECTION 9.04	GENERAL FIDUCIARY RESPONSIBILITIES.....	24
SECTION 9.05	NONASSIGNABILITY OF RIGHTS.....	24

ARTICLE X
ADMINISTRATION

SECTION 10.01	PLAN ADMINISTRATION.....	24
SECTION 10.02	EXAMINATION OF RECORDS.....	25
SECTION 10.03	PAYMENT OF EXPENSES.....	25
SECTION 10.04	INSURANCE CONTROL CLAUSE.....	25
SECTION 10.05	INDEMNIFICATION OF ADMINISTRATOR.....	25

ARTICLE XI
AMENDMENT OR TERMINATION OF PLAN

SECTION 11.01	AMENDMENT.....	26
SECTION 11.02	TERMINATION.....	26

ARTICLE XII
MISCELLANEOUS

SECTION 12.01	PLAN INTERPRETATION.....	26
SECTION 12.02	GENDER AND NUMBER.....	26
SECTION 12.03	WRITTEN DOCUMENT.....	27
SECTION 12.04	EXCLUSIVE BENEFIT.....	27
SECTION 12.05	PARTICIPANT'S RIGHTS.....	27
SECTION 12.06	ACTION BY THE EMPLOYER.....	27

SECTION 12.07	EMPLOYER'S PROTECTIVE CLAUSES.....	27
SECTION 12.08	NO GUARANTEE OF TAX CONSEQUENCES.....	28
SECTION 12.09	INDEMNIFICATION OF EMPLOYER BY PARTICIPANTS.....	28
SECTION 12.10	FUNDING.....	28
SECTION 12.11	GOVERNING LAW.....	28
SECTION 12.12	SEVERABILITY.....	28
SECTION 12.13	CAPTIONS.....	29
SECTION 12.14	CONTINUATION OF COVERAGE.....	29
SECTION 12.15	FAMILY AND MEDICAL LEAVE ACT.....	29
SECTION 12.16	HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT.....	29
SECTION 12.17	UNIFORM SERVICES EMPLOYMENT AND REEMPLOYMENT RIGHTS ACT.....	29

PROASSURANCE GROUP
EMPLOYEE BENEFIT PLAN

INTRODUCTION

Effective January 1, 1995, Mutual Assurance, Inc. established the Mutual Assurance, Inc. and Affiliated Companies Employee Benefit Plan (the "Plan") for the benefit of its and its Affiliated Companies' eligible employees and their dependents. At the time of its initial establishment, the Plan had three components: group medical insurance, long term disability insurance, and a cafeteria program under Code Section 125. Effective January 1, 2002, the name of the Plan was changed to the ProAssurance Corporation Employee Benefit Plan, and the Plan was expanded to include a fourth component - group life and accidental death and dismemberment insurance. Effective October 1, 2003, the Plan was restated and amended in its entirety. Pursuant to the restated Plan, ProAssurance Group Services Corporation became the sponsor of the Plan and the name of the Plan was changed to the ProAssurance Group Employee Benefit Plan. The restated Plan also contains provisions adding a fifth component to the Plan - executive supplemental life insurance - which such addition is effective May 1, 2003.

The purpose of the Plan is to recognize the contribution made to the Employers who have adopted the Plan by its Employees. The Plan's purpose is to reward them by providing benefits for those Employees who shall qualify hereunder and their dependents and beneficiaries.

ARTICLE I
DEFINITIONS

SECTION 1.01 "Administrator" means the individual(s) or corporation appointed by the Employer to carry out the administration of the Plan. The Employer shall be empowered to appoint and remove the Administrator from time to time as it deems necessary for the proper administration of the Plan. In the event the Administrator has not been appointed, or resigns from a prior appointment, the Employer shall be deemed to be the Administrator.

SECTION 1.02 "Affiliated Employer" means the Employer and any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Employer; any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Employer; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Employer; and any other entity required to be aggregated with the Employer pursuant to Treasury regulations under Code Section 414(o).

SECTION 1.03 "Benefit" includes "Plan Benefits" and "Cafeteria Benefits." "Plan Benefit" means any of the benefits provided to Eligible Employees by the Employer at no cost to the Employee as outlined in Section 4.01(b). "Cafeteria Benefit" means any of the optional contributory benefit choices available to a Participant as outlined in Section 4.01(a).

SECTION 1.04 "Cafeteria Plan" means the component of this Plan which provides for a cafeteria program under Section 125 of the Code.

SECTION 1.05 "Cafeteria Plan Benefit Dollars" means the amount available to Participants, pursuant to Article III, to purchase Cafeteria Benefits. Each dollar contributed through Salary Redirection to this Plan shall be converted into one Cafeteria Plan Benefit Dollar.

SECTION 1.06 "Code" means the Internal Revenue Code of 1986, as amended or replaced from time to time.

SECTION 1.07 "Compensation" means the amounts received by the Participant from the Employer during a Plan Year.

SECTION 1.08 "Dependent" means any individual who qualifies as a dependent under an Insurance Contract or under Code Section 152 (as modified by Code Section 105(b)).

SECTION 1.09 "Effective Date" means January 1, 1995.

SECTION 1.10 "Election Period" means the period immediately preceding the beginning of each Plan Year established by the Administrator, such period to be applied on a uniform and nondiscriminatory basis for all Employees and Participants. However, an Employee's initial Election Period shall be determined pursuant to Section 5.01.

SECTION 1.11 "Eligible Employee" means any Employee who has satisfied the provisions of Section 2.01.

An individual shall not be an "Eligible Employee" if such individual is not reported on the payroll records of the Employer as a common law employee. In particular, it is expressly intended that individuals not treated as common law employees by the Employer on its payroll records are not "Eligible Employees" and are excluded from Plan participation even if a court or administrative agency determines that such individuals are common law employees and not independent contractors.

However, any Employee who is a "part-time" Employee shall not be eligible to participate in this Plan. A "part-time" Employee is any Employee who works, or is expected to work on a regular basis, less than 30 hours a week.

SECTION 1.12 "Employee" means any person who is employed by the Employer. The term Employee shall include leased employees within the meaning of Code Section 414(n)(2).

SECTION 1.13 "Employer" means ProAssurance Group Services Corporation and any successor which shall maintain this Plan; and any predecessor which has maintained this Plan.

SECTION 1.14 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

SECTION 1.15 "Insurance Contract" means any contract issued by an Insurer underwriting a Benefit.

SECTION 1.16 "Insurance Premium Payment Program" means the plan of benefits contained in Section 4.01 of this Plan, which provides for the payment of Premium Expenses.

SECTION 1.17 "Insurer" means any insurance company that underwrites a Benefit under this Plan.

SECTION 1.18 "Key Employee" means an Employee described in Code Section 416(i)(1) and the Treasury regulations thereunder.

SECTION 1.19 "Participant" means any Eligible Employee who elects to become a Participant pursuant to Section 2.03 and has not for any reason become ineligible to participate further in the Plan.

SECTION 1.20 "Plan" means this instrument, including all amendments thereto.

SECTION 1.21 "Plan Year" means the 12-month period beginning January 1 and ending December 31. The Plan Year shall be the coverage period for the Benefits provided for under this Plan. In the event a Participant commences participation during a Plan Year, then the initial coverage period shall be that portion of the Plan Year commencing on such Participant's date of entry and ending on the last day of such Plan Year.

SECTION 1.22 "Premium Expenses" or "Premiums" mean the Participant's cost for the Cafeteria Benefits described in Section 4.01(a)(3) .

SECTION 1.23 "Premium Reimbursement Account" means the account established for a Participant pursuant to this Plan to which part of his Cafeteria Plan Benefit Dollars may be allocated and from which Premiums of the Participant may be paid or reimbursed. If more than one type of insured Cafeteria Benefit is elected, sub-accounts shall be established for each type of insured Cafeteria Benefit.

SECTION 1.24 "Salary Redirection" means the contributions made by the Employer on behalf of Participants pursuant to Section 3.01. These contributions shall be converted to Cafeteria Plan Benefit Dollars and allocated to the funds or accounts established under the Plan pursuant to the Participants' elections made under Article V.

SECTION 1.25 "Salary Redirection Agreement" means an agreement between the Participant and the Employer under which the Participant agrees to reduce his Compensation or to forego all or part of the increases in such Compensation and to have such amounts contributed by the Employer to the Plan on the Participant's behalf. The Salary Redirection Agreement shall apply only to Compensation that has not been actually or constructively received by the Participant as of the date of the agreement (after taking this Plan and Code Section 125 into account) and, subsequently does not become currently available to the Participant.

SECTION 1.26 "Spouse" means the legally married husband or wife of a Participant, unless legally separated by court decree.

ARTICLE II PARTICIPATION

SECTION 2.01 ELIGIBILITY

Except as otherwise provided herein, any Eligible Employee shall be eligible to participate hereunder on his date of employment (or the Effective Date of the Plan, if later). Notwithstanding the foregoing, an Eligible Employee shall be eligible to participate hereunder with respect to insured Benefits as of the date he is eligible under the relevant Insurance

Contract. However, any Eligible Employee who was a Participant in the Plan on the effective date of this amendment shall continue to be eligible to participate in the Plan.

SECTION 2.02 EFFECTIVE DATE OF PARTICIPATION

An Eligible Employee shall become a Participant effective as of the first day of the month coinciding with or next following the date on which he met the eligibility requirements of Section 2.01.

SECTION 2.03 APPLICATION TO PARTICIPATE

An Employee who is eligible to participate in this Plan shall, during the applicable Election Period, complete an application to participate and election of Cafeteria Benefits form which the Administrator shall furnish to the Employee. The Cafeteria Benefits election made on such form shall be irrevocable until the end of the applicable Plan Year unless the Participant is entitled to change his Benefit elections pursuant to Section 5.04 hereof.

An Eligible Employee shall also be required to execute a Salary Redirection Agreement during the Election Period for the Plan Year during which he wishes to participate in this Plan. Any such Salary Redirection Agreement shall be effective for the first pay period beginning on or after the Employee's effective date of participation pursuant to Section 2.02.

SECTION 2.04 TERMINATION OF PARTICIPATION

Except with respect to benefits under Article VIII, a Participant shall no longer participate in this Plan upon the occurrence of any of the following events:

- (a) His termination of employment, subject to the provisions of Section 2.06;
- (b) The end of the Plan Year during which he became a limited Participant because of a change in employment status pursuant to Section 2.05;
- (c) His death, subject to the provisions of Section 2.07; or
- (d) The termination of this Plan, subject to the provisions of Section 11.02.

SECTION 2.05 CHANGE OF EMPLOYMENT STATUS

If a Participant ceases to be eligible to participate because of a change in employment status or classification (other than through termination of employment), the Participant shall become a limited Participant in this Plan for the remainder of the Plan Year in which such change of employment status occurs. As a limited Participant, no further Salary Redirection may be made on behalf of the Participant, and, except as otherwise provided herein, all further Benefit elections shall cease, subject to the limited Participant's right to continue coverage under any Insurance Contracts. However, any balances in the limited Participant's Dependent Care Assistance Account may be used during such Plan Year to reimburse the limited Participant for any allowable Employment-Related Dependent Care incurred during the Plan Year. Subject to the provisions of Section 2.06, if the limited Participant later becomes an Eligible Employee, then the limited Participant may again become a full Participant in this Plan, provided he otherwise satisfies the participation requirements set forth in this Article II as if he were a new Employee and made an election in accordance with

Section 5.01. Notwithstanding the foregoing, a Participant's rights to benefits under Article VIII shall be determined in accordance with that Article.

SECTION 2.06 TERMINATION OF EMPLOYMENT

If a Participant's employment with the Employer is terminated for any reason other than death, his participation in the Plan shall be governed in accordance with the following:

(a) With regard to Benefits which are insured, the Participant's participation in the Plan shall cease, subject to the Participant's right to continue coverage under any Insurance Contract for which premiums have already been paid.

(b) With regard to the Dependent Care Assistance Program, the Participant's participation in the Plan shall cease and no further Salary Redirection contributions shall be made. However, such Participant may submit claims for employment related Dependent Care Expense reimbursements for 60 days after termination, based on the level of his Dependent Care Assistance Account as of his date of termination.

(c) With regard to the Health Care Reimbursement Plan, the Participant's participation in the Plan shall cease and no further Salary Redirection contributions shall be made. However, such Participant may submit claims for expenses incurred prior to date of termination of employment up to 30 days after his termination date.

(d) In the event a Participant terminates his participation in the Health Care Reimbursement Program during the Plan Year, if Salary Redirections are made other than on a pro rata basis, upon termination the Participant shall be entitled to a reimbursement for any Salary Redirection previously paid for coverage or benefits relating to the period after the date of the Participant's separation from service regardless of the Participant's claims or reimbursements as of such date.

(e) This Section shall be applied and administered consistent with such further rights a Participant and his Dependents may be entitled to pursuant to Code Section 4980B and Section 12.14 of the Plan.

(f) Notwithstanding the foregoing, a Participant's right to benefits under Article VIII shall be determined in accordance with the provisions of that Article.

SECTION 2.07 DEATH

If a Participant dies, his participation in the Plan shall cease. However, such Participant's beneficiaries, or the representative of his estate, may submit claims for expenses or benefits for the remainder of the Plan Year or until the Cafeteria Plan Benefit Dollars allocated to each specific Cafeteria Benefit are exhausted. A Participant may designate a specific beneficiary for this purpose. If no such beneficiary is specified, the Administrator may designate the Participant's Spouse, one of his Dependents or a representative of his estate.

ARTICLE III
CONTRIBUTIONS TO THE PLAN

SECTION 3.01 SALARY REDIRECTION

Benefits under the Plan shall be financed by Salary Redirections sufficient to support Cafeteria Benefits that a Participant has elected hereunder and to pay the Participant's Premium Expenses. The salary administration program of the Employer shall be revised to allow each Participant to agree to reduce his pay during a Plan Year by an amount determined necessary to purchase the elected Cafeteria Benefit. The amount of such Salary Redirection shall be specified in the Salary Redirection Agreement and shall be applicable for a Plan Year. Notwithstanding the above, for new Participants, the Salary Redirection Agreement shall only be applicable from the first day of the pay period following the Employee's entry date up to and including the last day of the Plan Year. However, in no event shall a Participant's Salary Redirection per Plan Year exceed the sum of (a) the amount specified in Section 6.04, (b) the amount specified in Section 7.09, plus (c) the amount of the required contribution for the Health Insurance Benefit which is described in Section 4.40. These contributions shall be converted to Cafeteria Plan Benefit Dollars and allocated to the funds or accounts established under the Plan pursuant to the Participants' elections made under Article V.

Any Salary Redirection shall be determined prior to the beginning of a Plan Year (subject to initial elections pursuant to Section 5.01) and prior to the end of the Election Period and shall be irrevocable for such Plan Year. However, a Participant may revoke a Benefit election or a Salary Redirection Agreement after the Plan Year has commenced and make a new election with respect to the remainder of the Plan Year, if both the revocation and the new election are on account of and consistent with a change in status and such other permitted events as determined under Article V of the Plan and consistent with the rules and regulations of the Department of the Treasury. Salary Redirection amounts shall be contributed on a pro rata basis for each pay period during the Plan Year. All individual Salary Redirection Agreements are deemed to be part of this Plan and incorporated by reference hereunder.

SECTION 3.02 APPLICATION OF CONTRIBUTIONS

As soon as reasonably practical after each payroll period, the Employer shall apply the Salary Redirection to provide the Cafeteria Benefits elected by the affected Participants. Any contribution made or withheld for the Health Care Reimbursement Fund or Dependent Care Assistance Account shall be credited to such fund or account. Amounts designated for the Participant's Premium Expense Reimbursement Account shall likewise be credited to such account for the purpose of paying Premium Expenses.

SECTION 3.03 PERIODIC CONTRIBUTIONS

Notwithstanding the requirement provided above and in other Articles of this Plan that Salary Redirections be contributed to the Plan by the Employer on behalf of an Employee on a level and pro rata basis for each payroll period, the Employer and Administrator may implement a procedure in which Salary Redirections are contributed throughout the Plan Year on a periodic basis that is not pro rata for each payroll period. However, with regard to the Health Care Reimbursement Program, the payment schedule for the required contributions may not be based on the rate or amount of reimbursements during the Plan Year. In the event Salary Redirections are not made on a pro rata basis, upon termination of participation, a Participant may be entitled to a refund of such Salary Redirections pursuant to Section 2.06.

ARTICLE IV
BENEFITS

SECTION 4.01 BENEFITS

(a) Each Participant may elect to have the amount of his Cafeteria Plan Benefit Dollars applied to any one or more of the following optional Cafeteria Benefits (to the extent the Participant is eligible for such benefit):

- (1) Health Care Reimbursement Program
- (2) Dependent Care Assistance Program
- (3) Insurance Premium Payment Program - Health Insurance Benefit

(b) Each Participant may be eligible for the following Plan Benefits in accordance with terms of this Plan and the Insurance Contract pursuant to which such Plan Benefit is provided:

- (1) Group Life Insurance Benefit
- (2) Disability Insurance Benefit
- (3) Executive Supplemental Life Insurance Benefit

SECTION 4.02 HEALTH CARE REIMBURSEMENT PROGRAM

Each Participant may elect coverage under the Health Care Reimbursement Program option, in which case Article VI shall apply.

SECTION 4.03 DEPENDENT CARE ASSISTANCE PROGRAM

Each Participant may elect coverage under the Dependent Care Assistance Program option, in which case Article VII shall apply.

SECTION 4.04 HEALTH INSURANCE BENEFIT

(a) Each Participant may elect to be covered under a health and hospitalization Insurance Contract for the Participant, his or her spouse, and his or her Dependents.

(b) The Employer may select suitable health, hospitalization, and dental Insurance Contracts for use in providing this health insurance benefit, which policies will provide uniform benefits for all Participants electing this Benefit.

(c) The rights and conditions with respect to the benefits payable from such health and hospitalization Insurance Contract shall be determined therefrom, and such Insurance Contract shall be incorporated herein by reference.

SECTION 4.05 GROUP LIFE INSURANCE BENEFIT

(a) Each Participant will be covered under the Group Life Insurance Benefit if eligible therefor.

(b) The Employer may select suitable Life Insurance Contracts for use in providing this Group Life Insurance Benefit.

(c) The rights and conditions with respect to the Benefits payable from such Group Life Insurance Contract shall be determined therefrom, and such Group Life Insurance Contract shall be incorporated herein by reference.

SECTION 4.06 DISABILITY INSURANCE BENEFIT

(a) Each Participant will be covered under the Employer's Group Disability Insurance Contract if eligible therefor.

(b) The Employer may select suitable Disability Insurance Contracts for use in providing this disability Benefit. The Disability Insurance Contract(s) may provide for long-term or short-term coverage.

(c) The rights and conditions with respect to the Benefits payable from such Disability Insurance Contract shall be determined therefrom, and such Disability Insurance Contract shall be incorporated herein by reference.

SECTION 4.07 EXECUTIVE SUPPLEMENTAL LIFE INSURANCE BENEFIT

(a) The Employer has elected to purchase business-owned life insurance on behalf of certain Participants.

(b) The rights, conditions and benefits with respect to the Executive Supplemental Life Insurance Benefit are set forth in Article VIII.

SECTION 4.08 NONDISCRIMINATION REQUIREMENTS

(a) It is the intent of this Plan to provide Cafeteria Benefits to a classification of employees which the Secretary of the Treasury finds not to be discriminatory in favor of the group in whose favor discrimination may not occur under Code Section 125.

(b) It is the intent of this Plan not to provide "qualified Benefits" as defined under Code Section 125 to Key Employees in amounts that exceed 25% of the aggregate of such Cafeteria Benefits provided for all Eligible Employees under the Plan. For purposes of the preceding sentence, "qualified benefits" shall not include benefits which (without regard to this paragraph) are includible in gross income.

(c) If the Administrator deems it necessary to avoid discrimination or possible taxation to Key Employees or a group of employees in whose favor discrimination may not occur in violation of Code Section 125, it may, but shall not be required to, reject any election or reduce contributions or non-taxable Cafeteria Benefits in order to assure compliance with this Section. Any act taken by the Administrator under this Section shall be carried out in a uniform and nondiscriminatory manner. If the Administrator decides

to reject any election or reduce contributions or non-taxable Cafeteria Benefits, it shall be done in the following manner. First, the non-taxable Cafeteria Benefits of the affected Participant (either an employee who is highly compensated or a Key Employee, whichever is applicable) who has the highest amount of non-taxable Cafeteria Benefits for the Plan Year shall have his non-taxable benefits reduced until the discrimination tests set forth in this Section are satisfied or until the amount of his non-taxable Cafeteria Benefits equals the non-taxable Cafeteria Benefits of the affected Participant who has the second highest amount of non-taxable Cafeteria Benefits . This process shall continue until the nondiscrimination tests set forth in this Section are satisfied. With respect to any affected Participant who has had Cafeteria Benefits reduced pursuant to this Section, the reduction shall be made proportionately among Health Care Reimbursement Program Benefits and Dependent Care Assistance Program Benefits, and once all these Cafeteria Benefits are expended, proportionately among insured Cafeteria Benefits. Contributions which are not utilized to provide Cafeteria Benefits to any Participant by virtue of any administrative act under this paragraph shall be forfeited and deposited into the benefit plan surplus.

ARTICLE V
PARTICIPANT ELECTIONS FOR CAFETERIA BENEFITS

SECTION 5.01 INITIAL ELECTIONS

An Employee who meets the eligibility requirements of Section 2.01 on the first day of, or during, a Plan Year may elect to participate in the component of this Plan which provides Cafeteria Benefits for all or the remainder of such Plan Year, provided he elects to do so before his effective date of participation pursuant to Section 2.02. However, if such Employee does not complete an application to participate and benefit election form and deliver it to the Administrator before such date, his Election Period shall extend 30 calendar days after such date, or for such further period as the Administrator shall determine and apply on a uniform and nondiscriminatory basis. However, any election during the extended 30-day election period pursuant to this Section 5.01 shall not be effective until the first pay period following the later of such Participant's effective date of participation pursuant to Section 2.02 or the date of the receipt of the election form by the Administrator, and shall be limited to the Cafeteria Benefit expenses incurred for the balance of the Plan Year for which the election is made. Notwithstanding the foregoing, in the case of insured Benefits, a new Participant will automatically be enrolled for such Benefits unless the Participant elects not to be covered.

SECTION 5.02 SUBSEQUENT ANNUAL ELECTIONS

During the Election Period prior to each subsequent Plan Year, each Participant shall be given the opportunity to elect, on an election of benefits form to be provided by the Administrator, which Benefit options he wishes to select and purchase with his Cafeteria Plan Benefit Dollars. Any such election shall be effective for any Cafeteria Benefit expenses incurred during the Plan Year which follows the end of the Election Period. With regard to subsequent annual elections, the following options shall apply:

(a) A Participant or Employee who failed to initially elect to participate may elect different or new Cafeteria Benefits under the Plan during the Election Period;

(b) A Participant may terminate his participation in the Plan by notifying the Administrator in writing during the Election Period that he does not want to participate in the Plan for the next Plan Year;

(c) An Employee who elects not to participate for the Plan Year following the Election Period will have to wait until the next Election Period before again electing to participate in the Plan, except as provided for in Section 5.04.

SECTION 5.03 FAILURE TO ELECT

Any Participant who fails to complete a new benefit election form pursuant to Section 5.02 by the end of the applicable Election Period shall be treated in the following manner:

(a) With regard to Cafeteria Benefits available under the Plan for which no Premium Expenses apply, such Participant shall be deemed to have elected not to participate in the Plan for the upcoming Plan Year. No further Salary Redirections shall therefore be authorized or made for the subsequent Plan Year for such Cafeteria Benefits.

(b) With regard to Cafeteria Benefits available under the Plan for which Premium Expenses apply, such Participant shall be deemed to have made the same Cafeteria Benefit elections as are then in effect for the current Plan Year. The Participant shall also be deemed to have elected Salary Redirection in an amount necessary to purchase such Cafeteria Benefit options.

SECTION 5.04 CHANGE OF ELECTIONS

(a) Any Participant may change a Cafeteria Benefit election after the Plan Year (to which such election relates) has commenced and make new elections with respect to the remainder of such Plan Year if, under the facts and circumstances, the changes are necessitated by and are consistent with a change in status which is acceptable under rules and regulations adopted by the Department of the Treasury, the provisions of which are incorporated by reference. Notwithstanding anything herein to the contrary, if the rules and regulations conflict, then such rules and regulations shall control.

In general, a change in election is not consistent if the change in status is the Participant's divorce, annulment or legal separation from a spouse, the death of a spouse or dependent, or a dependent ceasing to satisfy the eligibility requirements for coverage, and the Participant's election under the Plan is to cancel accident or health insurance coverage for any individual other than the one involved in such event. In addition, if the Participant, spouse or dependent gains or loses eligibility for coverage, then a Participant's election under the Plan to cease or decrease coverage for that individual under the Plan corresponds with that change in status only if coverage for that individual becomes applicable or is increased under the family member plan.

Regardless of the consistency requirement, if the individual, the individual's spouse, or dependent becomes eligible for continuation coverage under the Employer's group health plan as provided in Code Section 4980B or any similar state law, then the individual may elect to increase payments under this Plan in order to pay

for the continuation coverage. However, this does not apply for COBRA eligibility due to divorce, annulment or legal separation.

Any new election shall be effective at such time as the Administrator shall prescribe, but not earlier than the first pay period beginning after the election form is completed and returned to the Administrator. For the purposes of this subsection, a change in status shall only include the following events or other events permitted by Treasury regulations:

(1) Legal Marital Status: events that change a Participant's legal marital status, including marriage, divorce, death of a spouse, legal separation or annulment;

(2) Number of Dependents: Events that change a Participant's number of dependents, including birth, adoption, placement for adoption, or death of a dependent;

(3) Employment Status: Any of the following events that change the employment status of the Participant, spouse, or dependent: termination or commencement of employment, a strike or lockout, commencement or return from an unpaid leave of absence, or a change in worksite. In addition, if the eligibility conditions of this Plan or other employee benefit plan of the Employer of the Participant, spouse, or dependent depend on the employment status of that individual and there is a change in that individual's employment status with the consequence that the individual becomes (or ceases to be) eligible under the Plan, then that change constitutes a change in employment under this subsection;

(4) Dependent satisfies or ceases to satisfy the eligibility requirements: An event that causes the Participant's dependent to satisfy or cease to satisfy the requirements for coverage due to attainment of age, student status, or any similar circumstance; and

(5) Residency: A change in the place of residence of the Participant, spouse or dependent.

For the Dependent Care Assistance Program, a dependent becoming or ceasing to be a "Qualifying Dependent" as defined under Code Section 21(b) shall also qualify as a change in status.

(b) Notwithstanding subsection (a), a Participant may change an election for accident or health coverage during a Plan Year and make a new election that corresponds with the special enrollment rights provided in Code Section 9801(f). Such change shall take place on a prospective basis.

(c) Notwithstanding subsection (a), in the event of a judgment, decree, or order ("order") resulting from a divorce, legal separation, annulment, or change in legal custody (including a qualified medical child support order defined in ERISA Section 609) which requires accident or health coverage for a Participant's child (including a foster child who is a dependent of the Participant):

(1) The Plan may change an election to provide coverage for the child if the order requires coverage under the Participant's plan; or

(2) The Participant shall be permitted to change an election to cancel coverage for the child if the order requires the former spouse to provide coverage for such child, under that individual's plan and such coverage is actually provided.

(d) Notwithstanding subsection (a), a Participant may change elections to cancel accident or health coverage for the Participant or the Participant's spouse or dependent if the Participant or the Participant's spouse or dependent is enrolled in the accident or health coverage of the Employer and becomes entitled to coverage (i.e., enrolled) under Part A or Part B of the Title XVIII of the Social Security Act (Medicare) or Title XIX of the Social Security Act (Medicaid), other than coverage consisting solely of benefits under Section 1928 of the Social Security Act (the program for distribution of pediatric vaccines). If the Participant or the Participant's spouse or dependent who has been entitled to Medicaid or Medicare coverage loses eligibility, that individual may prospectively elect coverage under the Plan if a benefit package option under the Plan provides similar coverage.

(e) If the cost of a Cafeteria Benefit provided under the Plan increases or decreases during a Plan Year, then the Plan shall automatically increase or decrease, as the case may be, the Salary Redirections of all affected Participants for such Cafeteria Benefit. Alternatively, if the cost of a benefit package option increases significantly, the Administrator shall permit the affected Participants to either make corresponding changes in their payments or revoke their elections and, in lieu thereof, receive on a prospective basis coverage under another benefit package option with similar coverage, or drop coverage prospectively if there is no benefit package option with similar coverage.

A cost increase or decrease refers to an increase or decrease in the amount of elective contributions under the Plan, whether resulting from an action taken by the Participants or an action taken by the Employer.

If the coverage under a Cafeteria Benefit is significantly curtailed or ceases during a Plan Year, affected Participants may revoke their elections of such cafeteria Benefit and, in lieu thereof, elect to receive on a prospective basis coverage under another plan with similar coverage, or drop coverage prospectively if no similar coverage is offered.

If, during the period of coverage, a new benefit package option or other coverage option is added, an existing benefit package option is significantly improved, or an existing benefit package option or other coverage option is eliminated, then the affected Participants may elect the newly-added option, or elect another option if an option has been eliminated prospectively and make corresponding election changes with respect to other benefit package options providing similar coverage. In addition, those Eligible Employees who are not participating in the Plan may opt to become Participants and elect the new or newly improved benefit package option.

A Participant may make a prospective election change to add group health coverage for the Participant, the Participant's spouse or dependent if such

individual loses group health coverage sponsored by a governmental or educational institution, including a state children's health insurance program under the Social Security Act, the Indian Health Service or a health program offered by an Indian tribal government, a state health benefits risk pool, or a foreign government group health plan.

A Participant may make a prospective election change that is on account of and corresponds with a change made under the Plan of a spouse's, former spouse's or dependent's employer if (1) the cafeteria plan or other benefits plan of the spouse's, former spouse's or dependent's employer permits its participants to make a change; or (2) the Plan permits participants to make an election for a period of coverage that is different from the period of coverage under the cafeteria plan of a spouse's, former spouse's or dependent's employer.

A Participant may make a prospective election change that is on account of and corresponds with a change by the Participant in the dependent care provider. The availability of dependent care services from a new childcare provider is similar to a new benefit package option becoming available. A cost change is allowable in the Dependent Care Assistance Program only if the cost change is imposed by a dependent care provider who is not related to the Participant, as defined in Code Section 152(a)(1) through (8).

A Participant shall not be permitted to change an election to the Health Care Reimbursement Plan as a result of a cost or coverage change under this subsection.

ARTICLE VI
HEALTH CARE REIMBURSEMENT PROGRAM

SECTION 6.01 ESTABLISHMENT OF PROGRAM

This Health Care Reimbursement Program is intended to qualify as a medical reimbursement plan under Code Section 105 and shall be interpreted in a manner consistent with such Code Section and the Treasury regulations thereunder. Participants who elect to participate in this Health Care Reimbursement Program may submit claims for the reimbursement of Medical Expenses. All amounts reimbursed under this Health Care Reimbursement Program shall be periodically paid from amounts allocated to the Health Care Reimbursement Fund. Periodic payments reimbursing Participants from the Health Care Reimbursement Fund shall in no event occur less frequently than monthly.

SECTION 6.02 DEFINITIONS

For the purposes of this Article and the Cafeteria Plan, the terms below have the following meaning:

(a) "Health Care Reimbursement Fund" means the fund established for Participants pursuant to this Plan to which part of their Cafeteria Plan Benefit Dollars may be allocated and from which all allowable Medical Expenses may be reimbursed.

(b) "Health Care Reimbursement Program" means the plan of benefits contained in this Article, which provides for the reimbursement of eligible Medical Expenses incurred by a Participant or his Dependents.

(c) "Highly Compensated Participant" means, for the purposes of this Article and determining discrimination under Code Section 105(h), a participant who is:

(1) one of the 5 highest paid officers;

(2) a shareholder who owns (or is considered to own applying the rules of Code Section 318) more than 10 percent in value of the stock of the Employer; or

(3) among the highest paid 25 percent of all Employees (other than exclusions permitted by Code Section 105(h)(3)(B) for those individuals who are not Participants).

(d) "Medical Expenses" means any expense for medical care within the meaning of the term "medical care" or "medical expense" as defined in Code Section 213 and the rulings and Treasury regulations thereunder, and not otherwise used by the Participant as a deduction in determining his tax liability under the Code. However, a Participant may not be reimbursed for the cost of other health coverage such as premiums paid under plans maintained by the employer of the Participant's spouse or individual policies maintained by the Participant or his spouse or Dependent. Furthermore, a Participant may not be reimbursed for "qualified long-term care services" as defined in Code Section 7702B(c). Effective October 1, 2003, Medical Expenses will include medicines and drugs purchased without a physician's prescription.

(e) The definitions of Article I are hereby incorporated by reference to the extent necessary to interpret and apply the provisions of this Health Care Reimbursement Program.

SECTION 6.03 FORFEITURES

The amount in the Health Care Reimbursement Fund as of the end of any Plan Year (and after the processing of all claims for such Plan Year pursuant to Section 6.07 hereof) shall be forfeited and credited to the benefit plan surplus. In such event, the Participant shall have no further claim to such amount for any reason, subject to Section 9.02.

SECTION 6.04 LIMITATION ON ALLOCATIONS

Notwithstanding any provision contained in this Health Care Reimbursement Program to the contrary, no more than \$5,000 may be allocated to the Health Care Reimbursement Fund by a Participant in or on account of any Plan Year.

SECTION 6.05 NONDISCRIMINATION REQUIREMENTS

(a) It is the intent of this Health Care Reimbursement Program not to discriminate in violation of the Code and the Treasury regulations thereunder.

(b) If the Administrator deems it necessary to avoid discrimination under this Health Care Reimbursement Program, it may, but shall not be required to, reject any elections or reduce contributions or Benefits in order to assure compliance with this Section. Any act taken by the Administrator under this Section shall be carried out in a uniform and nondiscriminatory manner. If the Administrator decides to reject any

elections or reduce contributions or Benefits, it shall be done in the following manner. First, the Benefits designated for the Health Care Reimbursement Fund by the member of the group in whose favor discrimination may not occur pursuant to Code Section 105 that elected to contribute the highest amount to the fund for the Plan Year shall be reduced until the nondiscrimination tests set forth in this Section or the Code are satisfied, or until the amount designated for the fund equals the amount designated for the fund by the next member of the group in whose favor discrimination may not occur pursuant to Code Section 105 who has elected the second highest contribution to the Health Care Reimbursement Fund for the Plan Year. This process shall continue until the nondiscrimination tests set forth in this Section or the Code are satisfied. Contributions which are not utilized to provide Benefits to any Participant by virtue of any administrative act under this paragraph shall be forfeited and credited to the benefit plan surplus.

SECTION 6.06 COORDINATION WITH CAFETERIA PLAN

All Participants under the Cafeteria Plan are eligible to receive Cafeteria Benefits under this Health Care Reimbursement Program. The enrollment under the Cafeteria Plan shall constitute enrollment under this Health Care Reimbursement Program. In addition, other matters concerning contributions, elections and the like shall be governed by the general provisions of the Cafeteria Plan.

SECTION 6.07 HEALTH CARE REIMBURSEMENT CLAIMS

(a) All Medical Expenses incurred by a Participant shall be reimbursed during the Plan Year subject to Section 2.06, even though the submission of such a claim occurs after his participation hereunder ceases; but provided that the Medical Expenses were incurred during the applicable Plan Year. Medical Expenses are treated as having been incurred when the Participant is provided with the medical care that gives rise to the Medical Expenses, not when the Participant is formally billed or charged for, or pays for the medical care.

(b) The Administrator shall direct the reimbursement to each eligible Participant for all allowable Medical Expenses, up to a maximum of the amount designated by the Participant for the Health Care Reimbursement Fund for the Plan Year (prorated in the event of termination of employment). Reimbursements shall be made available to the Participant throughout the year without regard to the level of Cafeteria Plan Benefit Dollars which have been allocated to the fund at any given point in time. Furthermore, a Participant shall be entitled to reimbursements only for amounts in excess of any payments or other reimbursements under any health care plan covering the Participant and/or his Spouse or Dependents.

(c) Claims for the reimbursement of Medical Expenses incurred in any Plan Year shall be paid as soon after a claim has been filed as is administratively practicable; provided however, that if a Participant fails to submit a claim within the 60 day period immediately following the end of the Plan Year or 60 days after termination of employment, those Medical Expense claims shall not be considered for reimbursement by the Administrator.

(d) Reimbursement payments under this Plan shall be made directly to the Participant. However, in the Administrator's discretion, payments may be made directly

to the service provider. The application for payment or reimbursement shall be made to the Administrator on an acceptable form within a reasonable time of incurring the debt or paying for the service. The application shall include a written statement from an independent third party stating that the Medical Expense has been incurred and the amount of such expense. Furthermore, the Participant shall provide a written statement that the Medical Expense has not been reimbursed or is not reimbursable under any other health plan coverage and, if reimbursed from the Health Care Reimbursement Fund, such amount will not be claimed as a tax deduction. The Administrator shall retain a file of all such applications.

ARTICLE VII
DEPENDENT CARE ASSISTANCE PROGRAM

SECTION 7.01 ESTABLISHMENT OF PROGRAM

This Dependent Care Assistance Program is intended to qualify as a program under Code Section 129 and shall be interpreted in a manner consistent with such Code Section. Participants who elect to participate in this program may submit claims for the reimbursement of Employment-Related Dependent Care Expenses. All amounts reimbursed under this Dependent Care Assistance Program shall be paid from amounts allocated to the Participant's Dependent Care Assistance Account.

SECTION 7.02 DEFINITIONS

For the purposes of this Article and the Cafeteria Plan the terms below shall have the following meaning:

(a) "Dependent Care Assistance Account" means the account established for a Participant pursuant to this Article to which part of his Cafeteria Plan Benefit Dollars may be allocated and from which Employment-Related Dependent Care Expenses of the Participant may be reimbursed.

(b) "Dependent Care Assistance Program" means the program of benefits contained in this Article, which provides for the reimbursement of eligible expenses for the care of the Qualifying Dependents of Participants.

(c) "Earned Income" means earned income as defined under Code Section 32(c)(2), but excluding such amounts paid or incurred by the Employer for dependent care assistance to the Participant.

(d) "Employment-Related Dependent Care Expenses" means the amounts paid for expenses of a Participant for those services which if paid by the Participant would be considered employment related expenses under Code Section 21(b)(2). Generally, they shall include expenses for household services or for the care of a Qualifying Dependent, to the extent that such expenses are incurred to enable the Participant to be gainfully employed for any period for which there are one or more Qualifying Dependents with respect to such Participant. Employment-Related Dependent Care Expenses are treated as having been incurred when the Participant's Qualifying Dependents are provided with the dependent care that gives rise to the Employment-Related Dependent Care Expenses, not when the Participant is formally billed or charged for, or pays for the dependent care. The determination of whether an

amount qualifies as an Employment-Related Dependent Care Expense shall be made subject to the following rules:

(1) If such amounts are paid for expenses incurred outside the Participant's household, they shall constitute Employment-Related Dependent Care Expenses only if incurred for a Qualifying Dependent as defined in Section 7.02(e)(1) (or deemed to be, as described in Section 7.2(e)(1) pursuant to Section 7.02(e)(3)), or for a Qualifying Dependent as defined in Section 7.02(e)(2) (or deemed to be, as described in Section 7.2(e)(2) pursuant to Section 7.02(e)(3)) who regularly spends at least 8 hours per day in the Participant's household;

(2) If the expense is incurred outside the Participant's home at a facility that provides care for a fee, payment, or grant for more than 6 individuals who do not regularly reside at the facility, the facility must comply with all applicable state and local laws and regulations, including licensing requirements, if any; and

(3) Employment-Related Dependent Care Expenses of a Participant shall not include amounts paid or incurred to a child of such Participant who is under the age of 19 or to an individual who is a dependent of such Participant or such Participant's Spouse.

(e) "Qualifying Dependent" means, for Dependent Care Assistance Program purposes,

(1) a Dependent of a Participant who is under the age of 13, with respect to whom the Participant is entitled to an exemption under Code Section 151(c);

(2) a Dependent or the Spouse of a Participant who is physically or mentally incapable of caring for himself or herself; or

(3) a child that is deemed to be a Qualifying Dependent described in paragraph (1) or (2) above, whichever is appropriate, pursuant to Code Section 21(e)(5).

(f) The definitions of Article I are hereby incorporated by reference to the extent necessary to interpret and apply the provisions of this Dependent Care Assistance Program.

SECTION 7.03 DEPENDENT CARE ASSISTANCE ACCOUNTS

The Administrator shall establish a Dependent Care Assistance Account for each Participant who elects to apply Cafeteria Plan Benefit Dollars to Dependent Care Assistance Program benefits.

SECTION 7.04 INCREASES IN DEPENDENT CARE ASSISTANCE ACCOUNTS

A Participant's Dependent Care Assistance Account shall be increased each pay period by the portion of Cafeteria Plan Benefit Dollars that he has elected to apply toward his Dependent Care Assistance Account pursuant to elections made under Article V hereof.

SECTION 7.05 DECREASES IN DEPENDENT CARE ASSISTANCE ACCOUNTS

A Participant's Dependent Care Assistance Account shall be reduced by the amount of any Employment-Related Dependent Care Expense reimbursements paid or incurred on behalf of a Participant pursuant to Section 7.12 hereof.

SECTION 7.06 ALLOWABLE DEPENDENT CARE ASSISTANCE REIMBURSEMENT

Subject to limitations contained in Section 7.09 of this Program, and to the extent of the amount contained in the Participant's Dependent Care Assistance Account, a Participant who incurs Employment-Related Dependent Care Expenses shall be entitled to receive from the Employer full reimbursement for the entire amount of such expenses incurred during the Plan Year or portion thereof during which he is a Participant.

SECTION 7.07 STATEMENT OF BENEFITS

Information about the benefits paid from your accounts in the Plan is shown on each paycheck that you receive.

SECTION 7.08 FORFEITURES

The amount in a Participant's Dependent Care Assistance Account as of the end of any Plan Year (and after the processing of all claims for such Plan Year pursuant to Section 7.12 hereof) shall be forfeited and credited to the benefit plan surplus. In such event, the Participant shall have no further claim to such amount for any reason.

SECTION 7.09 LIMITATION ON PAYMENTS

Notwithstanding any provision contained in this Article to the contrary, amounts paid from a Participant's Dependent Care Assistance Account in or on account of any taxable year of the Participant shall not exceed the lesser of the Earned Income limitation described in Code Section 129(b) or \$5,000 (\$2,500 if a separate tax return is filed by a Participant who is married as determined under the rules of paragraphs (3) and (4) of Code Section 21(e)).

SECTION 7.10 NONDISCRIMINATION REQUIREMENTS

(a) It is the intent of this Dependent Care Assistance Program that contributions or benefits not discriminate in favor of the group of employees in whose favor discrimination may not occur under Code Section 129(d).

(b) It is the intent of this Dependent Care Assistance Program that not more than 25 percent of the amounts paid by the Employer for dependent care assistance during the Plan Year will be provided for the class of individuals who are shareholders or owners (or their Spouses or Dependents), each of whom (on any day of the Plan Year)

owns more than 5 percent of the stock or of the capital or profits interest in the Employer.

(c) If the Administrator deems it necessary to avoid discrimination or possible taxation to a group of employees in whose favor discrimination may not occur in violation of Code Section 129 it may, but shall not be required to, reject any elections or reduce contributions or non-taxable benefits in order to assure compliance with this Section. Any act taken by the Administrator under this Section shall be carried out in a uniform and nondiscriminatory manner. If the Administrator decides to reject any elections or reduce contributions or Benefits, it shall be done in the following manner. First, the Benefits designated for the Dependent Care Assistance Account by the affected Participant that elected to contribute the highest amount to such account for the Plan Year shall be reduced until the nondiscrimination tests set forth in this Section are satisfied, or until the amount designated for the account equals the amount designated for the account of the affected Participant who has elected the second highest contribution to the Dependent Care Assistance Account for the Plan Year. This process shall continue until the nondiscrimination tests set forth in this Section are satisfied. Contributions which are not utilized to provide Benefits to any Participant by virtue of any administrative act under this paragraph shall be forfeited.

SECTION 7.11 COORDINATION WITH CAFETERIA PLAN

All Participants under the Cafeteria Plan are eligible to receive Benefits under this Dependent Care Assistance Program. The enrollment and termination of participation under the Cafeteria Plan shall constitute enrollment and termination of participation under this Dependent Care Assistance Program. In addition, other matters concerning contributions, elections and the like shall be governed by the general provisions of the Cafeteria Plan.

SECTION 7.12 DEPENDENT CARE ASSISTANCE PROGRAM CLAIMS

The Administrator shall direct the payment of all such Dependent Care Assistance claims to the Participant upon the presentation to the Administrator of documentation of such expenses in a form satisfactory to the Administrator. However, in the Administrator's discretion, payments may be made directly to the service provider. In its discretion in administering the Plan, the Administrator may utilize forms and require documentation of costs as may be necessary to verify the claims submitted. At a minimum, the form shall include a statement from an independent third party as proof that the expense has been incurred and the amount of such expense. In addition, the Administrator may require that each Participant who desires to receive reimbursement under this Program for Employment-Related Dependent Care Expenses submit a statement which may contain some or all of the following information:

- (a) The Dependent or Dependents for whom the services were performed;
- (b) The nature of the services performed for the Participant, the cost of which he wishes reimbursement;
- (c) The relationship, if any, of the person performing the services to the Participant;

(d) If the services are being performed by a child of the Participant, the age of the child;

(e) A statement as to where the services were performed;

(f) If any of the services were performed outside the home, a statement as to whether the Dependent for whom such services were performed spends at least 8 hours a day in the Participant's household;

(g) If the services were being performed in a day care center, a statement:

(1) that the day care center complies with all applicable laws and regulations of the state of residence,

(2) that the day care center provides care for more than 6 individuals (other than individuals residing at the center), and

(3) of the amount of fee paid to the provider.

(h) If the Participant is married, a statement containing the following:

(1) the Spouse's salary or wages if he or she is employed, or

(2) if the Participant's Spouse is not employed, that

(i) he or she is incapacitated, or

(ii) he or she is a full-time student attending an educational institution and the months during the year which he or she attended such institution.

(i) If a Participant fails to submit a claim within the 60 day period immediately following the end of the Plan Year or within the 60 day period immediately following termination of employment, those claims shall not be considered for reimbursement by the Administrator.

ARTICLE VIII

EXECUTIVE SUPPLEMENTAL LIFE INSURANCE PROGRAM

SECTION 8.01 ESTABLISHMENT OF PLAN

This Executive Supplemental Life Insurance Program has been established by the Employer to attract, reward and retain certain highly qualified Employees. The basis of this program is a business-owned life insurance contract purchased and maintained by the Employer. The terms and conditions of such contract are incorporated herein. The Employer reserves the right to terminate this program at any time.

SECTION 8.02 PARTICIPATION & TERMINATION

(a) Participation in the Plan shall be limited to those Employees of the Employer or of an Affiliated Employer selected by the Employer, in its sole discretion, to participate in the Plan.

(b) A Participant's rights under this Plan shall cease and his or her participation in the Plan shall terminate upon the election of company to terminate the Executive Supplemental Life Insurance Program or the Plan. Participation does not terminate upon termination of employment.

SECTION 8.03 COORDINATION WITH CAFETERIA PLAN

Participants under the Cafeteria Plan are not eligible to receive Benefits under this Executive Supplemental Life Insurance Program unless selected by the Administrator. Enrollment under the Cafeteria Plan shall not constitute enrollment under this Executive Supplemental Life Insurance Plan. In addition, other matters concerning contributions, elections and the like shall not be governed by the general provisions of the Cafeteria Plan and shall instead be governed by this Article and the insurance contract incorporated herein by reference.

ARTICLE IX ERISA PROVISIONS

SECTION 9.01 CLAIM FOR BENEFITS

(a) Any claim for Benefits underwritten by an Insurance Contract shall be made to the Insurer. If the Insurer denies any claim, the Participant or beneficiary shall follow the Insurer's claims review procedure. Any other claim for Benefits shall be made to the Administrator. If the Administrator denies a claim, the Administrator may provide notice to the Participant or beneficiary, in writing, within 90 days after the claim is filed unless special circumstances require an extension of time for processing the claim. If the Administrator does not notify the Participant of the denial of the claim within the 90 day period specified above, then the claim shall be deemed denied. The notice of a denial of a claim shall be written in a manner calculated to be understood by the claimant and shall set forth:

(1) specific references to the pertinent Plan provisions on which the denial is based;

(2) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation as to why such information is necessary; and

(3) an explanation of the Plan's claim procedure.

(b) Within 60 days after receipt of the above material, the claimant shall have a reasonable opportunity to appeal the claim denial to the Administrator for a full and fair review. The claimant or his duly authorized representative may:

(1) request a review upon written notice to the Administrator;

(2) review pertinent documents; and

(3) submit issues and comments in writing.

(c) A decision on the review by the Administrator will be made not later than 60 days after receipt of a request for review, unless special circumstances require an

extension of time for processing (such as the need to hold a hearing), in which event a decision should be rendered as soon as possible, but in no event later than 120 days after such receipt. The decision of the Administrator shall be written and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, with specific references to the pertinent Plan provisions on which the decision is based.

(d) Any balance remaining in the Participants' Health Care Reimbursement Fund or Dependent Care Assistance Account as of the end of each Plan Year shall be forfeited and deposited in the benefit plan surplus of the Employer pursuant to Section 6.03 or Section 7.08, whichever is applicable, unless the Participant had made a claim for such Plan Year, in writing, which has been denied or is pending; in which event the amount of the claim shall be held in his account until the claim appeal procedures set forth above have been satisfied or the claim is paid. If any such claim is denied on appeal, the amount held beyond the end of the Plan Year shall be forfeited and credited to the benefit plan surplus.

(e) Notwithstanding the foregoing, in the case of a claim for medical expenses under the Health Care Reimbursement Plan, the following timetable for claims and rules below apply:

Notification of whether claim is accepted or denied	30 days
Extension due to matters beyond the control of the Plan	15 days
Insufficient information on the Claim:	
Notification of	15 days
Response by Participant	45 days
Review of claim denial	60 days

The Plan Administrator will provide written or electronic notification of any claim denial. The notice will state:

- (1) The specific reason or reasons for the denial.
- (2) Reference to the specific Plan provisions on which the denial was based.
- (3) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary.
- (4) A description of the Plan's review procedures and the time limits applicable to such procedures. This will include a statement of the right to bring a civil action under section 502 of ERISA following a denial on review.
- (5) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claim.

(6) If the denial was based on an internal rule, guideline, protocol, or other similar criterion, the specific rule, guideline, protocol, or criterion will be provided free of charge. If this is not practical, a statement will be included that such a rule, guideline, protocol, or criterion was relied upon in making the denial and a copy will be provided free of charge to the claimant upon request.

When the Participant receives a denial, the Participant shall have 180 days following receipt of the notification in which to appeal the decision. The Participant may submit written comments, documents, records, and other information relating to the Claim. If the Participant requests, the Participant shall be provided, free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claim.

The period of time within which a denial on review is required to be made will begin at the time an appeal is filed in accordance with the procedures of the Plan. This timing is without regard to whether all the necessary information accompanies the filing.

A document, record, or other information shall be considered relevant to a Claim if it:

- (1) was relied upon in making the claim determination;
- (2) was submitted, considered, or generated in the course of making the claim determination, without regard to whether it was relied upon in making the claim determination;
- (3) demonstrated compliance with the administrative processes and safeguards designed to ensure and to verify that claim determinations are made in accordance with Plan documents and Plan provisions have been applied consistently with respect to all claimants; or
- (4) constituted a statement of policy or guidance with respect to the Plan concerning the denied claim.

The review will take into account all comments, documents, records, and other information submitted by the claimant relating to the Claim, without regard to whether such information was submitted or considered in the initial claim determination. The review will not afford deference to the initial denial and will be conducted by a fiduciary of the Plan who is neither the individual who made the adverse determination nor a subordinate of that individual.

SECTION 9.02 APPLICATION OF BENEFIT PLAN SURPLUS

Any forfeited amounts credited to the benefit plan surplus by virtue of the failure of a Participant to incur a qualified expense or seek reimbursement in a timely manner may, but need not be, separately accounted for after the close of the Plan Year (or after such further time specified herein for the filing of claims) in which such forfeitures arose. In no event shall such amounts be carried over to reimburse a Participant for expenses incurred during a subsequent Plan Year for the same or any other Benefit available under the Plan; nor shall amounts forfeited by a particular Participant be made available to such Participant in any other form or

manner, except as permitted by Treasury regulations. Amounts in the benefit plan surplus shall first be used to defray any administrative costs and experience losses and thereafter be retained by the Employer.

SECTION 9.03 NAMED FIDUCIARY

The Administrator shall be the named fiduciary pursuant to ERISA Section 402 and shall be responsible for the management and control of the operation and administration of the Plan.

SECTION 9.04 GENERAL FIDUCIARY RESPONSIBILITIES

The Administrator and any other fiduciary under ERISA shall discharge their duties with respect to this Plan solely in the interest of the Participants and their beneficiaries and

(a) for the exclusive purpose of providing Benefits to Participants and their beneficiaries and defraying reasonable expenses of administering the Plan;

(b) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; and

(c) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with ERISA.

SECTION 9.05 NONASSIGNABILITY OF RIGHTS

The right of any Participant to receive any reimbursement under the Plan shall not be alienable by the Participant by assignment or any other method, and shall not be subject to the rights of creditors, and any attempt to cause such right to be so subjected shall not be recognized, except to such extent as may be required by law.

ARTICLE X ADMINISTRATION

SECTION 10.01 PLAN ADMINISTRATION

The operation of the Plan shall be under the supervision of the Administrator. It shall be a principal duty of the Administrator to see that the Plan is carried out in accordance with its terms, and for the exclusive benefit of Employees entitled to participate in the Plan. The Administrator shall have full power to administer the Plan in all of its details, subject, however, to the pertinent provisions of the Code. The Administrator's powers shall include, but shall not be limited to the following authority, in addition to all other powers provided by this Plan:

(a) To make and enforce such rules and regulations as the Administrator deems necessary or proper for the efficient administration of the Plan;

(b) To interpret the Plan, the Administrator's interpretations thereof in good faith to be final and conclusive on all persons claiming benefits by operation of the Plan;

(c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan and to receive benefits provided by operation of the Plan;

(d) To reject elections or to limit contributions or Benefits for certain highly compensated participants if it deems such to be desirable in order to avoid discrimination under the Plan in violation of applicable provisions of the Code;

(e) To provide Employees with a reasonable notification of their benefits available by operation of the Plan;

(f) To approve reimbursement requests and to authorize the payment of benefits; and

(g) To appoint such agents, counsel, accountants, consultants, and actuaries as may be required to assist in administering the Plan.

Any procedure, discretionary act, interpretation or construction taken by the Administrator shall be done in a nondiscriminatory manner based upon uniform principles consistently applied and shall be consistent with the intent that the Plan shall continue to comply with the terms of Code Section 125 and the Treasury regulations thereunder.

SECTION 10.02 EXAMINATION OF RECORDS

The Administrator shall make available to each Participant, Eligible Employee and any other Employee of the Employer such records as pertain to their interest under the Plan for examination at reasonable times during normal business hours.

SECTION 10.03 PAYMENT OF EXPENSES

Any reasonable administrative expenses shall be paid by the Employer unless the Employer determines that administrative costs shall be borne by the Participants under the Plan or by any Trust Fund which may be established hereunder. The Administrator may impose reasonable conditions for payments, provided that such conditions shall not discriminate in favor of highly compensated employees.

SECTION 10.04 INSURANCE CONTROL CLAUSE

In the event of a conflict between the terms of this Plan and the terms of an Insurance Contract of an independent third party Insurer whose product is then being used in conjunction with this Plan, the terms of the Insurance Contract shall control as to those Participants receiving coverage under such Insurance Contract. For this purpose, the Insurance Contract shall control in defining the persons eligible for insurance, the dates of their eligibility, the conditions which must be satisfied to become insured, if any, the benefits Participants are entitled to and the circumstances under which insurance terminates.

SECTION 10.05 INDEMNIFICATION OF ADMINISTRATOR

The Employer agrees to indemnify and to defend to the fullest extent permitted by law any Employee serving as the Administrator or as a member of a committee designated as Administrator (including any Employee or former Employee who previously served as

Administrator or as a member of such committee) against all liabilities, damages, costs and expenses (including attorney's fees and amounts paid in settlement of any claims approved by the Employer) occasioned by any act or omission to act in connection with the Plan, if such act or omission is in good faith.

ARTICLE XI
AMENDMENT OR TERMINATION OF PLAN

SECTION 11.01 AMENDMENT

The Employer, at any time or from time to time, may amend any or all of the provisions of the Plan without the consent of any Employee or Participant. No amendment shall have the effect of modifying any benefit election of any Participant in effect at the time of such amendment, unless such amendment is made to comply with Federal, state or local laws, statutes or regulations.

SECTION 11.02 TERMINATION

The Employer is establishing this Plan with the intent that it will be maintained for an indefinite period of time. Notwithstanding the foregoing, the Employer reserves the right to terminate this Plan, in whole or in part, at any time. In the event the Plan is terminated, no further contributions shall be made. Benefits under any Insurance Contract shall be paid in accordance with the terms of the Contract.

No further additions shall be made to the Health Care Reimbursement Fund or Dependent Care Assistance Account, but all payments from such fund shall continue to be made according to the elections in effect until the end of the Plan Year in which the Plan termination occurs (and for a reasonable period of time thereafter, if required for the filing of claims). Any amounts remaining in any such fund or account as of the end of the Plan Year in which Plan termination occurs shall be forfeited and deposited in the benefit plan surplus after the expiration of the filing period.

ARTICLE XII
MISCELLANEOUS

SECTION 12.01 PLAN INTERPRETATION

All provisions of this Plan shall be interpreted and applied in a uniform, nondiscriminatory manner. This Plan shall be read in its entirety and not severed except as provided in Section 12.12.

SECTION 12.02 GENDER AND NUMBER

Wherever any words are used herein in the masculine, feminine or neuter gender, they shall be construed as though they were also used in another gender in all cases where they would so apply, and whenever any words are used herein in the singular or plural form, they shall be construed as though they were also used in the other form in all cases where they would so apply.

SECTION 12.03 WRITTEN DOCUMENT

This Plan, in conjunction with any separate written document which may be required by law, is intended to satisfy the written Plan requirement of Code Section 125 and any Treasury regulations thereunder relating to cafeteria plans.

SECTION 12.04 EXCLUSIVE BENEFIT

This Plan shall be maintained for the exclusive benefit of the Employees who participate in the Plan.

SECTION 12.05 PARTICIPANT'S RIGHTS

This Plan shall not be deemed to constitute an employment contract between the Employer and any Participant or to be a consideration or an inducement for the employment of any Participant or Employee. Nothing contained in this Plan shall be deemed to give any Participant or Employee the right to be retained in the service of the Employer or to interfere with the right of the Employer to discharge any Participant or Employee at any time regardless of the effect which such discharge shall have upon him as a Participant of this Plan.

SECTION 12.06 ACTION BY THE EMPLOYER

Whenever the Employer under the terms of the Plan is permitted or required to do or perform any act or matter or thing, it shall be done and performed by a person duly authorized by its legally constituted authority.

SECTION 12.07 EMPLOYER'S PROTECTIVE CLAUSES

(a) Upon the failure of either the Participant or the Employer to obtain the insurance contemplated by this Plan (whether as a result of negligence, gross neglect or otherwise), the Participant's Benefits shall be limited to the insurance premium(s), if any, that remained unpaid for the period in question and the actual insurance proceeds, if any, received by the Employer or the Participant as a result of the Participant's claim.

(b) The Employer's liability to the Participant shall only extend to and shall be limited to any payment actually received by the Employer from the Insurer. In the event that the full insurance Benefit contemplated is not promptly received by the Employer within a reasonable time after submission of a claim, then the Employer shall notify the Participant of such facts and the Employer shall no longer have any legal obligation whatsoever (except to execute any document called for by a settlement reached by the Participant). The Participant shall be free to settle, compromise or refuse to pursue the claim as the Participant, in his sole discretion, shall see fit.

(c) The Employer shall not be responsible for the validity of any Insurance Contract issued hereunder or for the failure on the part of the Insurer to make payments provided for under any Insurance Contract. Once insurance is applied for or obtained, the Employer shall not be liable for any loss which may result from the failure to pay Premiums to the extent Premium notices are not received by the Employer.

SECTION 12.08 NO GUARANTEE OF TAX CONSEQUENCES

Neither the Administrator nor the Employer makes any commitment or guarantee that any amounts paid to or for the benefit of a Participant under the Plan will be excludable from the Participant's gross income for federal or state income tax purposes, or that any other federal or state tax treatment will apply to or be available to any Participant. It shall be the obligation of each Participant to determine whether each payment under the Plan is excludable from the Participant's gross income for federal and state income tax purposes, and to notify the Employer if the Participant has reason to believe that any such payment is not so excludable. Notwithstanding the foregoing, the rights of Participants under this Plan shall be legally enforceable.

SECTION 12.09 INDEMNIFICATION OF EMPLOYER BY PARTICIPANTS

If any Participant receives one or more payments or reimbursements under the Plan that are not for a permitted Benefit, such Participant shall indemnify and reimburse the Employer for any liability it may incur for failure to withhold federal or state income tax or Social Security tax from such payments or reimbursements. However, such indemnification and reimbursement shall not exceed the amount of additional federal and state income tax (plus any penalties) that the Participant would have owed if the payments or reimbursements had been made to the Participant as regular cash compensation, plus the Participant's share of any Social Security tax that would have been paid on such compensation, less any such additional income and Social Security tax actually paid by the Participant.

SECTION 12.10 FUNDING

Unless otherwise required by law, contributions to the Plan need not be placed in trust or dedicated to a specific Benefit, but may instead be considered general assets of the Employer. Furthermore, and unless otherwise required by law, nothing herein shall be construed to require the Employer or the Administrator to maintain any fund or segregate any amount for the benefit of any Participant, and no Participant or other person shall have any claim against, right to, or security or other interest in, any fund, account or asset of the Employer from which any payment under the Plan may be made.

SECTION 12.11 GOVERNING LAW

This Plan is governed by the Code and the Treasury regulations issued thereunder (as they might be amended from time to time). In no event shall the Employer guarantee the favorable tax treatment sought by this Plan. To the extent not preempted by Federal law, the provisions of this Plan shall be construed, enforced and administered according to the laws of the State of Alabama.

SECTION 12.12 SEVERABILITY

If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provisions of the Plan, and the Plan shall be construed and enforced as if such provision had not been included herein.

SECTION 12.13 CAPTIONS

The captions contained herein are inserted only as a matter of convenience and for reference, and in no way define, limit, enlarge or describe the scope or intent of the Plan, nor in any way shall affect the Plan or the construction of any provision thereof.

SECTION 12.14 CONTINUATION OF COVERAGE

Notwithstanding anything in the Plan to the contrary, in the event any benefit under this Plan subject to the continuation coverage requirement of Code Section 4980B becomes unavailable, each Participant will be entitled to continuation coverage as prescribed in Code Section 4980B.

SECTION 12.15 FAMILY AND MEDICAL LEAVE ACT

Notwithstanding anything in the Plan to the contrary, in the event any Benefit under this Plan becomes subject to the requirements of the Family and Medical Leave Act and regulations thereunder, this Plan shall be operated in accordance with Regulation 1.125-3.

SECTION 12.16 HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT

Notwithstanding anything in this Plan to the contrary, this Plan shall be operated in accordance with HIPAA and regulations thereunder.

SECTION 12.17 UNIFORM SERVICES EMPLOYMENT AND REEMPLOYMENT RIGHTS ACT

Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with USERRA and the regulations thereunder.

IN WITNESS WHEREOF, this Plan document is hereby executed this
_____ day of _____, 2003.

ProAssurance Group Services Corporation

By _____

EMPLOYER

30

CERTIFICATE OF CORPORATE RESOLUTION

The undersigned Secretary of ProAssurance Group Services Corporation (the Corporation) hereby certifies that the following resolutions were duly adopted by the board of directors of the Corporation on _____, and that such resolutions have not been modified or rescinded as of the date hereof:

RESOLVED, that the form of amended Cafeteria Plan including a Dependent Care Assistance Program and Health Care Reimbursement Plan effective October 1, 2003, presented to this meeting is hereby approved and adopted and that the proper officers of the Corporation are hereby authorized and directed to execute and deliver to the Administrator of the Plan one or more counterparts of the Plan.

RESOLVED, that the Administrator shall be instructed to take such actions that are deemed necessary and proper in order to implement the Plan, and to set up adequate accounting and administrative procedures to provide benefits under the Plan.

RESOLVED, that the proper officers of the Corporation shall act as soon as possible to notify the employees of the Corporation of the adoption of the Cafeteria Plan by delivering to each employee a copy of the summary description of the Plan in the form of the Summary Plan Description presented to this meeting, which form is hereby approved.

The undersigned further certifies that attached hereto as Exhibits A and B, respectively, are true copies of ProAssurance Corporation Employee Benefit Plan as amended and restated and the Summary Plan Description approved and adopted in the foregoing resolutions.

Secretary

Date: _____

</TEXT>
</DOCUMENT>

PROASSURANCE GROUP 2004
DEFERRED COMPENSATION PLAN

OCTOBER 11, 2004

.
. .
. .

TABLE OF CONTENTS

	PAGE

ARTICLE I PURPOSE.....	1
ARTICLE II DEFINITIONS.....	1
ARTICLE III ELIGIBILITY.....	2
ARTICLE IV DEFERRED COMPENSATION.....	2
ARTICLE V ACCOUNT GROWTH.....	3
ARTICLE VI VESTING.....	3
ARTICLE VII PAYMENT OF BENEFITS.....	3
ARTICLE VIII NATURE OF KEY EMPLOYEE'S INTEREST IN THE PLAN.....	5
ARTICLE IX NO GUARANTEE OF EMPLOYMENT.....	5
ARTICLE X DISPUTE RESOLUTION.....	6
ARTICLE XI AMENDMENT AND TERMINATION.....	6

PROASSURANCE GROUP 2004

DEFERRED COMPENSATION PLAN

PROASSURANCE GROUP SERVICES CORPORATION (hereinafter referred to as the "Company") desires to establish the following deferred compensation plan (the "Plan") to attract and retain the services of a select group of management and executive personnel and to provide benefits to such employees upon their retirement, death, disability or other termination of employment;

NOW, THEREFORE, effective as of the 11th day of October, 2004 (the "Effective Date"), the following Plan is hereby established:

ARTICLE I.
PURPOSE

The Plan is an unfunded plan which is established for the benefit of a select group of management and highly compensated employees within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan is for the benefit of Key Employees of the Company and, if the Company is a member of a controlled group of corporations within the meaning of Section 414(b) of the Internal Revenue Code (the "Code") Key Employees of other controlled group corporations (the Company and the other controlled group corporations being sometimes hereinafter referred to as the "Employer" or "Employers").

ARTICLE II
DEFINITIONS

The following definitions shall govern this Agreement:

1. ANNIVERSARY DATE means the last business day of each December following the Effective Date.
2. BENEFICIARY means the person designated in writing by the Key Employee to receive any benefits upon the death of the Key Employee. If no Beneficiary designation is made or if the designated person is not living at the death of the Key Employee, the Beneficiary shall be the deceased Key Employee's spouse, if living, otherwise the Key Employee's estate.
3. BOARD means the Board of Directors of the Company.
4. COMPENSATION means the remuneration payable to the Key Employee as basic salary or wages (inclusive of pay for sick days, holidays, and vacation), plus overtime pay, bonus payments, and commissions.

5. DEFERRED COMPENSATION ACCOUNT means the individual account maintained for the Key Employee by the Company, reflecting all amounts deferred on behalf of the Key Employee, plus other additions or reductions pursuant to ARTICLE V.

6. EFFECTIVE DATE means the effective date specified above.

7. KEY EMPLOYEE means an employee of an Participating Employer who has been designated by the Board as being a Key Employee.

8. PARTICIPATING EMPLOYER means an Employer that has adopted this Plan for the benefit of its Key Employees.

9. PLAN means this deferred compensation plan, as from time to time amended.

10. PLAN YEAR means the calendar year, provided, however, that the initial Plan Year will be the period commencing on the Effective Date and ending on December 31, 2004.

ARTICLE III ELIGIBILITY

The Board of Directors of each Participating Employer shall designate those Key Employees of the Participating Employer who are eligible to participate in the Plan and the date as of which such Key Employees will become eligible to participate (the "eligibility date").

Upon becoming initially eligible to participate in the Plan, the Key Employee may make a Deferral Election as described in ARTICLE IV below and a Distribution Election as described in ARTICLE VII below within thirty (30) days after his eligibility date.

ARTICLE IV DEFERRED COMPENSATION

An eligible Key Employee may elect to defer any or all of his Compensation, excluding such amounts as are required to satisfy required withholdings for taxes and other items, and have such amounts allocated to his Deferred Compensation Account. Such election will only apply to Compensation to be deferred in the calendar year immediately following the calendar year in which the election is made; provided, however, that (a) an eligible Key Employee may make an initial election to defer compensation for services to be performed in such Plan Year subsequent to the election, provided that the election is made within thirty (30) days after the Effective Date, and (b) a Key Employee who first becomes eligible in any Plan Year may elect to defer compensation for services to be performed subsequent to the election within thirty (30) days after the Key Employee's eligibility date.

The Key Employee must deliver his deferral election to the Company prior to January 1st of the calendar year to which the election relates, except as provided above with respect to initial elections under the Plan or newly eligible Key Employees. The election will remain in effect until amended or terminated, but any such amendment or termination will only be effective on the next following January 1st.

The Deferred Compensation of each Key Employee shall be segregated from other accounts on the books and records of the Company as a contingent liability of the Company to the Key Employee; provided, however, that the Company may elect to establish a grantor trust to hold assets equal to all or some portion of the amounts credited to the Key Employee's Deferred Compensation Account, but any such trust shall be subject to the provisions of this Plan.

ARTICLE V
ACCOUNT GROWTH

The account growth attributable to the Key Employee's Deferred Compensation Account shall be equal to the weighted average tax equivalent book yield (tax adjusted gross earnings divided by the average quarterly ending book value) on the consolidated portfolio of ProAssurance Corporation and its subsidiaries. Account growth shall be allocated to the Account as of the last day of each calendar quarter.

ARTICLE VI
VESTING

If the Key Employee separates from service or dies, the Key Employee's benefit shall equal his Vested Severance Benefit, and such benefit will be paid in accordance with Article VII hereof. The Vested Severance Benefit of a Key Employee shall be an amount equal to the amount standing to his credit in his Deferred Compensation Account.

ARTICLE VII
PAYMENT OF BENEFITS

In the event that the Key Employee separates from service prior to attaining his normal retirement date (as defined below) or his death, the entire amount standing to his credit in his Deferred Compensation Account will be distributed to him in a lump-sum within ninety (90) days following his date of termination of employment; but in no event earlier than the first day of the calendar year following the year in which he separated from service, provided, however, that, in addition to the foregoing requirements, if the Key Employee is a "key employee" within the meaning of Section 416(i) of the Code, but without regard to Section 416(i)(5) thereof, such

lump-sum distribution must be made at least six (6) months after the Key Employee's date of separation from service.

In the event of a separation from service on or after the normal retirement death or in the event of the Key Employee's death, the Key Employee may make a Distribution Election with respect to the distribution of any amounts deferred hereunder. Such Distribution Election must be completed at or before the time specified for completion of the Key Employee's initial Deferral Election and shall apply to amounts deferred pursuant to the initial Deferral Election and all future Deferral Elections. The Key Employee may make a separate Distribution Election with respect to amounts to be paid to him at his normal retirement date and a separate Distribution Election with respect to amounts payable upon his death. Such Distribution Election shall specify the benefit commencement date and the form of payment. The benefit commencement date can be no earlier than the first day of the calendar year following the calendar year in which the Key Employee separates from service or dies. Optional forms of payment under this Plan include a lump-sum payment or annual installments over a period not exceeding ten (10) years. In addition to the foregoing requirements, if the Key Employee is a "key employee" within the meaning of Section 416(i) of the Code, but without regard to Section 416(i)(5) thereof, the benefit commencement date must be at least six (6) months after the Key Employee's date of retirement or death.

The Key Employee may amend his Distribution Election to defer payments and/or to change the form of payment, with respect to amounts to be paid to him upon attainment of the normal retirement date or with respect to amounts payable upon his death, at any time, provided such amendment will not take effect for at least twelve (12) months after it is made. In the case of the amendment of a Distribution Election relating to distributions at the normal retirement date, such amendment must result in the deferral of the first payment for a period of at least five (5) years from the date that the first payment would have otherwise been made, and such amendment must be made at least twelve (12) months prior to the date the first payment would have otherwise been made. A Distribution Election specifying annual installment distributions may not be amended so as to result in installments being paid over a shorter period of time than originally elected.

If the Key Employee dies after the commencement of installment distributions to him but prior to having received all amounts due to him under the Plan, such installments will continue to be paid to the Key Employee's Beneficiary in the same manner as if the Key Employee had not died. If permitted by applicable law or regulations, the Key Employee may elect that, in the event that the Key Employee dies after benefit commencement, any remaining amounts due him under the Plan will be paid to his Beneficiary in a lump sum.

If the Key Employee fails to make a Distribution Election with respect to any amounts deferred hereunder, such amounts will be distributed to the Key Employee or to his Beneficiary in one (1) lump-sum payment on a date which is within the ninety (90) day period following the date which is six (6) months after the Key Employee's separation from service, normal retirement date, or death.

Notwithstanding the provisions hereof, if the total amount allocated to a Key Employee's Deferred Compensation Account is less than \$5,000 on his normal retirement date or death, such amount will be paid to the Key Employee in one (1) lump-sum payment on a date which is within the ninety (90) day period following the date which is six (6) months after the Key Employee's separation from service or death. In the event that the \$5,000 amount described in Section 411(a)(11)(A) of the Code is adjusted in the future to an amount greater than \$5,000, the same adjustment(s) will be made to the amount specified herein.

For purposes hereof, a Key Employee's normal retirement date is the date on which the Key Employee actually retires from the employ of an Participating Employer following his attainment of age fifty-five (55) and completion of at least five (5) years of Vesting Service (as such term is defined in the ProAssurance Group Savings and Retirement Plan).

ARTICLE VIII
NATURE OF KEY EMPLOYEE'S INTEREST IN THE PLAN

The Key Employee will be regarded as a general creditor of the Company with respect to any rights derived by the Key Employee from the existence of this Plan or the existence or amount of the Deferred Compensation Account. The Key Employees who are eligible to participate in the Plan have the status of general unsecured creditors of the Company. The Plan constitutes a mere promise by the Company to pay benefits in the future.

Title to and beneficial ownership of any assets, whether cash, investments, life insurance policies, or other assets which the Company may earmark or place in trust to pay the contingent benefits hereunder, shall at all times remain in the Company. The Key Employee and Beneficiary shall not have any property interest whatsoever in any specific assets of the Company.

A Key Employee's rights to benefit payments under the Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Key Employee or of the Beneficiary.

ARTICLE IX
NO GUARANTEE OF EMPLOYMENT

Nothing in this Plan shall be construed as guaranteeing future employment to the Key Employee. The Key Employee continues to be an employee of his Participating Employer solely at the will of the Participating Employer, notwithstanding this Plan.

ARTICLE X
DISPUTE RESOLUTION

Any controversy relating to a claim arising out of or relating to this Plan, including, but not limited to claims for benefits due under this Plan, claims based on state law, and assigned claims relating to this Plan shall be settled by arbitration in accordance with the current Employee Benefit Claims Arbitration Rules of the American Arbitration Association (AAA) or any successor rules which are hereby incorporated into the Plan by this reference.

ARTICLE XI
AMENDMENT AND TERMINATION

The Company reserves the right to amend, modify, or terminate the Plan or to merge or combine the Plan with any other plan maintained by the Company at any time by resolution of the Board; provided, however, that no such amendment, modification, termination, or merger will deprive any Key Employee or Beneficiary of any portion of the amounts standing to his credit in the Key Employee's Deferred Compensation Account on the effective date of such amendment, modification or termination.

PROASSURANCE GROUP SERVICES CORPORATION

By: _____
Its: _____

DEVELOPMENT AGREEMENT

THIS AGREEMENT ("Agreement") made this 18th of November, 2004, by and between KIRCO DEVELOPMENT LLC, a Michigan limited liability company, whose address is 101 West Big Beaver Road, Suite 200, Troy, Michigan 48084-5255 (hereinafter referred to as "Kirco"), and MEEMIC INSURANCE COMPANY, a Michigan corporation, whose address is 691 North Squirrel Road, Suite 100, Auburn Hills, Michigan 48326 (hereinafter referred to as "Owner").

WITNESSETH:

1. CONTRACT. Owner is the owner of certain land, known as 1685 North Opdyke Road, Auburn Hills, Michigan 48326, more fully described on the attached Exhibit A (the "Property"). Owner desires to, and does hereby, engage Kirco to design and obtain the necessary approvals and permits to construct an office building of approximately 104,383 gross square feet (approximately 100,925 rentable square feet) (the "Building") and related improvements hereinafter described (collectively with the Building, the "Improvements" or "Project"), upon and subject to the terms and conditions hereinafter set forth.

2. CONTRACT PRICE, DEVELOPMENT FEE, FINANCING. The contract price for the Improvements shall be a cost plus/open book with a guaranteed maximum price ("GMP") of approximately Fifteen Million Six Hundred Thirty Six Thousand One Hundred Thirty and 00/100 Dollars (\$15,636,130.00) (the "Contract Price"). The Contract Price includes, among other things, a development fee payable to Kirco in the amount of Seven Hundred Eighteen Thousand Nine Hundred Forty-Three and 00/100 Dollars (\$718,943.00), as more fully discussed below and as set forth in more detail on the Project Cost Summary attached hereto as part of Exhibit B (the "Development Fee"). The Development Fee includes the cost of all development personnel and overhead. The Contract Price has been established based on the present scope of the Project and presently known facts, and is subject to adjustment based on (i) any material changes or modifications to the scope of the work with respect to the Building and other Improvements as may hereafter be agreed to in writing by Kirco and Owner, (ii) any changes in material prices prior to finalization of the plans and specifications for the Project and final pricing, (iii) unforeseen soil conditions or other unforeseen circumstance, and/or (iv) changes in statutes, ordinances or regulations or the application thereof subsequent to the date hereof that results in a required change or modification to the scope of the work.

3. PAYMENT OF CONTRACT PRICE. The Contract Price shall be paid by Owner to Kirco as follows:

a. Fifteen percent (15%) of the Development Fee, or One Hundred Seven Thousand Eight Hundred Forty One and 45/100 Dollars (\$107,841.45) shall be paid upon obtaining a building permit for the Project.

b. An additional Fifteen percent (15%) of the Development Fee, or One Hundred Seven Thousand Eight Hundred Forty One and 45/100 Dollars (\$107,841.45) shall be paid upon commencement of construction on the Project.

c. The balance of the Development Fee shall be paid in installments over the construction period at the same time as the monthly installments of the balance of the Contract Price. Each increment of the Development Fee actually paid shall be deemed fully earned by Kirco upon achievement of the relevant milestones set forth in the preceding subparagraphs and, thereafter, upon payment to Kirco.

d. The balance of the Contract Price shall be paid in monthly progress payments in accordance with the procedures set forth below. Owner shall make monthly progress payments on account of the Contract Price to Kirco based upon the percentage of completion of the work as evidenced by Applications for Payment to be submitted to the Owner and to Neumann-Smith & Associates, Inc. (the "Architect") by Kirco as hereinafter provided and Certificates for Payment properly issued by the Architect. The period covered by each Application for Payment shall be one calendar month ending on the twenty-fifth (25th) day of the month.

e. On or before the first business day of each month after construction has commenced, Kirco shall submit to the Owner an Application for Payment reflecting the percentage of the work performed up to the twenty-fifth (25th) day of the preceding month, or as close to that date as possible, for which the Application is made. In addition to other required items, each Application for Payment shall be accompanied by sworn statements and waivers of lien, including partial conditional waivers of lien from the general contractor and all subcontractors or suppliers. Kirco shall submit unconditional waivers for such payment with the Application for Payment for the following month.

f. The Architect shall review each Application for Payment and the supporting documentation and shall submit to the Owner a Certificate for Payment certifying the percentage of completion of the work as determined by the Architect.

g. If the Application for Payment and all supporting documentation are satisfactory to the Owner and to the Architect and the Architect issues a Certificate for Payment, then payment shall be made to Kirco on or before the fifteenth (15th) day following the date on which the Certificate for Payment was submitted to Owner.

h. Owner may hold back from the progress payment an amount, not to exceed ten percent (10%) of the amount of Kirco's actual "hard" construction costs and of the Kirco Development Fee included in that draw request pending completion of the construction to ensure completion of the work by Kirco, the general contractor and its subcontractors and suppliers (hereinafter referred to as "Retainage"); provided, that upon completion by any of Kirco's contractors, subcontractors and suppliers of their entire portion of the work and acceptance of the same by the Architect and the Owner, Owner shall release the portion of the Retainage pertaining to that contractor, subcontractor or supplier. There shall be no Retainage held with respect to any engineer's fees, architect's fees, or other professional fees, for which Kirco will receive 100% payment of the amounts included in each progress payment application. All Retainage not paid out pursuant to the foregoing shall be paid to Kirco at the time of Final Payment. Notwithstanding the foregoing, the Owner shall have the option, but not the obligation, to further reduce the Retainage from time to time or at any time or release any portion of the Retainage prior to the completion of the work. Any exercise of this option, however, shall not be a waiver of (1) any of the Owner's rights respecting

Retainage for any other work, or (2) any other right or remedy that the Owner has under this Agreement, at law or in equity.

i. Owner shall make the Completion Payment (as defined in Section 14 below) to Kirco upon Completion of Kirco's work in accordance with Section 14 below, and Final Payment of the balance of the Contract Price and all Retainage, if any, in accordance with Section 23 below.

j. If at any time a lien is recorded with respect to the project site or premises, by anyone claiming amounts due from Kirco, Kirco shall have thirty (30) days after written notice of recordation of the lien to obtain a discharge of the claim or lien by payment or to post a bond discharging the lien in accordance with the Construction Lien Act; provided that if a lien is recorded with respect to work for which the Owner then owes Kirco but Kirco has not been paid by Owner, Kirco shall not be obligated to pay or otherwise discharge the lien until Kirco has received payment from Owner for the work for which the lien was recorded. If Kirco fails to timely discharge or post a bond with respect to a lien for work for which Kirco has received payment from Owner, Owner at its discretion shall have the right to discharge the claim of lien and deduct the amount from any amount due to Kirco.

If Owner fails to make any monthly progress payment within ten (10) days following the date such payment is due, or fails to make the Completion Payment within thirty (30) days after the date of Completion, as provided above, or fails to make Final Payment within thirty (30) days after the time Kirco has satisfied all of the conditions for Final Payment set forth in Section 23 below, then in addition to all other remedies available to Kirco, Owner shall pay to Kirco interest on the amounts unpaid at a rate equal to 200 basis points over the prime rate of Standard Federal Bank, in effect during the period that such amounts remain unpaid, calculated on a per diem basis for each day after the tenth (10th) or thirtieth (30th) day, as applicable, following the date on which such payment is due until paid in full.

4. GENERAL DESCRIPTION OF BUILDING AND IMPROVEMENTS. The Building to be constructed shall be an approximately 104,383 gross square foot (approximately 100,925 rentable square feet) office building consistent with the specifications outlined in Kirco's proposal dated May 5, 2004, as modified or supplemented by letters dated July 17, August 17, August 26, and August 30, 2004, and by this Agreement, and as may hereafter be modified by subsequent letter agreements and subject to any subsequent changes as properly approved and authorized by Kirco and Owner as stated in this Agreement, the current site plan, elevation and floor plans (collectively the "Preliminary Plans") attached hereto as a part of Exhibit C. The Property shall also be landscaped by Kirco (subject to the allowance limitation as hereinafter provided) in accordance with a landscape plan prepared by the Architect and approved by the Owner.

5. PLANS AND SPECIFICATIONS.

a. The Building and improvements shall be constructed as depicted on the proposed site plan for the project, and in accordance with the Scope of Work for the project, and with the preliminary plans and specifications for the Building and Improvements prepared by the Architects, all of which are described on Exhibit C, as the same may be more fully depicted and/or modified by the final plans and specifications (the "Plans and Specifications") to be prepared by the Architect consistent with the

foregoing and to be mutually approved by Kirco and Owner in writing and to be further described on Exhibit D and any modifications or changes to the Plans and Specifications that may hereafter be agreed to by Kirco and Owner. Owner acknowledges that the Architect has been selected by Owner. Kirco will engage the Architect to provide its architectural services to Kirco and Owner pursuant to this Agreement, and Architect will owe its customary duty of care to Owner as well as to Kirco. Once the final Plans and Specifications have been agreed upon, if any change from the Preliminary Plan and Scope of Work that is reflected in the final Plans and Specifications results in a change in cost to Kirco, whether requested by Owner, required by unforeseen circumstances, or required due to changes in statutes, ordinances or regulations or the application thereof by government officials, or price changes resulting from changes in material costs, the Contract Price shall be increased or decreased accordingly, subject to the approval of the Owner. The agreement between Kirco and the Architect shall provide that the Architect will owe its customary duty of care to the Owner and may report directly to the Owner as if the contract were directly between the Owner and the Architect, including instances where Kirco has failed to comply with the Agreement or with the Drawings or Specifications. The foregoing notwithstanding, Kirco reserves the right to make reasonable changes or substitutions of equivalent products and materials for those listed in the Plans and Specifications in the event of unavailability or unanticipated price increases or to avoid unnecessary delays in the construction of the Building, such changes must be agreed to by Owner, whose consent shall not unreasonably be withheld or delayed. Any Contract Price changes shall include a proportional increase or decrease in the construction fee included in the Construction Contract referred to in Section 6 below (the "Construction Fee").

b. Once the Plans, Specifications and Scope of Work have been approved in writing by Kirco and Owner, if the Owner requests any changes in the Scope of Work, any upgrade in materials or any variation from the Plans and Specifications, or if any such change is required by unforeseen circumstances, or required due to changes subsequent to the date hereof in statutes, ordinances or regulations or the application thereof by government officials, Kirco will obtain an estimate of any cost differential resulting from such change from one or more of Kirco's subcontractors or suppliers, as applicable, and shall provide that estimate to Owner, along with an estimate of the increase or decrease in Kirco's on-site personnel costs, if any. If the change is based on an Owner request, Owner shall notify Kirco in writing within ten (10) business days thereafter if Owner desires to include that change in the Plans and Specifications and, if Owner elects to make the change, the parties shall execute an appropriate change order. In the absence of a timely notice electing to make such change, Owner shall be deemed to have elected to not make such change. Owner may direct Kirco to make a change in the Plans, the Specifications or in the Building and, if time does not permit the parties to determine the impact on the Contract Price, if any, and prepare and execute a complete Change Order prior to the change being made, the adjustment in the Contract Price (including a proportionate adjustment in the Construction Fee) will be subsequently equitably determined based on the cost increase or decrease resulting from the change. If the change is required by unforeseen circumstances, or required due to changes in statutes, ordinances or regulations or the application thereof by government officials, the Plans and Specifications and Contract Price shall be adjusted in accordance with the foregoing and the parties shall execute an appropriate change order if acceptable to the Architect and to the Owner. Upon completion of the Plans and Specifications, as part of Kirco's bidding process Kirco will obtain bids that reflect the actual difference in cost resulting from the changes requested by Owner. Upon award of the contracts by Kirco,

the amount of the difference in cost resulting from the changes requested by Owner as bid by the successful bidder for that work or material will, as applicable, be added to or subtracted from the Contract Price, together with any increase or decrease in Kirco's on-site personnel costs resulting from such change and, in the case of a change in costs, a proportional increase or decrease in the Construction Fee will be added or deducted from the Contract Price. Kirco's on-site personnel costs shall include direct salary or hourly pay, reasonable and customary fringe benefits and ordinary and necessary employer costs directly related to such change. Kirco's administrative and overhead costs are included in the Development Fee and there will be no separate adjustment for such costs.

c. Upon completion of the final plans, Kirco shall deliver the same to Owner and Owner shall have ten (10) business days following the date of delivery to Owner to review and approve or comment in writing on the design and development drawings. If Owner timely comments or raises any objection to the final drawings Kirco shall address the comments and objections with the Architect within ten (10) business days and, if necessary, will convene a meeting between representatives of Kirco, Owner and the Architect to resolve any outstanding issues. Upon completion of any revised plans and delivery of the same to Owner, Owner shall have ten (10) business days to review and approve or comment in writing on them. If a second set of revised plans is necessitated by Owner's timely comments the parties shall follow the same procedure as in the case of the first set of revised plans. Upon review, revision and approval in accordance with the foregoing the design and development plans shall become the Plans and Specifications. If Owner does not provide any written comments or objections to the drawings or Plans and Specifications, including any revisions thereto, to Kirco within the time provided in this Section, Owner shall be deemed to have not approved the drawings and Plans and Specifications as delivered. Thereafter, Owner's review shall only be as necessary or required unless and until Owner requests review of any subsequent drawings. Owner acknowledges that its failure to timely approve such Plans and Specifications in accordance with the Master Building Schedule may result in a delay in the performance of Kirco's work under this Agreement, in which the time in which Kirco is obligated to complete its work under this Agreement shall be extended by one day for each day of Owner delay in such approval. Once the drawings or Plans and Specifications have been approved, or Owner's right to comment or object has expired, any changes or revisions thereafter requested by Owner shall be deemed to be changes which Owner shall be liable for, and shall pay, any increase in the Contract Price directly occasioned by such changes and the cost incurred by Kirco in connection therewith including, without limitation, any additional Architect's fees incurred for the preparation of revisions to the drawings or Plans and Specifications and all additional fees and costs of Kirco's construction contractor.

d. Kirco shall be responsible for reviewing the Plans and Specifications and satisfying itself as to the accuracy and completeness of the same, except for those matters pertaining to layout and functionality for Owner's proposed use, which shall be Owner's responsibility to review. Kirco shall provide to Owner for review summaries or, if available, copies of manufacturer's and/or installer's warranties, if any, regarding all major systems, HVAC, windows, roofing, parking (if applicable) and major fixtures which shall meet or exceed commercially reasonable warranties which are normal for construction of this size and type. Kirco shall also advise Owner if extended warranties are available from the manufacturer or installer for any of such components and the extra cost of obtaining the same, if any. Owner may elect, at Owner's expense, to

purchase extended warranty coverage if and to the extent available from the manufacturer or installer of any component covered by a separate warranty and, if Owner elects to do so the Contract Price shall be increased accordingly. Kirco shall bear all responsibility for errors or defects, or failure to meet statutory or code requirements, in the Plans and Specifications of the Building and Improvements, but Owner shall be responsible for any errors or defects in the Plans and Specifications of the Building and Improvements pertaining to layout and functionality for Owner's proposed use.

e. Upon completion of the work, Kirco shall provide to Owner at no additional cost to Owner original manufacturer's and installer's warranties regarding all major systems, HVAC, windows, roofing, parking (if applicable) and major fixtures. In addition, five (5) complete sets of "as-built" plans for the Building shall be delivered as soon as practicable following Completion.

f. If, after completion of the work and Final Payment by Owner, Owner determines that the Architects have failed to properly design the Building and/or Improvements or that there otherwise exists any basis on which Owner intends to pursue a claim against the Architects, Kirco shall assign to Owner all of Kirco's rights and claims under the agreement with the Architects. Owner covenants that Owner will not join Kirco as a party in any suit or proceeding against the Architects unless, and only, if the participation of Kirco in such suit or proceeding is necessary as a matter of law to fully adjudicate Owner's claims. In the latter event Owner shall, if requested by Kirco, reassign to Kirco, in whole or in part, all of such previously assigned rights and claims against the Architect and/or take such other action with respect to the assigned claims as may be necessary to permit Kirco to retain a sufficient cause of action against the Architect, whether for indemnity and reimbursement or otherwise, to permit both Owner and Kirco to fully recover on their claims.

g. The work to be performed by Kirco for the Contract Price includes all work necessary for the design, obtaining of permits and completion of construction of the Building and Improvements as shown on the Plans and Specifications to be described herein, but subject to certain clarifications identified on Exhibit E. The costs of all work in excess of the clarifications shall be the sole responsibility of Owner and, if installed or completed by Kirco, shall be added to the Contract Price, together with an appropriate increase in the Construction Fee, if applicable.

6. CONSTRUCTION. Subject to the foregoing, Kirco shall provide or cause to be provided and pay for design services, labor, materials, equipment, tools, construction equipment, and machinery, water, heat, utilities, transportation and other facilities and services necessary for proper execution and completion of construction of the Building. Kirco shall be responsible for all construction means, methods, techniques, sequences, and procedures, and for coordinating all portions of the construction. Kirco shall provide a Construction Superintendent who is reasonably acceptable to Owner. In particular but without limitation, Owner acknowledges that Kirco intends to engage a related entity, Kirco Construction LLC, to perform the actual construction work. Owner acknowledges that the contract with Kirco Construction, and the Contract Price, will include a construction fee payable to Kirco Construction equal to two and one-half percent (2 1/2%) of all costs incurred by Kirco Construction in the performance of its work (the "Construction Fee").

Kirco has commenced the performance of its obligations hereunder and shall commence construction as soon as practical after (i) the issuance of all necessary building permits and other permits necessary for the construction of the Building and related Improvements, and (ii) completion of all necessary pre-construction meetings between the designated representatives of Kirco and Owner. Kirco will proceed with the site work based upon the approved final site plan and, if the final Plans and Specifications have not been completed and approved by the time for commencement of the Building shell, Kirco will proceed with the Building shell construction based on the agreed plans and specifications for the Building shell, but shall not be obligated to perform any other work on the Building and related Improvements until the final Plans and Specifications have been approved by Owner and Kirco unless Kirco and Owner otherwise agree in writing. Kirco shall pursue the issuance of all permits, approvals and construction with reasonable diligence in accordance with the Master Building Schedule submitted by Kirco and approved by the Owner (Kirco will promptly advise the Owner of any delay in processing or obtaining any permits or approvals), and shall Complete the construction on or before June 1, 2006, (the "Completion Date") but subject to delays occasioned by unusual weather conditions, unexpected material shortages, unexpected material delays in obtaining permits or approvals, strikes, fires or other casualty, acts of God, war, insurrection, actions of terrorists or foreign insurgents, or other causes beyond Kirco's reasonable anticipation and control. In no event shall Kirco have any liability to Owner for any damage caused by delays in completion of construction except as may be expressly provided in this Agreement.

No work shall be performed and no appliances, wiring, cabinets, fixtures or other materials shall be installed in the Building or on the Property by Owner or any contractor, supplier or other person acting on Owner's behalf prior to Completion without Kirco's prior written consent, which consent shall not be unreasonably withheld or delayed. Owner shall be responsible for all actual and demonstrable loss, cost or damage suffered or incurred by Kirco, if any, including without limitation any additional costs occasioned by delay or interference in Kirco's completion of any portion of its work, as a result of any such work performed or installations made by Owner or on Owner's behalf, whether with or without Kirco's consent, and Owner shall indemnify and hold Kirco harmless with respect to the same, so long as Kirco gives Owner timely notice thereof. Any such additional loss, costs or damage actually incurred by Kirco as a result of Owner's work on site shall be added to the Contract Price and shall be payable in full by Owner upon Final Completion.

It is mutually agreed by and between the parties hereto that time shall be an essential part of this contract and that if Kirco fails to complete its contract within the time specified and agreed upon, the Owner will be damaged thereby due to extra rent and penalties which Owner may incur. Accordingly, if Kirco fails to complete the Building within the time provided in Section 6 of this Agreement, or July 1, 2006, whichever is later (the "Liquidated Damage Date"), Kirco shall pay to Owner (or Owner may take credit for) at the time of Final Payment as liquidated damages for delay, an amount equal to the sum of (i) Four Thousand and 00/100 Dollars (\$4,000.00) per day for each day of delay after the Liquidated Damage Date through the thirtieth (30th) day, and (ii) Eight Thousand and 00/100 Dollars (\$8,000.00) per day, plus interest and reasonable attorneys fees, for each day after the thirtieth (30th) day following the Liquidated Damage Date until the Building is Completed; provided, that the Liquidated Damage Date shall be extended one day of each day of delay in completion occasioned by unusual weather conditions, unexpected material shortages, unexpected material delays

in obtaining permits or approvals, strikes, fires or other casualty, acts of God, war, insurrection, actions of terrorists or foreign insurgents, or other causes beyond Kirco's reasonable anticipation and control. Owner's right to liquidated damages for delay in Final Completion pursuant to this Section shall be Owner's sole and exclusive measure of damages for any such delay. Kirco's sole and exclusive remedy for delay shall be an extension of the Completion Date and Liquidated Damage Date. However, Kirco acknowledges that due to the nature of the Owner's business, it requires a three day holiday weekend to move into the Building and commence business operations. Therefore, in the event that the Building is not Completed prior to the July 4th holiday weekend, the Owner may not be able to move until the Labor Day weekend and the liquidated damages shall run through the Labor Day weekend notwithstanding that the Building may be completed after the July 4th weekend, but prior to the Labor Day weekend.

7. CHANGES.

a. Except as otherwise provided herein, all changes or revisions to the final Plans and Specifications ("Change Order") must be in writing and signed by both Owner and Kirco to be effective. In the event any such Change Order results in a change in Kirco's costs, whether for increases or decreases in contractor/subcontractor/supplier charges or for Kirco's on-site personnel costs, or both, the Contract Price shall be increased or decreased to reflect those changed costs. The changed costs occasioned by such Change Order shall be added to or deducted from the Contract Price and paid over the term of the contract through progress payments as provided in Section 3 above. Each Change Order shall also include any changes in the Master Building Schedule and in the Completion Date. If the actual change in the Contract Price can be determined at the time the Change Order is signed, the Change Order shall include the amount of any increase or decrease in the Contract Price resulting from such change. If the actual change in the Contract Price cannot be determined at that time due to lack of revised construction drawings or any other reason, Kirco shall obtain an estimate of the cost of the change in the same manner as provided in Section 5 above, the Change Order shall include an estimate of any change in the Contract Price, and a revised Change Order shall be prepared and executed when the actual change in the Contract Price can be determined. Neither Owners nor Kirco shall be bound by any such Change Order revision unless and until agreed in writing by Kirco and Owner; provided, if the change is occasioned by unforeseen circumstances, changes in any statute, ordinance or regulation or the application thereof by government officials, or increases in costs of materials or supplies, and if the anticipated cost of remedying such circumstance, condition or occurrence is Twenty-Five Thousand and 00/100 Dollars (\$25,000.00) or less, Kirco shall be free to proceed to remedy the same, but subject to Owner's right to order Kirco to stop such remedial work pending a final decision by Owner concerning the same. If the anticipated cost of remedying such circumstance, condition or occurrence is more than Twenty-Five Thousand and 00/100 Dollars (\$25,000.00), Kirco shall not take any action to remedy the same, unless such action is necessary to avoid damage to the Building or the Property, until Kirco has given Owner notice of such circumstance, condition or occurrence including Kirco's best estimate of the cost of remedying the same. In all such cases, Kirco shall give notice of such circumstance, condition or occurrence to Owner within one business day after Kirco discovers the same. Owner acknowledges that any material change or modification to the Plans or Specifications, Owner's direction to Kirco to not proceed with or to cease any such remedial work, or any delay by Owner responding to such notice of such circumstance, condition or

occurrence, may result in a delay in the anticipated completion date of the Building, for which Kirco will have no liability to Owner for such delay and any scheduled completion date and the Liquidated Damage Date shall be extended accordingly. Kirco will promptly advise Owner of any Owner caused delay and failure to do so shall constitute a waiver of any claim for delay or delay in the Master Building Schedule or Completion Date.

b. The provisions contained herein with regard to Change Orders must be adhered to strictly. No action, conduct, omission, prior failure or course of dealing by the Owner shall act to waive, modify, change, or alter the requirement that Change Orders must be in writing signed by the Owner and Kirco, and that such written change orders are the exclusive method for effecting any change to the contract sum or contract time. The Owner and Kirco understand and agree that neither the Contract Price nor the Agreement time can be changed by implication, oral agreements, actions, inactions, course of conduct, or constructive change order.

c. NO CHANGE IN THE WORK, WHETHER BY WAY OF ALTERATION OR ADDITION TO THE WORK, SHALL BE THE BASIS OF AN ADDITION TO THE GUARANTEED MAXIMUM PRICE OR A CHANGE IN THE TIME BY WHICH ANY PORTION OF THE WORK IS TO BE COMPLETED UNLESS AND UNTIL SUCH ALTERATION OR ADDITION AND ANY RESULTING ADDITION TO THE GUARANTEED MAXIMUM PRICE OR CHANGE IN THE REQUIRED TIME FOR COMPLETING ANY PORTION OF THE WORK HAVE BEEN AUTHORIZED BY A CHANGE ORDER EXECUTED AND ISSUED IN ACCORDANCE WITH AND IN STRICT COMPLIANCE WITH THE REQUIREMENTS OF THE AGREEMENT DOCUMENTS.

d. ANY CLAIM FOR INCREASED COST FOR DELAY AND ANY CLAIM FOR A CHANGE IN THE AGREEMENT TIME SHALL BE ASSERTED IN ACCORDANCE WITH THE PROVISIONS OF THIS AGREEMENT. THESE REQUIREMENTS ARE OF THE ESSENCE OF THE AGREEMENT DOCUMENTS. ACCORDINGLY, NO COURSE OF CONDUCT OR DEALINGS BETWEEN THE PARTIES, NOR EXPRESS OR IMPLIED ACCEPTANCE OF ALTERATIONS OR ADDITIONS TO THE WORK, AND NO CLAIM THAT THE OWNER HAS BEEN UNJUSTLY ENRICHED BY ANY ALTERATION OR ADDITION TO THE WORK, WHETHER OR NOT THERE IS IN FACT ANY SUCH UNJUST ENRICHMENT, SHALL BE THE BASIS FOR ANY CLAIM TO AN INCREASE IN THE GUARANTEED MAXIMUM PRICE OR CHANGE IN THE REQUIRED TIME FOR COMPLETING ANY PORTION OF THE WORK.

8. VEGETATION, LANDSCAPING. Subject to the laws and ordinances of Auburn Hills and approval of the Owner, Kirco shall have the right, at any time during construction of the Building, to remove such trees, shrubs, grass or other natural vegetation as Kirco shall deem reasonably necessary to permit construction of the Building as part of the Contract Price and not part of the landscaping allowance. Subject to the landscaping allowance included in the Project Summary, Kirco shall sod or seed (as agreed to by the parties) and landscape the Property at the appropriate stage of construction, weather conditions permitting, in accordance with the landscaping plan to be approved by Kirco and Owner prior to commencement of physical site work. Any additional landscaping requested by Owner shall require a Change Order, and shall otherwise be subject to the change provisions of Section 7 above.

9. SELECTIONS. Owner shall, from time to time as requested by Kirco and in any event within seven (7) business days after written notice from Kirco which notice shall include proposed selections consistent with the Plans and Specifications, indicate in writing to Kirco all necessary paint, tile, carpeting or other selections of any kind or description required for completion of the Building.

10. INSURANCE. Kirco shall maintain a Builder's Risk Insurance Policy and such other insurance coverage as Owner deems appropriate covering the Building, Improvements and the construction during the period of construction, and in any event such insurance shall comply with the requirements of Owner and Owner's construction lender. The cost of all such insurance is included in the Contract Price.

11. EVIDENCE OF TITLE. As evidence of title, Owner has delivered to Kirco, a copy of a title policy evidencing and insuring Owner's fee title interest in the Property.

12. LIMITED WARRANTY.

a. Coverage. Subject to the limitations and exclusions from coverage set forth below, Kirco hereby warrants: that the Building shall be constructed in accordance with the Plans and Specifications and in accordance with this Agreement and free from defects in design, materials or workmanship for a period of twelve months following the date of Completion (as defined in paragraph 14 hereof), and that all materials shall be new and inspected for defects prior to installation, but Kirco makes no warranty or representation with respect to layout and functionality, for which Owner shall be solely responsible.

b. Exclusions from Coverage. Kirco does not assume responsibility for any of the following, all of which are excluded from the coverage of this Limited Warranty:

i. Roof membranes and/or other roofing materials, door sills and frames, overhead doors, furnaces, boilers and other components, appliances and articles of equipment which are covered by manufacturers' warranties. Kirco will assign all manufacturers' warranties to Owner, and Owner will be responsible for complying with the warranty claim procedures in those warranties if defects appear in any of the covered components. Kirco agrees to provide reasonable assistance to Owner in pursuing all such warranty claims and remedies and to provide all documentation and testimony reasonably necessary to prosecute such claims. All such warranties shall be in good standing as of the date of issuance of a certificate of occupancy and shall not commence the running of such warranty periods prior to the Final Completion date provided for in Section 14 below. Kirco shall provide the warranties customarily provided by the respective manufacturers, unless a different warranty is specifically required by the final Plans and Specifications. Kirco shall provide to Owner for Owner's review prior to completion of the work copies of all manufacturers' warranties, if available, along with the Plans and Specifications. Any items excluded from Kirco's limited warranty must be covered by a manufacturer's warranty as approved by the Owner as set forth in Section 5 hereof.

ii. Damage due to ordinary wear and tear, abusive use, or lack of proper maintenance of the Building.

iii. Damage to Kirco's work caused by Owner or any contractor, installer or other person acting on behalf of Owner.

iv. Minor defects which are the result of characteristics common to the materials used, such as (but not limited to) warping and deflection of wood; fading, chalking, and checking of paint due to sunlight; cracks due to drying and curing of concrete, stucco, plaster, bricks, and masonry; spalling of concrete; drying, shrinking and cracking of caulking and weather-stripping; cracks in tile or concrete and heaving of tile or concrete, unless the heaving of the concrete adversely affects the fitness of the Building or the use contemplated thereof; or non-structural settlement of the Building or the ground under or around the Building.

v. Damage to or destruction of any tree, shrub or plant growth which is native to the Property and which remains after completion of construction of the Building.

vi. Defects in items installed or work performed by Owner or by anyone on Owner's behalf, other than Kirco or its agents, employees or subcontractors.

vii. Loss or damage due to the elements subsequent to completion.

viii. Conditions resulting from abnormal expansion or contraction of, materials which could not reasonably be foreseen or avoided.

ix. Consequential or incidental damages, including without limitation the cost of replacement of wall coverings or other decorations or improvements installed by Owner or loss of revenues due to Owner's inability to occupy the Building when anticipated by Owner.

c. NO OTHER WARRANTIES. EXCEPT AS EXPRESSLY SET FORTH HEREIN, OR IN ANY WRITTEN WARRANTY HEREAFTER DELIVERED BY KIRCO TO OWNER, TO THE FULLEST EXTENT PERMITTED BY LAW, KIRCO HEREBY EXPRESSLY DISCLAIMS ALL OTHER WARRANTIES, WHETHER EXPRESS OR IMPLIED, AND WHETHER ARISING UNDER ANY STATE OR FEDERAL STATUTE, RULE, REGULATION OR CASE LAW, INCLUDING BUT NOT LIMITED TO WARRANTIES OF HABITABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR OTHERWISE. THE FOREGOING NOTWITHSTANDING, IF ANY APPLICABLE LAW OR REGULATION SHALL LIMIT OR PREVENT THE DISCLAIMER OF IMPLIED WARRANTIES, THE WARRANTY PERIOD FOR ALL SUCH IMPLIED WARRANTIES SHALL BE LIMITED TO THE PERIOD SET FORTH IN THIS LIMITED WARRANTY.

d. Claims Procedure. If a defect appears which is or may be covered by this Limited Warranty, Owner must deliver to Kirco within the twelve (12) month warranty period or within one month thereafter a written service request describing the purported defect; provided, with respect to hidden or latent defects that are not discovered within the twelve (12) month warranty period and which, in the written opinion of a qualified independent inspector, existed or occurred during the initial twelve (12) month period, but due to the latent or hidden nature of the defect, could not reasonably have been, and were not, discovered during the initial twelve (12) month claim period, the claims period shall be extended until sixty (60) days after the discovery of the latent or hidden defect but not later than five (5) years after the date of Final Completion. Kirco will investigate and

determine whether or not there is a defect and, if so, whether the defect is covered by any assigned manufacturer's warranty. If Kirco determines that there is or may be a defect and that it is covered by a manufacturer's warranty, Kirco shall so notify Owner and Owner will be responsible for filing a warranty claim with the manufacturer. Kirco may aggregate service requests for defects that do not present a safety or health risk, and make only occasional service calls to the Property for warranty repairs. Except as provided above with respect to latent or hidden defects, Kirco will not be obligated to respond to any written notice delivered to Kirco after the expiration of the twelve (12) month warranty period, even if the defects that are claimed in the notice may have arisen within the twelve (12) month warranty period.

e. Repairs. If Kirco's investigation following submission of a service request discloses that a defect exists that is covered by this Limited Warranty, Kirco will repair or replace, at Kirco's option, the defective item at no charge to Owner within 60 days after Kirco's inspection (longer if unusual weather conditions, labor problems or unanticipated materials shortages cause delays); provided, however, that if a defect exists that is covered by this Limited Warranty and emergency or extenuating circumstances require immediate repair or replacement, Kirco shall immediately commence such repairs or replacement and shall diligently complete the same and, provided further, if Kirco is unable to make final repairs or replacement due to lack of immediately available materials or replacement components, Kirco shall make such temporary repairs as may be reasonably necessary and shall make final repairs as soon as the necessary materials or components are available. Kirco's failure to commence such emergency warranty repairs within two (2) business days of Owner's written notification of the claimed defect and the circumstances requiring emergency repairs shall permit Owner to undertake such repairs at Kirco's cost which, provided the defect is covered by this Limited Warranty, Kirco shall pay promptly upon demand. The work will be performed by Kirco or contractors/subcontractors chosen by Kirco.

13. LIMITATION OF LIABILITY. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, KIRCO'S LIABILITY FOR ANY ALLEGED DEFECT IN DESIGN, MATERIALS OR WORKMANSHIP SHALL BE LIMITED TO REPAIR OR REPLACEMENT AND TO ANY COSTS OR DAMAGES FLOWING THEREFROM, INCLUDING, WITHOUT LIMITATION, COSTS OF RELOCATION OR RENTING AND FURNISHING SPACE AND PROVIDING ALTERNATE UTILITIES (BEYOND THOSE WHICH MEEMIC WOULD HAVE OTHERWISE INCURRED) AND OTHER SUPPORT SERVICES DURING THE REPAIR OR REPLACEMENT PERIOD, DAMAGES TO OTHER IMPROVEMENTS, FURNITURE OR FIXTURES OR INJURY TO PERSONS AS A DIRECT RESULT OF THE ALLEGED DEFECT IN DESIGN, MATERIALS OR WORKMANSHIP. FURTHER, KIRCO SHALL HAVE NO LIABILITY FOR INJURY TO PERSONS, PROPERTY, OR OTHERWISE RELATING TO THE PRESENCE OF ANY ENVIRONMENTAL CONDITIONS (WHETHER NATURAL OR MAN-MADE) OR ANY TOXIC OR HAZARDOUS WASTE, SUBSTANCE, OR CONTAMINATION, ON, OR UNDER THE PROPERTY, OR THE LAND ADJACENT TO OR IN CLOSE PROXIMITY WITH THE PROPERTY THAT EXISTED PRIOR TO KIRCO'S COMMENCEMENT OF ACTIVITIES ON THE PROPERTY. NO ACTION, REGARDLESS OF FORM, ARISING OUT OF THE TRANSACTIONS UNDER THIS AGREEMENT MAY BE BROUGHT BY OWNER MORE THAN SIX YEARS AFTER THE COMMENCEMENT OF THE WARRANTY PERIOD UNLESS THE OWNER HAS NOTIFIED KIRCO OF THE CLAIMED DEFECT WITHIN THE TIME PROVIDED IN THE PRECEDING SECTION 12. NOTWITHSTANDING THE ABOVE, NO ACTION

RELATING TO LATENT DEFECTS MAY BE BROUGHT AGAINST KIRCO UNLESS OWNER HAS NOTIFIED KIRCO OF THE CLAIMED LATENT DEFECT WITHIN SIXTY (60) DAYS AFTER DISCOVERY THEREOF AND THE ACTION BROUGHT NOT LATER THAN FIVE YEARS AFTER FINAL COMPLETION.

14. COMPLETION OF CONSTRUCTION AND COMPLETION PAYMENT. Upon Completion of construction of the Building Kirco shall so notify Owner and, as soon thereafter as possible, shall submit a payment application for all work performed through the date of Completion which application shall be processed in accordance with the application and payment process provided herein. Owner shall pay to Kirco the balance of the Contract Price less only Retainage not then due and payable, the amounts, if any, to be withheld pursuant to this Section 14 and Section 16, and a proportional share of the Developer's Fee (the "Completion Payment"). The issuance of a certificate of occupancy, whether temporary or final, by the City of Auburn Hills permitting the Owner to occupy and conduct its business in the Building and the issuance of a certificate of completion by the Architect shall be evidence of "Completion". The Completion Payment shall not be delayed due to the lack of completion of minor details or Kirco's inability to complete outside cement work, grading, landscaping (if included) or other similar work due to then prevailing weather or ground conditions or other conditions beyond the control of Kirco, provided that such incomplete items do not materially affect Owner's ability to conduct business. In such case, Kirco shall deliver to Owner a standard weather letter or work order setting forth the minor detail work or other work to be completed and an amount equal to the anticipated cost of completion of such items, the initial punchlist items and Retainage shall be withheld from the Completion Payment, together with the anticipated cost to complete the landscaping, until each component of such work shall be completed, at which time the amount for that component shall be paid to Kirco. Kirco shall be entitled to the release of the withheld funds for each component of work upon submission of written notice to the Owner that the component of the work has been completed, together with a receipt for payment from the contractor or subcontractor completing the work and the required Architect's Certificate and sworn statements and waivers of lien.

15. INTENTIONALLY DELETED.

16. INSPECTION.

a. Not earlier than thirty (30) days, or later than fifteen (15) days, prior to initial occupancy of the Building, Kirco and Owner shall schedule an initial inspection of the Building. During the inspection, which shall be conducted by authorized representatives of Kirco and Owner, Kirco and Owner shall prepare an initial "punchlist" of items in need of repair or correction and Kirco and Owner shall agree on a reasonable time frame for completion of the punchlist items based on then existing circumstances.

b. Not earlier than thirty (30) days, or later than forty five (45) days, after initial occupancy of the Building, Kirco and Owner shall schedule a subsequent inspection of the Building. During the inspection, which shall be conducted by authorized representatives of Kirco and Owner, Kirco and Owner shall prepare a subsequent "punchlist" of items in need of repair or correction and Kirco and Owner shall agree on a reasonable time frame for completion of the punchlist items based on then existing circumstances. Kirco shall complete such items within the agreed upon timeframe, which shall be no later than sixty (60) days following such inspection.

17. POSSESSION. The right of possession of the Building and Improvements made thereon by Kirco shall remain at all times in the Owner; provided that Kirco shall have the right to exclude any person other than Owner and its authorized representatives, vendors or contractors from the Property at any time prior to completion of the work, and the right to exclude any person from areas under construction or other areas of danger for safety purposes or to avoid interference with the performance of the work. However, the parties acknowledge that the Owner's contractors may have access to the Building for installation of cabling, installation of furniture and fixtures prior to Final Completion so long as this work does not unreasonably interfere with Kirco. Kirco's right of entry and use arises solely from the permission granted by the Owner in this Agreement. The foregoing notwithstanding, if Owner denies Kirco access to the Property at any time during this Agreement, such denial of access shall constitute a default hereunder on the part of the Owner.

18. DEFAULT.

a. Owner's Default. In the event of default by Owner in the performance of any of Owner's obligations hereunder, including the obligation to make progress payments or Final Payment of the Contract Price within the time provided in this Agreement, and if such default shall continue for a period of fifteen(15) days after written notice thereof from Kirco to Owner, or if such default is other than a failure to make a progress payment or Final Payment and cannot be cured within fifteen (15) days, if Owner shall have failed to undertake and diligently pursue the cure of such claimed default, Kirco shall have all rights and remedies set forth in this Agreement or available at law or in equity including without limitation, the right to enforce a construction lien against the Property and, if such default occurs prior to Kirco's Final Completion of the work, the right to suspend all work under this Agreement until Owner's default has been cured and/or to declare this Agreement terminated, null and void. In the event Kirco does so terminate this contract, Owner shall be liable to Kirco for all of Kirco's damages including without limitation all unpaid fees and profits that Kirco would have received had this Agreement not been terminated.

b. Kirco's Default. Except as permitted pursuant to the preceding subparagraph, if, following the commencement of construction of the Building by Kirco pursuant to this Agreement, (i) Kirco ceases work on the Building and other Improvements on the Property for a period of fifteen (15) consecutive work days or thirty (30) days in the aggregate, unless delayed by unusual weather conditions, unexpected material delays in obtaining permits or approvals, strikes, unexpected shortages of materials, acts of God or other causes not within Kirco's reasonable anticipation or control which excuse any delay on the part of Kirco pursuant to Section 5 above and if Kirco fails to re-commence the work within five (5) days after Owner's written notice of default to Kirco; or (ii) if Kirco fails to finally complete construction within the time provided in Section 6 (the "Default Deadline"), or (iii) Kirco persistently or repeatedly fails to supply enough properly skilled workers or proper materials to maintain progress of the work on a schedule that will permit final completion of the Building within the time provided in Section 6, or (iv) Kirco persistently or repeatedly fails to make payment to subcontractors for materials or labor in accordance with the terms of this Agreement and the agreements with such parties; or (v) persistently disregards laws, ordinances, or rules, regulations or orders of a public authority having jurisdiction; or (vi) otherwise is guilty of final breach of a provision of this Agreement and related documents, Owner

shall have the right, but not the obligation, to enter upon the Property and take over the construction of the Building and other Improvements and, for the purpose of completing the work, take possession of all materials, equipment, tools, appliances and supplies belonging to or under the control of Kirco and used or designated to be used in connection with the development of the Property, and may finish the work by whatever method it may deem expedient including having Kirco's contractors, subcontractors and suppliers continue to perform under their contracts with Kirco or, if any of Kirco's contractors, subcontractors or suppliers fails or refuses to perform under their contracts for Owner, entering into contracts with replacement contractors, subcontractors and/or suppliers to complete the work. If Owner does so proceed to take over the work, Owner shall pursue the work to completion and, upon completion, the costs incurred by Owner in completing the work shall be deducted from the balance of the Contract Price. If the costs incurred by Owner to complete the work are less than the balance of the Contract Price, the Contract Price shall be adjusted to reflect such cost reduction. If the costs incurred by Owner to complete the work are greater than the balance of the Contract Price, the difference shall be paid by Kirco to Owner upon completion of all of the work.

In the event of litigation or other enforcement proceedings between the parties as a result of any default or alleged default by either party hereunder, the prevailing party shall also be entitled to receive from the other party all costs and expenses incurred, including attorneys' fees, in connection with the enforcement of this Agreement, as well as costs and attorneys' fees incurred in the collection of such amounts.

19. NOTICES. The notices required or referred to in this Agreement shall be sufficient if personally delivered or sent by first class mail, return receipt requested with postage prepaid, by facsimile with confirmation of receipt or by recognized overnight courier service to the parties at the addresses shown above or at such other address as either party shall designate in writing to the other. If mailed, delivery shall be deemed complete on the earlier of the date on which the notice is receipted for in writing or the second business day following the date of mailing. If sent by courier, delivery shall be deemed complete on the earlier of the date on which the notice is receipted for in writing or the first business day following the date of delivery to the courier. Notice to Kirco shall be addressed to the attention of A. Matthew Kiriluk, President. In addition, a copy of all notices to Kirco shall be sent to Kirco's attorney, D. Stewart Green, Esquire, at Butzel Long, 100 Bloomfield Hills Parkway, Suite 200, Bloomfield Hills, Michigan 48304, and Notice to Owner shall be addressed to the attention of Christine C. Schmitt, with a copy to W. A. Steiner, Jr. at Dykema Gossett, 400 Renaissance Center, Detroit, Michigan 48243. Failure to provide a copy of any notice to the attorney for the addressee shall not invalidate notice otherwise properly served.

20. INTERIOR BUILDOUT ALLOWANCE. The Contract Price includes an allowance for interior improvements to the Building in the amount of Thirty-Five and 00/100 Dollars (\$35.00) per square foot or a total of Three Million Five Hundred Thirty-Two Thousand Three Hundred Seventy-Five and 00/100 Dollars (\$3,532,375.00) based upon 100,925 rentable square feet which excludes any Architect or interior designers fees for such interior improvements (the "Buildout Allowance"). If the actual square footage of the Building varies is more or less than 100,925 rentable square feet, the total Buildout Allowance, will not change except as may be provided in a written change order executed by the parties. If the actual cost of the interior improvements for the Building not included in the base building exceeds the Buildout Allowance such excess costs shall be reduced to a Change Order, and the Contract Price shall be increased by an

amount equal to such excess costs and Owner shall pay the full amount of the same as part of the monthly progress payments as provided above. Conversely, if the actual cost of interior improvements for the Building not included in the base building is less than the Buildout Allowance, the Contract Price shall be reduced by an amount equal to the difference in such costs. The costs to be charged against the Buildout Allowance include a Construction Fee payable to the contractor in the amount of two and one-half percent (2 1/2%) of the hard costs of the interior improvements, but will not include any architects' fees, which are included in the base Building cost.

21. CONTINGENCY ALLOWANCE. The Contract Price includes contingency allowances in the amount of Two Hundred Ninety-Four Thousand and 00/100 Dollars (\$294,000.00) for construction costs and One Hundred Thousand and 00/100 Dollars (\$100,000.00) for soft costs, as set forth on the Project Costs Summary attached as part of Exhibit B. The contingency allowances are intended to be utilized by Kirco for unanticipated costs due to unforeseen circumstances, increases in material costs, or other causes not within the control of Kirco or Owner. Except as provided in this Section, Owner shall not have the right to apply the contingency allowance, or any portion thereof, toward the payment of costs or Contract Price increases resulting from Owner's changes to the scope of the work, Plans or Specifications. If, upon completion of the work and Final Payment for the same by Owner, the contingency allowances have not been expended by Kirco, the unexpended portion of the contingency allowances may, at Owner's election, be deducted from the Contract Price or, if already paid to Kirco, credited toward the unpaid balance of the Contract Price including, without limitation, the cost of any changes requested by Owner or refunded to Owner. In any event, any use of the contingency is subject to the Owner's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed.

22. AUTHORIZED REPRESENTATIVES. Any consent, approval, authorization or other action required or permitted to be given or taken under this Agreement by Owner or Kirco, as the case may be, shall be given or taken by one or more of the authorized representatives of each. For purposes of this Agreement: (1) the authorized representatives of Owner shall be any one or more of the following: Lynn Kalinowski, Christine C. Schmitt or Carolyn Shaw and (2) the authorized representatives of Kirco shall be any one or more of the following: A. Mathew Kiriluk II and Clifford Aiken III. Either party hereto may from time to time designate other or replacement authorized representatives to the other party hereto. The written statements and representations of any authorized representative of Owner or Kirco shall be binding upon the party for whom such person is an authorized representative, and the other party hereto shall have no obligation or duty whatsoever to inquire into the authority of any such representative to take any action which he proposes to take.

23. KIRCO'S COMPLETION OBLIGATIONS. Following the Completion Payment pursuant to section 14 above and completion of the subsequent punchlist items as provided in section 16 above, Owner shall pay to Kirco the balance of the Contract Price and any other sums remaining to be paid hereunder ("Final Payment"), including without limitation any amounts withheld for completion of "punchlist" items not paid out pursuant to section 14 above, upon execution, delivery and/or completion of all of the following by Kirco, which shall be a condition of Final Payment.

a. A bill of sale for any personal property included within the Plans and Specifications that does not otherwise become affixed to the Property.

b. All written warranties from any manufacturer or installer to be assigned to Owner pursuant to this Agreement, to the extent Kirco has received the same from the manufacturers or installers prior to Final Payment, together with an assignment of the same to Owner, and any manufacturer's or installer's warranty received by Kirco after Final Payment shall be delivered upon receipt along with an assignment of the same by Kirco to Owner.

c. A Final Payment application and sworn statement, together with waivers of lien from contractors of Kirco, and for all subcontractors and suppliers, as follows: Final unconditional lien waivers for work that has been completed and paid for by Owner prior to Final Payment, final conditional lien waivers for work that has been completed prior to Final Payment but which has not been fully paid for by Owner prior to Final Payment, partial unconditional lien waivers to the extent of payment by Owner prior to Final Payment for work that has not been completed prior to Final Payment.

d. Completion of all items listed on the pre-occupancy inspection "punchlist" and/or Kirco's other standard completion inspection documents pertaining to incomplete or defective inspection items to be completed by Kirco.

e. A final certificate of occupancy upon completion of any items required by the City of Auburn Hills for the issuance of the final certificate of occupancy.

f. One complete set of record plans and specifications for the Building (both in the form of a hard copy and in the form of a computer (CAD) disk in a format reasonably acceptable to Owner).

24. BROKERAGE FEES. Kirco and Owner each represent to the other that, except as to Signature Associates who Owner is paying directly, they have not dealt with any real estate brokers in connection with this transaction, and each party agrees to indemnify and hold the other party harmless from any liability for any brokerage fees or commissions which may become due and payable to any broker, with whom the indemnifying party has dealt.

25. DISPUTE RESOLUTION. Any claim or dispute which might be the subject of a civil action against the Kirco or Owner arising out of or related to this Agreement, or the alleged breach hereof including, without limitation, any claim of breach of warranty, up to the total sum of \$250,000.00 at the election of either Kirco or Owner, shall be settled by binding arbitration conducted by the American Arbitration Association. Any other claims or disputes are not subject to arbitration unless the parties agree thereto. Any arbitration shall be conducted in accordance with applicable Michigan law governing arbitrations and then applicable construction industry arbitration rules of the American Arbitration Association. Any arbitration award shall include the costs and reasonable attorneys' fees incurred by the prevailing party as provided in Section 18 above. Judgment upon the award rendered by arbitration may be entered in a court of competent jurisdiction. Any award shall include an award of costs and attorneys' fees to the prevailing party. The foregoing notwithstanding, no claim seeking only specific performance shall be the subject of binding arbitration and, if the dispute concerns the interpretation of the Plans and Specifications, the Architect shall be the final arbiter of such dispute.

26. NO ASSIGNMENT. Neither party shall assign, set over or transfer this Agreement or any of such party's rights or interest hereunder without the prior written consent of the other any such purported assignment without such consent shall be void and of no effect.

27. ENTIRE AGREEMENT. This Agreement, together with the Rider and other attachments hereto, constitutes the entire agreement between Kirco and Owner and supersedes any and all prior written or oral agreements and any contemporaneous oral agreements between the parties. No amendment or modification of this Agreement shall be effective or binding upon the parties hereto unless set forth in writing and signed by all of the parties hereto.

28. SUCCESSORS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, representatives, successors or permissible assigns.

29. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Michigan.

30. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of such counterparts together shall constitute one and the same instrument.

31. AUTHORIZATION. Both Owner and Kirco, and the undersigned on behalf of the respective parties, hereby represent and warrant that the undersigned are duly authorized to enter into this Agreement on behalf of their respective parties and to consummate all transactions contemplated pursuant to the terms hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

WITNESSES:

OWNER:

MEEMIC Insurance Company,
a Michigan corporation

/s/ Carolyn Shaw

By: /s/ Lynn Kalinowski

Carolyn Shaw

Printed Name: Lynn Kalinowski

/s/ Christine C. Schmitt

Title: President & CEO

Christine C. Schmitt

[signatures continued on next page]

KIRCO:

KIRCO DEVELOPMENT LLC, a
Michigan limited liability company

/s/ John R. Boyd

John R. Boyd

By: /s/ Cliff Aiken

Printed Name: Cliff Aiken

/s/ Michael D. Piette

Michael D. Piette

Title: Vice President

Exhibits:

- A Property (Paragraph 1)
- B Project Cost Summary (Paragraph 2)
- C Preliminary Plans (Paragraph 4)
- D Final Plans and Specifications (Paragraph 5a)
- E Clarifications (Paragraph 5g)

RIDER TO DEVELOPMENT AGREEMENT BETWEEN
MEEMIC INSURANCE COMPANY, AS OWNER, AND
KIRCO DEVELOPMENT COMPANY, AS DEVELOPER,
DATED NOVEMBER 18, 2004

The following provisions modify, delete and/or supplement (as indicated) the Development Agreement Between the Owner and Kirco (sometimes referred to herein as the "Agreement"). If a provision of this Rider conflicts with a provision of the Development Agreement, the provisions of this Rider shall control.

1. RELATIONSHIP.

(a) Kirco agrees to furnish the architectural, engineering and construction services set forth herein and agrees to furnish efficient business administration and superintendence and to use its best efforts to complete the Building in the best and soundest way and in the most expeditious and economical manner consistent with the interest of the Owner. Kirco acknowledges that the Owner is relying on Kirco's skills and integrity to produce a completed operational office building suitable for the Owner's intended purposes. Towards that end, Kirco agrees that it is responsible for the total design and construction of the Project, including all professional design and engineering services and all labor, materials and equipment used or incorporated in such design and construction. The foregoing notwithstanding, the relationship between Kirco and Owner is contractual, only, and Kirco does not hereby assume or accept any trustee or other fiduciary responsibilities or obligations to Owner.

(b) Nothing contained in the Development Agreement shall create a contractual relationship between the Owner and any third party. It is understood and agreed that the Owner is an intended third party beneficiary of all contracts with design professionals, all subcontracts, purchase orders and other agreements between Kirco and third parties. Kirco shall incorporate the obligations of this Agreement with the Owner in its contracts with design professionals, as well as all of its general contractor, subcontracts, supply agreements, purchase orders and other agreements. Where appropriate Kirco shall cause it's general contractor to comply with the terms hereof.

2. PLANS.

(a) Kirco shall be responsible for apprising itself of all codes, ordinances and regulations of any kind affecting the Building in any way. The Plans and Specifications shall accurately reflect all applicable codes, ordinances and regulations. Kirco shall investigate the availability of all necessary utility services and shall meet with and discuss the availability of such services with appropriate authorities. Kirco shall obtain, in cooperation with the Owner, all necessary approvals and permits from authorities having jurisdiction over the Building and Kirco shall, with the cooperation of Owner, provide such certificates of costs, completion, and Building information as may be required by Owner.

(b) Should the Plans or the Specifications conflict in themselves or with each other, Kirco shall provide the better quality or greater quantity of work and/or materials unless otherwise directed by a written addendum to the Agreement.

(c) Kirco and all Subcontractors shall refer to all of the Plans, including those showing primarily the work of the mechanical, electrical and other specialized trades, and to all of the Sections of the Specifications, and shall perform all work reasonably inferable therefrom as being necessary to produce the indicated results.

(d) All indications or notations which apply to one of a number of similar situations, materials or processes shall be deemed to apply to all such situations, materials or processes wherever they appear in the Work, except where a contrary result is clearly indicated by the Plans or the Specifications.

(e) Where codes, standards, requirements and publications of public and private bodies are referred to in the Specifications, references shall be understood to be to the latest revision prior to the date of the Agreement, except where otherwise indicated.

(f) Where no explicit quality or standards for materials or workmanship are established for work, such work is to be of good quality for office building use and consistent with the quality of the surrounding work (including the existing components of construction) and of the construction of the Building generally.

(g) All manufactured articles, materials, and equipment shall be applied, installed, connected, erected, used, cleaned, and conditioned in accordance with the manufacturer's written or printed directions and instructions unless otherwise indicated herein or in the Plans and Specifications.

(h) Unless otherwise specifically provided in the Plans and Specifications, all equipment, material, and articles incorporated in the Work shall be new and of the most suitable grades for office building use. Materials shall conform to manufacturer's standards in effect at the date of execution of the Development Agreement and shall be installed in strict accordance with manufacturer's latest directions. Kirco shall, if required by Owner, furnish satisfactory evidence as to the kind and quality of any materials. All packaged materials shall be shipped to the site in the original containers clearly labeled, and delivery slips shall be submitted with bulk materials, identifying thereon the source and warranting quality and compliance with the Plans and Specifications.

(i) It shall be the obligation of Kirco to review the Plans and Specifications to determine whether they are in accordance with building codes and regulations.

3. BUILDING SCHEDULE.

(a) Kirco has delivered to the Owner a preliminary schedule, which it will update from time to time as appropriate to reflect changes in work, updated information or excusable delays. Upon receipt of the final Plans and Specifications, Kirco shall prepare in accordance with Kirco's standard practices, and deliver to Owner for review, a schedule of the anticipated construction (the "Master Building Schedule").

(b) The Master Building Schedule shall:

(i) Identify the approximate start and completion dates for each major activity shown on the Master Building Schedule.

(ii) Include any construction activities to be preformed by Owner and known to Kirco, if any.

(iii) Reflect the Owner's requirements with respect to occupancy dates, as adjusted from time to time.

(c) Upon submission of the Master Building Schedule by Kirco, Kirco and Owner (and any separate contractors or consultants designated by the Owner) shall meet to discuss the Master Building Schedule and resolve any conflicts with respect thereto. After approval by the Owner, Kirco shall make best efforts to comply with the Master Building Schedule, subject to the provisions of this Agreement governing delays and change orders.

(d) At the end of the first month following issuance of the Master Building Schedule and every month thereafter (or at such lesser intervals if deemed necessary by the Owner), and as part of the documents submitted with the Application for Payment, Kirco shall prepare an updated Master Building Schedule showing the actual status of the Building as of the date of the updated Master Building Schedule. The updated Master Building Schedule shall show any variances from the original Master Building. Kirco shall prepare and deliver to Owner, a detailed updated bar chart schedule to facilitate review by the Owner of the progress of the Work.

(e) Kirco shall make its best efforts to remain on schedule with the Master Building Schedule, as revised from time to time pursuant to this Agreement.

4. BIDS. Kirco shall keep Owner advised concerning the bids and bidders. Subcontractors shall be selected by Kirco subject to Owner's approval, which shall not be unreasonably withheld, conditioned or delayed. Kirco shall comply with all applicable laws and regulations in obtaining the bids. Kirco shall prepare the necessary bidding information, bidding forms, bid packages, the form of the subcontract and the conditions of this Agreement for the various subcontracts. Kirco shall review the recommended subcontract awards and advise the Owner whether the bids are responsive and acceptable in the context of the total Building requirements. Kirco shall advise the Owner of the acceptability of sub-subcontractors and material suppliers proposed by subcontractors. Kirco shall award subcontracts only when approved by Owner. The Owner shall be reasonably expedient in approving or objecting to subcontract awards.

5. OWNERSHIP. All ownership rights in the Plans, Specifications, reports and other data (including without limitation, written, printed, graphic, video and audio material contained in any computer data base or computer readable form) (hereinafter "Works of Authorship") developed during the term of this Agreement, shall be the property of the Architect or other professionals preparing such Works of Authorship as instruments of service. Owner may retain copies of the as built Plans and Specifications and shall be entitled to the use of the same in connection with the Building, but Owner shall not use the same nor permit them to be used in connection with the design or construction of another building without the Architect's prior written consent. If Owner uses or permits the use of the same for such purposes Owner shall indemnify the Architect for any loss, costs or damages suffered or incurred by the Architect as a result of such use. Upon Final Payment Kirco shall execute an assignment and/or other appropriate documents, and otherwise take such actions as may be reasonably requested by Owner to assign to Owner whatever rights or interests Kirco may have with respect to such Works of Authorship, but Kirco does not now warrant, and will not hereafter warrant, that it now owns or will hereafter own or hold any such rights. Kirco expressly disclaims any ownership rights in Works of Authorship related to the performance of services under this Agreement. Kirco shall obtain the Owner's written permission to use photographs, models, renderings, narrative descriptions, and the like in regards to this Building in connection with publications, awards, competitions, press releases, and brochures, which permission shall not be unreasonably withheld, delayed or conditioned, Owner recognizing that it is customary for developers to display and utilize photographs of completed projects.

6. PERMITS. Kirco shall file the documents required to obtain necessary approvals of governmental authorities having jurisdiction over the Project. Kirco shall procure all certificates of inspection, use, occupancy, permits and licenses, pay all charges and fees and give all notices necessary and incidental to the due and lawful prosecution of the Work. Certificates of inspection, use and occupancy shall be delivered to the Owner upon completion of the Work in sufficient time for occupation of the Building in accordance with the approved schedule for the Work.

7. COST OF THE WORK. The term "Cost of the Work" shall mean costs necessarily incurred by Kirco (which shall also be deemed to include such costs incurred by Kirco Construction) in the proper performance of the Work. Such costs shall be at rates not higher

than those customarily paid at the place of the Project except with prior consent of the Owner. The Cost of the Work shall include only the actual cost of the items set forth in this Paragraph 7.

(a) Labor Costs.

(i) Wages of construction workers directly employed by Kirco to perform the construction of the Work at the site or, with the Owner's agreement, at off-site workshops.

(ii) Wages or salaries of Kirco's Project Management and supervisory and administrative personnel.

(iii) Wages and salaries of Kirco's supervisory or administrative personnel engaged, at factories, workshops or on the road, in expediting the production or transportation of materials or equipment required for the Work, but only for that portion of their time required for the Work.

(iv) Costs paid or incurred by Kirco for taxes, insurance, contributions, assessments and benefits required by law or collective bargaining agreements, and, for personnel not covered by such agreements, customary benefits such as sick leave, medical and health benefits, holidays, vacations and pensions, provided that such costs are based on wages and salaries included in the Cost of the Work under Subparagraphs 7(a)(i) to 7(a)(iii).

(b) Subcontract Costs. Payments made by Kirco to Subcontractors in accordance with the requirements of the subcontracts, including fees of architects, designers and engineers retained by Kirco to design and engineer the Project.

(c) Costs Of Materials And Equipment Incorporated In The Completed Construction.

(i) Costs, including transportation, of materials and equipment incorporated or to be incorporated in the completed construction.

(ii) Costs of materials described in the preceding Subparagraph 7(C)(i) in excess of those actually installed but required to provide reasonable allowance for waste and for spoilage. Unused excess materials, if any, shall be handed over to the Owner at the completion of the Work or, at the Owner's option, shall be sold by Kirco; amounts realized, if any, from such sales shall be credited to the Owner as a deduction from the Cost of the Work.

(d) Costs Of Other Materials And Equipment, Temporary Facilities And Related Items.

(i) Costs, including transportation, installation, maintenance, dismantling and removal of materials, supplies, temporary facilities, machinery, equipment, and hand tools not customarily owned by the construction workers, which are provided by Kirco at the site and fully consumed in the performance of the Work; and cost less salvage value on such items if not fully consumed, whether sold to others or retained by Kirco. Cost for items previously used by Kirco shall mean fair market value.

(ii) Rental charges for temporary facilities, machinery, equipment, and hand tools not customarily owned by the construction workers, which are provided by Kirco at the site, whether rented from Kirco or others, and costs of transportation, installation, minor repairs and replacements, dismantling and removal thereof. Rates and quantities of equipment rented shall be subject to the Owner's prior approval.

(iii) Costs of removal of debris from the site.

(iv) Reasonable reproduction costs, facsimile transmissions and long-distance telephone calls, postage and express delivery charges, telephone service at the site and reasonable petty cash expenses of the site office.

(v) That portion of the reasonable travel and subsistence expenses of Kirco's personnel incurred while traveling in the Wayne, Oakland and Macomb county area in discharge of duties connected with the Work.

(e) Miscellaneous Costs.

(i) That portion directly attributable to this Contract of premiums for insurance and bonds.

(ii) Sales, use or similar taxes imposed by a governmental authority which are related to the Work and for which Kirco is liable.

(iii) Fees and assessments for the building permit and for other permits, licenses and inspections for which Kirco is required by the Contract Documents to pay.

(iv) Fees of testing laboratories for tests required by the Contract Documents, except those related to nonconforming Work other than that for which payment is permitted by Subparagraph 7(g)(ii).

(v) Royalties and license fees paid for the use of a particular design, process or product required by the Contract Documents; payments made in accordance with legal judgments against Kirco resulting from such suits or claims and payments of settlements made with the Owner's consent; provided, however, that such costs of legal defenses, judgments and settlements shall not be included in the calculation of Kirco's Fee or the Contract Price and provided that such royalties, fees and costs are not excluded by the other provisions of this Agreement.

(vi) Data processing costs related to the Work.

(vii) Deposits lost for causes other than Kirco's negligence or failure to fulfill a specific responsibility to the Owner set forth in this Agreement.

(viii) Legal, mediation and arbitration costs, other than those arising from dispute between the Owner and Kirco, reasonably incurred by Kirco in the performance of the Work and with the Owner's written permission, which permission shall not be unreasonably withheld.

(f) Other Costs. Other costs incurred in the performance of the Work if and to the extent contained in the budget as approved by the Owner, as the same may be adjusted and updated from time-to-time, or as otherwise approved in writing by the Owner pursuant to this Agreement.

(g) Emergencies And Repairs To Damaged Or Nonconforming Work. The Cost of the Work shall also include costs described in Subparagraph 7(a)(i) which are incurred by Kirco:

(i) In taking action to prevent threatened damage, injury or loss in case of an emergency affecting the safety of persons and property.

(ii) In repairing or correcting damaged or nonconforming Work executed by Kirco or Kirco's Subcontractors or suppliers, provided that such damaged or

nonconforming Work was not caused by the acts or omissions of Kirco to the Owner set forth in this Agreement or the failure of Kirco's personnel to supervise adequately the Work of the Subcontractors or suppliers, and only to the extent that the cost of repair or correction is not recoverable by Kirco from insurance, Subcontractors or suppliers.

(h) Cost Inclusion. The costs described in Subparagraphs 7(a) through 7(g) shall be included in the Cost of the Work notwithstanding any provision of the Agreement which may require Kirco to pay such costs, unless such costs are excluded by the provisions of Subparagraph 7(i).

(i) Costs Not To Be Reimbursed. The Cost of the Work shall not include:

(i) Salaries and other compensation of Kirco's personnel stationed at Kirco's principal office or offices other than the site office, except as specifically provided in Subparagraphs 7(a)(ii) and 7(a)(iii).

(ii) Expenses of Kirco's principal office and offices other than the site office except as specifically provided in this Paragraph 7.

(iii) Overhead and general expenses, except as may be expressly included in this Paragraph 7.

(iv) Kirco's capital expenses, including interest on Kirco's capital employed for the Work.

(v) Rental costs of machinery and equipment, except as specifically provided in Subparagraph 7(d)(ii).

(vi) Except as provided in Subparagraph 7(g)(ii), costs due to the fault or negligence of Kirco, Subcontractors, anyone directly or indirectly employed by any of them, or for whose acts any of them may be liable or to the failure of Kirco to fulfill a specific responsibility to the Owner set forth in this Agreement, including, but not limited to the costs for the correction of damaged, defective or nonconforming Work, disposal and replacement of materials and equipment incorrectly ordered or supplied and making good any damage to property not forming part of the Work.

(vii) Except as provided in Subparagraph 7(f), any cost not specifically and expressly described in this Paragraph 7.

(viii) Costs which would cause the Contract Price to be exceeded.

(ix) Notwithstanding any other provision hereof, salary or other compensation or costs of Kirco's development personnel or development overhead.

(j) Notwithstanding anything contained herein to the contrary, with respect to each component of the Cost of the Work, the Owner shall be credited with (i) such time/payment discounts of invoices as may be obtainable (provided that Owner must advance funds to Kirco to obtain prepayment discounts); (ii) the fair market value of materials charged to the Owner and taken over by Kirco for its use or sale when no longer needed by it in its performance of this Agreement; and (iii) any rebates, refunds, returned deposits or other allowances received by Kirco.

(k) Kirco shall maintain accurate books and records relating to the costs incurred in connection with the Project at the offices of Kirco. Owner, or its agents or representatives shall be entitled, at any time, upon reasonable notice to audit the books and records of Kirco relating to the Project.

8. CONSTRUCTION.

(a) The Development Agreement is intended to produce an office building of a consistent character and quality of design. All components of the Work including visible items of mechanical and electrical equipment shall have a coordinated design in relation to the overall appearance of the building.

(b) Kirco shall employ a competent superintendent and such assistant superintendents as may be necessary, all reasonably acceptable to the Owner, so that at least one of them will be in attendance at the Building site during performance of the Work. If the Owner has a reasonable objection to the superintendent (or any assistant of the superintendent) employed by Kirco, the Owner shall have the right to request that such person(s) be replaced promptly with person(s) of Kirco's selection reasonably acceptable to the Owner.

(c) Kirco shall retain a competent Registered Professional Engineer or Registered Land Surveyor, who shall establish the exterior lines and required elevations of all improvements to be erected on the site and shall establish sufficient lines and grades for the construction of associated work such as, but not limited to, roads, utilities and site grading. The Engineer or Land Surveyor shall certify as to the actual location of the constructed facilities in relation to property lines, building lines, easements, and other restrictive boundaries as well as to proper compaction of all soils properly located on the site after completion of site grading.

(d) Kirco shall establish the building grades, lines, levels, column, wall and partition lines required by the various subcontractors in laying out their work.

(e) Kirco shall coordinate and supervise the work performed by Subcontractors to the end that the Work, to the extent possible, is carried out without conflict between trades and so that no trade, at any time, causes delay to the general progress of the Work. Kirco and all Subcontractors shall at all times afford each trade, any separate subcontractor, or the Owner, every reasonable opportunity for the installation of its properly scheduled portion of the work.

(f) During the progress of the Work and at all times prior to the date of occupancy of the Building by the Owner, Kirco shall provide temporary heat, ventilation, and enclosure, adequate to prevent damage to completed work, work in progress, the Building or to materials stored on the premises. The permanent heating and ventilation systems may be used for these purposes when available unless otherwise provided in the Plans and Specifications.

(g) Kirco shall be present at the initial start-up, testing, adjusting and balancing of major equipment or systems utilized in the Project. Kirco shall provide assistance in the utilization of any major equipment, systems, or materials which do not function in a manner consistent with the Plans and Specifications, product data, or industry standards for a period of twelve (12) months after occupancy at no cost to the Owner.

(h) Kirco shall also be responsible to the Owner for the acts and omissions of the subcontractors, trade contractors, suppliers, agents and employees of those in privity with Kirco.

9. COMPLETION.

(a) The scheduled Completion Date and Liquidated Damage Date may only be extended if Kirco delivers to the Owner within ten (10) days after the beginning of any delay, obstruction or hindrance, a notice of the delay and, if the delay is not such a delay as will constitute an excusable delay pursuant to paragraph 6 of the Agreement, a Request for a Change Order, accompanied by a good faith estimate of the length or duration of the anticipated delay. If the delay is an excusable delay for the purposes of paragraph 6 of the Agreement, or if it results from the acts or omissions of the Owner which are not required to correct design problems or work discrepancies, the Completion Date and Liquidated Damages Date shall be

extended for the number of days that the work is delayed by such cause. If the cause of the delay is not such that would give rise to an excusable delay pursuant to paragraph 6 of the Agreement, the Owner, in the exercise of its sole discretion, may grant or deny the Request for a Change Order. A Request for Change Order shall only be considered if Kirco is delayed, obstructed and/or hindered in the performance of the Work by any other cause which Kirco could not reasonably control or circumvent, and such delay is not caused by or resulting from, in whole or in part, the default or collusion of Kirco. In any event, the extension shall only be considered for a time period equal to the delay, obstruction or hindrance. Any disputes between Owner and Kirco concerning Kirco's entitlement to an extension of time shall be resolved in the same manner as other disputes as provided in the Agreement.

(b) Extension of time shall be Kirco's sole remedy for any such delay unless the same shall have been caused by the acts constituting intentional interference by the Owner with Kirco's performance of the work where such acts continue after Kirco's written notice to the Owner of such interference. The Owner's exercise of any of its rights under the Agreement document regarding changes in the Work, regardless of the extent or number of such changes, or the Owner's exercise of any of its remedies of suspension of the Work or requirement of correction or re-execution of any defective Work shall not under any circumstances be construed as intentional interference with Kirco's performance of the Work.

10. INTENTIONALLY OMITTED.

11. PROTECTION.

(a) Kirco shall provide and maintain in good operating condition suitable and adequate fire protection equipment and services, and shall comply with all reasonable recommendations regarding fire protection made by the representatives of the fire insurance company carrying insurance on the Work or by the local fire chief or fire marshall. The area within the site limits shall be kept orderly and clean, and all combustible rubbish shall be promptly removed from the site.

(b) Kirco shall utilize good construction practices at all times during the performance of the Work.

(c) Kirco shall take all precautions necessary to prevent loss or damage caused by vandalism, theft, burglary, pilferage, or unexplained disappearance of Owner installed property, whether or not forming part of the Building.

12. INSURANCE.

(a) Kirco's insurance shall be written for not less than any limits of liability required by law or those set forth as follows, whichever is greater, on an occurrence coverage basis, and Owner, Kirco and such parties as may be designated by Owner shall be named insureds under the above coverages, to the extent possible.

(i) Worker's Compensation - Statutory.

(ii) Employer's Liability - \$500,000.

(iii) Comprehensive General Liability (including premises - operations; independent contractors' protective; products and completed operations; broad form property damage; automobile coverage and contractual liability) Public Liability - Per Person/Per Occurrence.

Bodily & Personal Injury - \$1,000,000/occurrence;
\$2,000,000 aggregate.

Property Damage (including water damage, sprinkler leakage and coverage for explosion or collapse) - \$1,000,000/occurrence; \$2,000,000 aggregate.

Contractual Liability (hold harmless coverage):

(iv) Automobile Liability - Per Person/Per Occurrence.

Bodily Injury \$1,000,000/occurrence; \$2,000,000 aggregate.

Property Damage \$1,000,000/occurrence: \$2,000,000 aggregate.

(v) Products and Completed Operations - Same limits as above for 3 years, commencing with issuance of final Certificate of Payment.

(vi) Umbrella \$5,000,000 - occurrence: \$5,000,000 aggregate

(b) If any of Kirco's employees perform any architectural or design services, Kirco shall obtain and maintain a Building policy (vis-a-vis a claims made policy) which provides professional errors and omissions coverage with respect to Kirco's employees performing design services in the amount of \$1,000,000. Kirco shall require the Architect to obtain and maintain professional errors and omissions coverage in connection with its work, all in forms acceptable to the Owner. Professional errors and omissions insurance shall be endorsed to provide contractual liability coverage. Certificates of such coverage shall be furnished to Owner along with other certificates of insurance and such coverage shall be for Kirco, and each professional architect, engineer, contractor or subcontractors in an amount no less than \$2,000,000. Kirco agrees, and shall require each professional architect or engineer to agree, to maintain such coverage in effect for a period of three (3) years following completion of the Project.

(c) All insurance policies required under this Section shall: (i) be issued by companies with an A. M. Best rating or not less than A, (ii) be issued by companies licensed to do business in Michigan; (iii) not be subject to cancellation or material change or non-renewal without at least thirty (30) days' prior written notice to Owner. Certified copies of all insurance policies required pursuant to this Section (or certificates thereof, in form and substance acceptable to Owner), shall be delivered to Owner not less than ten (10) days after execution hereof.

13. PAYMENT. At a minimum, each Application for Payment shall (i) be submitted on AIA forms G702 and G703; (ii) be accompanied by the Contractor's sworn statements and waivers of lien, which sworn statement and waiver shall cover all work, labor and materials, including equipment and fixtures of all kinds done, performed or furnished as of the date of the request for payment; (iii) be accompanied by properly completed sworn statements and waivers of lien from each Subcontractor, Sub-subcontractor, laborer and materialman, which sworn statements shall cover all work, labor and materials, including equipment and fixtures of all kinds done, performed or furnished as of the date of the previous request for payment, and which waivers shall cover all work, labor and materials, including equipment and fixtures of all kinds, done, performed or furnished as of the previous request for which payment has been received; approved and signed by the Architect and (v) such other evidence necessary to satisfy the Owner and any other applicable authorities designated by Owner that the Work for which payment is requested has been completed in conformance with this Agreement, and that all amounts which have previously been paid for Work have been properly distributed to the various Subcontractors, Sub-subcontractors, laborers and materialmen. No payment, of any nature whatsoever, will be made to Kirco, for additional work or services, without prior written approval by the Owner.

WITNESSES:

/s/Carolyn Shaw

Carolyn Shaw

/s/Christine C. Schmitt

Christine C. Schmitt

OWNER:

MEEMIC Insurance Company,
a Michigan corporation

By: /s/Lynn Kalinowski

Printed Name: Lynn Kalinowski

Title: President & CEO

[signatures continued on next page]

KIRCO:

KIRCO DEVELOPMENT LLC, a
Michigan limited liability company

/s/John R. Boyd

John R. Boyd

/s/Michael D. Piette

Michael D. Piette

By: /s/Cliff Aiken

Printed Name: Cliff Aiken

Title: Vice President

</TEXT>
</DOCUMENT>

EXHIBIT 21.1

SUBSIDIARIES OF PROASSURANCE CORPORATION

Medical Assurance, Inc.

The Medical Assurance Company, Inc. (Alabama)
Mutual Assurance Agency of Ohio, Inc. (Ohio)
Mutual Assurance Agency, Inc. (Alabama)
Medical Assurance of West Virginia, Inc. (West Virginia)
Specialty Underwriters Reinsurance Facility (Bermuda)
Medical Assurance of Indiana Agency, Inc. (Indiana)

ProAssurance Group Services Corporation

Professionals Group Inc.

American Insurance Management Corporation (Indiana)
ProNational Insurance Agency, Inc. (Michigan)
Professionals Group Services Corporation (Michigan)
Professionals National Insurance Company, Ltd. (Bermuda)
PRA Services Corporation (Michigan)
Physicians Protective Plan Inc. (Florida)
ProNational Insurance Company (Michigan)
Red Mountain Casualty Insurance Company (Alabama)
MEEMIC Holdings, Inc. (Michigan)
MEEMIC Insurance Company (Michigan)
MEEMIC Insurance Services Corporation (Michigan)

</TEXT>

</DOCUMENT>

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements of our reports dated March 14, 2005, with respect to the consolidated financial statements and schedules of ProAssurance Corporation and subsidiaries, ProAssurance Corporation management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of ProAssurance Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2004:

Form S-3 No. 333-112613 pertaining to the ProAssurance Corporation Shelf Registration Statement;

Form S-3 No. 333-109972 pertaining to the registration of \$107,600,000 convertible senior debentures and ProAssurance Corporation shares of common stock under this shelf registration;

Form S-8 No. 333-111136 pertaining to the Amended and Restated ProAssurance Corporation Stock Ownership Plan;

Form S-8 No. 333-81444 pertaining to the ProAssurance Corporation Incentive Compensation Stock Plan;

Form S-8 No. 333-119917 pertaining to the ProAssurance Corporation 2004 Equity Incentive Plan;

Form S-8 pertaining to the Medical Assurance, Inc. Incentive Compensation Stock Plan and Professionals Group, Inc. 1996 Long Term Stock Incentive Plan assumed by ProAssurance Corporation.

Ernst & Young LLP

Birmingham, Alabama
March 14, 2005
</TEXT>
</DOCUMENT>

CERTIFICATION

I, A. Derrill Crowe, certify that:

1. I have reviewed this report on Form 10-K of ProAssurance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2005

/s/ A. Derrill Crowe, M.D.

A. Derrill Crowe, M.D.
Chief Executive Officer

</TEXT>
</DOCUMENT>

CERTIFICATIONS

I, Howard H. Friedman, certify that:

1. I have reviewed this report on Form 10-K of ProAssurance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2005

/s/ Howard H. Friedman

Howard H. Friedman
Chief Financial Officer

</TEXT>
</DOCUMENT>

A signed original of this written statement required by Section 906 has been provided to ProAssurance Corporation and will be retained by ProAssurance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ProAssurance Corporation (the "Company") on Form 10-K for the year ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, A. Derrill Crowe, M.D., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ A. Derrill Crowe, M.D

A. Derrill Crowe, M.D.
Chief Executive Officer

March 14, 2005
</TEXT>
</DOCUMENT>

A signed original of this written statement required by Section 906 has been provided to ProAssurance Corporation and will be retained by ProAssurance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ProAssurance Corporation (the "Company") on Form 10-K for the year ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Howard H. Friedman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Howard H. Friedman

Howard H. Friedman
Chief Financial Officer

corporate and shareholder information

There were 29,201,365 shares of ProAssurance Corporation common stock outstanding at March 31, 2005. On that date, we had 3,565 shareholders of record. Our common stock trades on The New York Stock Exchange under the symbol PRA. Our stock is listed as ProAsr in the stock section of *USA Today* and many major newspapers, and as ProAssurance in the *Wall Street Journal*. We also post the price of our stock on our website, www.ProAssurance.com.

Our Transfer Agent is Mellon Investor Services, LLC. You may phone them at 800.851.4218, and you may access their website at www.melloninvestor.com. If you hold shares in certificate form, you may learn more about your shareholdings by using Mellon Investor's dedicated website, <https://vault.melloninvestor.com/isdl>. This website will allow you to verify your shareholdings and report address changes.

You also may report address changes by mail by writing to:
Mellon Investor Services, LLC
P.O. Box 3338
South Hackensack, NJ 07606-1916

If you have a certificate to transfer, you should obtain forms and instructions from Mellon Investor Services by phone or through their website. Send the certificate(s) and required form by insured, registered mail to:
Mellon Investor Services, LLC
Stock Transfer Department
P. O. Box 3312
South Hackensack, NJ 07606-1912

If you need to report lost or stolen stock certificates, please phone 800.851.4218 or send a registered letter to:
Mellon Investor Services, LLC
Estoppel Department
P. O. Box 3317
South Hackensack, NJ 07606-1917

Corporate Governance and Compliance with Regulatory and New York Stock Exchange Requirements

We post detailed information in the Corporate Governance and Investor Relations sections of our website, which you may access from our home page, www.ProAssurance.com.

Our Board of Directors has adopted a policy regarding determination of director independence, including categorical standards to assist in determining independence. These are published in our proxy statement which is mailed to stockholders and filed with the Securities and Exchange Commission (the "SEC"). Our filings with the SEC are available in the Investor Relations section of our website, www.ProAssurance.com/investor_relations.html, and from the EDGAR section of the SEC's website, www.sec.gov/edgar.shtml.

Our Board of Directors has adopted charters for our Audit, Compensation and Nominating/Corporate Governance Committees as well as Corporate Governance Principles and our Code of Ethics and Conduct. We make these documents, and other information such as committee composition and leadership and director independence, available in the Governance section of our website, www.ProAssurance.com/investor_relations_gov.html.

Our Chairman and Chief Executive Officer, A. Derrill Crowe, M.D., submitted the required Section 12(a) CEO Certification to the New York Stock Exchange in a timely manner on June 14, 2004. Additionally, we have been timely in the filing of CEO/CFO certifications as required in Section 302 of the Sarbanes-Oxley Act. These certifications are published as exhibits in our Form 10K filed with the SEC on March 16, 2005.

Investor Relations

The Investor Relations section of our website contains detailed financial information, the latest news releases about the Company and our latest presentation materials. We also maintain an archive of this material, although you should realize that archived information, by its very nature, may no longer be accurate.

Obtaining Information Directly from ProAssurance

Any of the documents mentioned above may be obtained from the Company's Communications and Investor Relations Department using one of the contact methods below:

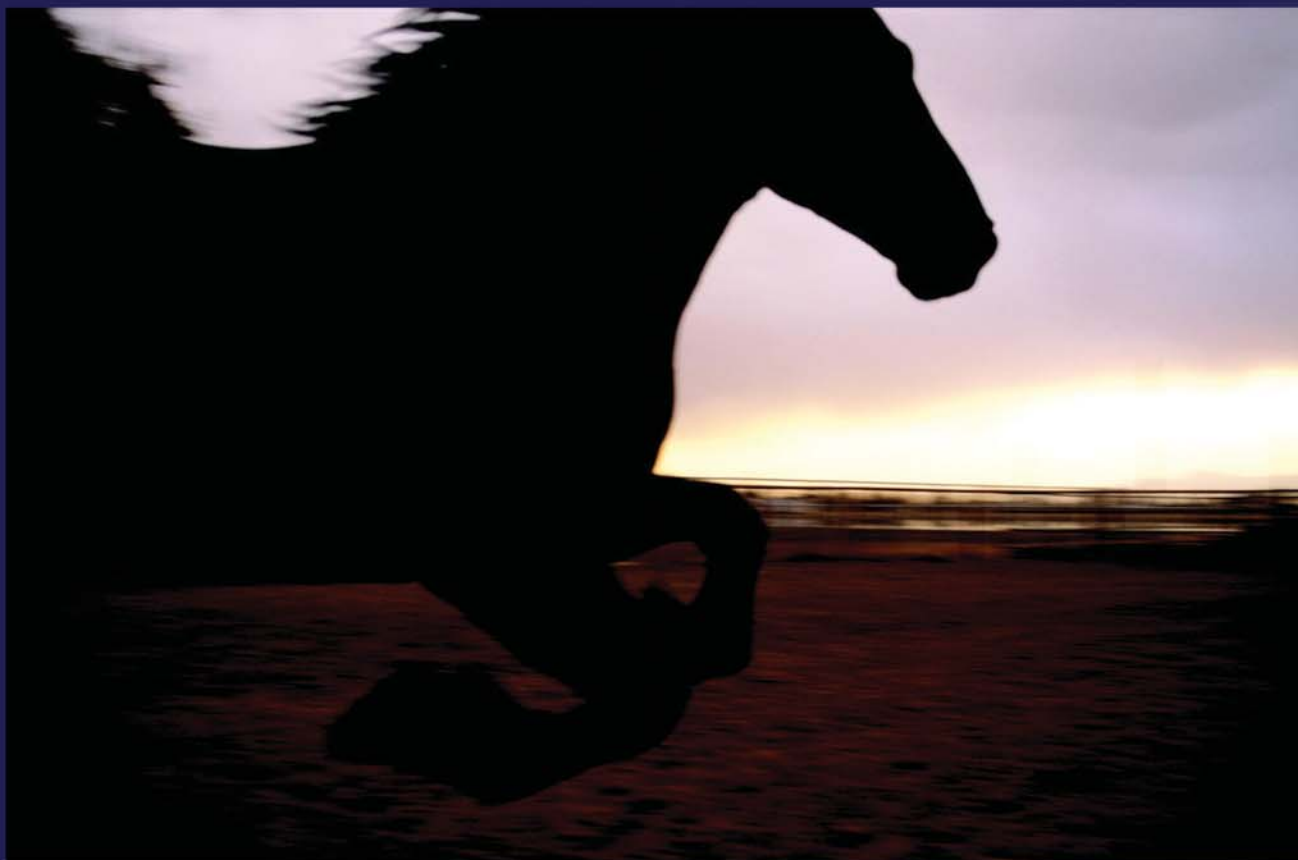
By e-mail:
Investor@ProAssurance.com

By U.S. Postal Service:
ProAssurance Corporation
Investor Relations & Communications
P. O. Box 590009
Birmingham, AL 35259-0009

By phone or fax:
Phone: 205.877.4400 or 800.282.6242
Fax: 205.802.4799

Annual Meeting

The 2005 Annual Meeting is scheduled for 10:30 am CDT on Wednesday, May 18, 2005 at the Harbert Center, 2019 4th Avenue North, Birmingham, Alabama.



There's always one who leads

A.M. Best
Rated **A-**
EXCELLENT

ProAssurance[®]

 Medical Assurance  ProNational

EVER VIGILANT

In the complex terrain of your professional liability coverage, ProAssurance Group is a breed apart.

Fierce protectors of your best interests. Recognized leaders in claims resolution and personal service. And, above all, tough, experienced defenders.

We know the territory. We anticipate the changing landscape. We're leaders in protecting our own.

At ProAssurance Group, we're ever vigilant in watching out for your best interests.

And when you need us, the difference is obvious.

ProAssurance[®]

100 Brookwood Place, Birmingham, Alabama 35209
205.877.4400 800.282.6242 www.ProAssurance.com