

**CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
OF
AMERICAN PHYSICIANS CAPITAL, INC.
(As Amended and Restated, March 2, 2005)**

The Board of Directors (the “Board”) of American Physicians Capital, Inc. (the “Company”) has established an Audit Committee (the “Committee”) as a permanent standing committee with the authority, responsibilities and specific duties as described herein. This Charter of the Audit Committee of the Board of Directors (the “Charter”) and the composition of the Committee are intended to comply with applicable law, including state and federal securities laws, the rules and regulations of the Securities and Exchange Commission (“SEC”) and the Nasdaq Stock Market (“Nasdaq”), and the Company’s Bylaws. This document replaces and supersedes in its entirety the previous Charter of the Audit Committee as adopted by the Committee in October 2000, and amended in November 2002 and March 2004.

1. Purpose and Scope

- 1.1. The primary purpose of the Committee is to assist the Board in fulfilling its responsibility for the oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. The Committee’s duties and responsibilities include oversight of:
- The accounting and financial reporting processes and systems of internal accounting and financial controls of the Company; including the effectiveness of the Company’s internal controls;
 - The integrity of the Company’s financial statements;
 - The annual independent audit of the Company’s financial statements, the engagement of the independent auditor, the evaluation of the independent auditor’s function, qualifications, services, performance and independence;
 - The performance of the Company’s internal audit function;
 - The compliance by the Company with legal and regulatory requirements related to this Charter, including the Company’s disclosure controls and procedures, management’s report on internal controls over financial reporting and the report required by SEC rules to be included the Company’s annual proxy statement;
 - The Company’s policies, practices and compliance regarding its Code of Conduct; and

- The Company's SEC Rule 205 Compliance Policy as the Qualified Legal Compliance Committee thereunder.

2. Audit Committee Charter, Membership and Organization

- 2.1. Charter. The adequacy of this Charter shall be reviewed and reassessed by the Committee at least annually. Any proposed changes shall be submitted to the Board of Directors for its approval.
- 2.2. Performance and Evaluation. The Committee shall evaluate on an annual basis its performance in carrying out its duties and responsibilities hereunder.
- 2.3. Membership; Chair. The Committee shall include no less than three members of the Board and shall consist solely of Board members who satisfy the independence requirements in Section 2.4 below. The members of the Committee shall be appointed by the Board, with management directors abstaining. Unless a Chair is appointed by the Board, the members of the Committee shall designate a Chair.
- 2.4. Independence. Except as otherwise permitted by the applicable rules of the Nasdaq and Section 301 of the Sarbanes-Oxley Act of 2002 (the "Act"), and applicable SEC rules thereunder, each member of the Committee shall be "independent" as defined by such rules and the Act. No member shall have been employed by, or shall have participated in the preparation of the financial statements of, the Company or any current subsidiary of the Company at any time during the past three years.
- 2.5. Financial Literacy. Each member of the Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and statement of cash flows. At least one member of the Committee shall be an audit committee "financial expert" as defined by applicable SEC rules.
- 2.6. Meetings. In order to discharge its responsibilities, the Committee shall each year establish a schedule of meetings; additional meetings may be scheduled, but the Committee must meet at least quarterly. At each of the quarterly meetings, in addition to its other agenda items, the Committee shall meet separately with: (a) the independent auditors without management or the internal auditor present; (b) the head of the Company's internal audit function without management or the independent auditor present; (c) management without the independent auditors or head of the Company's internal audit function present; (d) a representative of the Company's outside counsel without management, the internal auditor or the outside auditor present; and (e) only the Committee members present. Such meetings may be held in person or telephonically and may be held at such times and places as the Committee determines.

2.7. Agenda, Minutes, and Reports. An agenda, together with materials relating to the subject matter of each meeting, shall be compiled under the supervision of the Chair of the Committee and sent to members of the Committee prior to each meeting. The agenda for each regularly scheduled quarterly meeting shall include, among other matters, (i) a review of the next earnings release and periodic financial report to be filed with the Securities and Exchange Commission, (ii) an oral report by management regarding the financial results for the most recent fiscal period, any material changes in the Company's significant accounting policies, estimates and assumptions, and the adequacy of its internal controls and its disclosure controls, (iii) an oral report of the independent auditor with regard to the results of its review of the financial statements, its view of the adequacy of internal controls and whether it concurs with any changes made to accounting policies, estimates or assumptions, (iv) an oral report of outside counsel with regard to existing and potential litigation against the Company, and changes and anticipated changes in the law and applicable statutes and regulations that might have a material impact on the Company's financial position or results of operations, and (v) the executive sessions described in Section 2.6 of this Charter. Minutes for all meetings of the Committee shall be prepared to document the Committee's discharge of its responsibilities. The minutes shall be circulated in draft form to all Committee members to ensure an accurate final record, and shall be approved at a subsequent meeting of the Committee. In addition, the Committee shall make regular oral reports to the Board, including therein any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance of the Company's independent auditors, or the performance of the Company's internal audit function. The Committee shall make such other reports to the Board as seem useful to it from time to time, or as may be requested of it by the Board.

3. Audit Committee Authority and Responsibilities

3.1. Authority to Engage Advisors. The Committee shall have sole authority for the appointment, compensation, retention and oversight of the Company's independent auditors. In addition, the Committee shall have the authority to conduct or authorize investigations into any matters within the scope of this Charter. Such authority includes, but is not limited to, the authority to engage independent legal, accounting or other advisors, without Board approval, to assist in the conduct of an investigation or as the Committee determines appropriate to advise or assist in the performance of its duties. The Company shall provide for the appropriate funding, as determined by the Committee, for payment of compensation to any advisors employed by the Committee, subject only to limitations imposed by applicable rules and regulations. The Committee may request an officer or associate of the Company, or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

3.2. Oversight of the Company's Relationship with the Independent Auditor.

- 3.2.1. The Company's independent auditor is solely responsible to the Committee, as representatives of the shareholders.
- 3.2.2. The Committee shall have the direct responsibility to appoint, compensate, retain and oversee the independent auditor. Selection of the independent auditor shall occur at least annually, considering their independence, evaluation of their services and compensation for audit and non-audit services.
- 3.2.3. The Committee shall, prior to commencement of the annual audit, review with management and the independent auditors the proposed scope of the audit plan and fees, including the areas of business to be examined, the adequacy and quality of the personnel to be assigned to the audit and other factors that may affect the time lines of such audit.
- 3.2.4. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report.
- 3.2.5. The Committee shall pre-approve all audit services and non-audit services (including fees and terms thereof) to be performed for the Company by the independent auditors, other than de-minimis non-audit services as defined under SEC rules.
- 3.2.6. The Committee shall consider whether the independent auditor's performance of non-audit services is compatible with the auditor's independence. In connection with this assessment, the Committee shall obtain and review a report, at least annually, from the independent auditor describing all relationships between the independent auditor and the Company, including the disclosures required by Independence Standard Boards Standard No. 1. The Committee shall actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that could impact the objectivity and independence of the auditor and take appropriate action to oversee the independence of the outside auditor. The Committee shall also ensure the rotation of the audit partners as required by law and shall consider whether it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis as a means of further assuring auditor independence.
- 3.2.7. The Committee also shall review a report from the independent auditor at least annually regarding any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any other inquiry or investigation regarding the firm in the preceding five years.

- 3.2.8. The Committee shall require the independent auditor to review the financial information included in the Company's quarterly report on Form 10-Q prior to the Company filing such reports with the SEC.
- 3.3. Oversight of Company's Internal Audit Function.
 - 3.3.1. The Committee shall ensure that the Company has an internal audit function, shall review the activities, organizational structure and qualifications of the internal auditing department, or firm to which the internal audit function is outsourced, and shall ensure that the internal auditors have direct access to the Committee and Committee Chair.
 - 3.3.2. The Committee shall review and concur in the appointment, replacement, reassignment or dismissal of the senior internal auditing officer or firm, and the compensation for any such person or firm.
 - 3.3.3. The Committee shall review the significant reports to management prepared by the internal auditors and management's responses.
 - 3.3.4. The Committee shall communicate with management and the internal auditors to obtain information concerning internal audits, internal controls of the Company, management and the Company's financial and accounting personnel, and review the impact of each on the quality and reliability of the Company's financial statements.
 - 3.3.5. The Committee shall review the evaluation of the internal auditing function and its impact on the accounting practices, internal controls and financial reporting of the Company.
 - 3.3.6. Discuss with the internal auditor the internal audit function's responsibilities, budget and staffing and recommended changes in the planned scope of the internal audit function.
 - 3.4. Financial Statement and Disclosure Matters. The Committee shall have the following specific duties and responsibilities with respect to the Company financial reporting process:
 - 3.4.1. Annual Audited Financial Statements and Annual Report on Form 10-K. The Committee shall review and discuss with management and the independent auditor, prior to filing with the SEC or other public disclosure, as applicable: (a) the Company's annual audited financial statements, including disclosures made in management's discussion and analysis and in any press release announcing annual financial results, and shall determine whether to recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K; and (b) the disclosure regarding the Company's system of internal controls

required under SEC rules to be contained in the Company's Form 10-K and the attestations or reports by the independent auditors relating to such disclosure.

- 3.4.2. Quarterly Reports on Form 10-Q. The Committee shall review and discuss with management and the independent auditor, prior to filing with the SEC or other public disclosure, as applicable: (a) the Company's quarterly financial statements, including disclosures made in management's discussion and analysis and in any press release announcing quarterly financial results, including the results of the independent auditor's review of the quarterly financial statements; and (b) the disclosure regarding the Company's system of internal controls required under SEC rules to be contained in the Company's Form 10-Q.
- 3.4.3. Required Discussions with Independent Auditor. The Committee shall discuss with the independent auditors those matters required to be discussed by Statement on Auditing Standards ("SAS") No. 61, as amended (Codification of Statements on Auditing Standards, AU § 380) and shall periodically consult with regard to internal controls and the fullness and accuracy of the Company's financial statements.
- 3.4.4. Other Discussions with Management and Independent Auditor. The Committee shall review and discuss, on a quarterly basis, with management and the independent auditors:
- Major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
 - Significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements:
 - The clarity and thoroughness of financial disclosures made by the Company;
 - The development, selection and disclosure of critical accounting estimates and the analysis of alternative assumptions or estimates, and the effects of such estimates on the Company's financial statements;
 - Significant changes in accounting principles, financial reporting policies and internal controls implemented by the Company;
 - Significant litigation, contingencies and claims against the Company and material accounting issues that require disclosure in the

Company's financial statements;

- The adequacy and effectiveness of the Company's internal accounting and financial controls and the recommendation of management, the internal auditors, or the independent auditors for the improvement of accounting practices and internal controls;
- Management's compliance with the Company's processes, procedures and internal controls;
- Information regarding any "second" opinions sought by management from another audit firm with respect to the accounting treatment of a particular event or transaction;
- Any difficulties encountered by the independent auditor in the course of their audit work, including any restrictions on the scope of activities or access to requested information, and management's response, and any significant disagreements with management.
- Discuss with the independent auditor any material issues on which the national office of the independent auditor was consulted by the audit team.
- Management's use of "pro forma" or "non-GAAP" financial information in the Company's quarterly and annual reports, or in other information communicated to the public, such as in an earnings press release.
- Review with management the Company's current disclosure controls and procedures;
- Discuss with management and the independent auditor the effect of regulatory initiatives and potential changes in GAAP on the Company's financial statements; and
- Review with the independent auditors, the internal auditors and management the extent to which changes or improvements in financial or accounting practices have been implemented.

3.5. Compliance Oversight Responsibilities.

- 3.5.1. The Committee shall obtain from the independent auditor the reports required to be furnished under Section 10A of the Securities Exchange Act of 1934, if any, and obtain from the independent auditor any information with respect to illegal acts in accordance with Section 10A.

3.5.2. The Committee shall establish procedures for:

- The receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls over financial reporting, or auditing matters; and
- The confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

3.6. Qualified Legal Compliance Committee Responsibilities. The Committee shall act as the Company's "Qualified Legal Compliance Committee," in accordance with Section 307 of the Sarbanes-Oxley Act of 2002 and the Standards of Professional Conduct for Attorneys Appearing and Practicing Before the Securities and Exchange Commission in the Representation of an Issuer, with all of the duties and responsibilities as set forth below.

3.6.1. Confidential Receipt.

3.6.1.1. The Committee directs the chief executive officer or the chief legal officer of the Company to provide written notice to each attorney, whether employed or retained by the Company or any affiliate of the Company, appearing and practicing before the Commission in representing the Company, of the Committee's adoption of these procedures for the confidential receipt of Reports, together with a copy of these procedures.

3.6.1.2. Reports may be made to the Committee in accordance with the Company's SEC Rule 205 Compliance Policy, by directing the same orally or in writing to the chief legal officer of the Company, the Chairman of the Committee or to any independent legal counsel retained by the Committee or the independent directors of the Company.

3.6.1.3. Except as set forth below, the Committee will hold all Reports in confidence and will not share a Report with persons other than the disinterested directors' legal counsel and, if appropriate, Company counsel.

3.6.2. Consideration of Reports.

3.6.2.1. A meeting of the Committee will be convened as promptly as possible after it receives a Report.

- 3.6.2.2. At that meeting, the Committee will consider the Report and will agree on an appropriate response, including the extent to which the Report will be shared with others.
- 3.6.2.3. Except in cases in which the Committee determines it would be futile to make a Report to the chief legal officer of the Company, the Committee will inform the chief legal officer of the Company when it receives a Report.
- 3.6.2.4. If the Committee determines that the Report merits an investigation, the Committee may:
- notify the full Board of Directors of the Report and the anticipated investigation;
 - initiate an investigation, which may be conducted either by counsel selected by the Committee (including Company counsel or counsel to the Committee or counsel to the disinterested Directors) or by the chief legal officer of the Company; and
 - retain additional experts, if it deems necessary.
- 3.6.2.5. At the conclusion of any investigation, the Committee may:
- recommend, by majority vote, that the Company or affiliate of the Company implement an appropriate response to the Report; and
 - inform the chief executive officer and chief legal officer of the Company, and the Board, of the results of the investigation and the appropriate remedial measures to be adopted.
- 3.6.2.6. The Committee may take all other appropriate action, including notifying the Securities and Exchange Commission if the Company or the applicable affiliate of the Company fails, in any material respect, to implement the Committee's recommended response.

3.6.3. Retention. The Committee will retain any Report received in writing, and will reduce to writing any oral Report it receives.

3.7. Additional Responsibilities.

- 3.7.1. The Committee shall annually prepare a report for inclusion in the Company's proxy statement relating to its annual shareholders meeting. In that report the Committee shall state whether it has:
- Reviewed and discussed the audited financial statements with management;
 - Discussed with the independent auditor the matters required to be discussed by SAS No. 61, as amended (Codification of Statements on Auditing Standards, AU § 380);
 - Received from the independent auditor the written disclosures and the letter required by Independence Standards Board Standard No. 1;
 - Based on the review and discussions referred to above under Section 3.7.1, recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the SEC; and
 - That all Committee members are independent under the applicable Nasdaq rules and Section 301 of the Act, and applicable SEC rules thereunder.
- 3.7.2. The Committee shall review the Company's Code of Conduct (the "Code") at least annually and ensure that management has established a system to enforce the Code. The Committee shall recommend to management any necessary changes to ensure that the Code are adequate in meeting the Committee's requirements and that it complies with the definition set forth in Section 406 of the Act and any regulations thereunder.
- 3.7.3. To the extent deemed appropriate by the Committee, the Committee shall oversee the preparation and maintenance of a corporate compliance program as contemplated by the federal sentencing guidelines, as those guidelines are in effect from time to time.
- 3.7.4. The Committee shall oversee the Company's review of "related party transactions" for potential conflict of interest situations and shall be responsible for approving those transactions required to be disclosed pursuant to SEC Regulation S-K Item 404.
- 3.7.5. The Committee shall maintain minutes of all Committee meetings and submit such minutes to the Board.
- 3.7.6. The Committee shall oversee compliance with the requirements of the SEC for disclosure of auditors' services and audit committee members,

member qualifications and activities.

- 3.7.7. The Committee shall discuss policies with respect to enterprise risk assessment and enterprise risk management.
- 3.7.8. The Committee shall set clear hiring policies for employees or former employees of the independent auditors.
- 3.7.9. The Committee shall recommend to the Board any changes in the authority, responsibility or duties of the Audit Committee and shall request from the Board of Directors, on an annual basis, a description of any Board of Directors responsibilities not listed in this Charter that the Board desires the Committee to undertake.
- 3.7.10. The Committee shall perform any other activities consistent with this Charter, the Company's Bylaws and governing law, as the Committee deems necessary or appropriate.

4. Limitation on Audit Committee's Role

- 4.1. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits, prepare the Company's financial statements, or determine if the Company's financial statements and disclosures are complete and accurate and are in accordance with accounting principles generally accepted in the United States of America and applicable law. The Company's management is responsible to ensure that the financial statements are prepared in conformity with accounting principles generally accepted in the United States, and that disclosure are complete and accurate. It is the responsibility of the Company's independent auditors to plan and conduct audits of the financial statements prepared by management.