



POSITIVE PHYSICIANS HOLDINGS, INC.

A Pennsylvania Company
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Federal EIN: 83-0824448
SIC Code: 6331

ANNUAL REPORT

For the Period Ending December 31, 2021 (the "Reporting Period")

The number of shares outstanding of our common stock is 3,615,500 as of December 31, 2021 (end of reporting period).

The number of shares outstanding of our common stock is 3,615,500 as of December 31, 2020 (end of previous reporting period).

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

POSITIVE PHYSICIANS HOLDINGS, INC.

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Statement on Forward-Looking Information

This report may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 with respect to the Company's business, financial condition and results of operations and the plans and objectives of its management. Forward-looking statements can generally be identified by use of forward-looking terminology such as "may," "will," "plan," "expect," "intend," "anticipate," and "believe." These forward-looking statements may include estimates, assumptions or projections and are based on currently available financial, industry, competitive and economic data and our current operating plans. All forward-looking statements are subject to risks and uncertainties, including risks regarding the effects and duration of the COVID-19 pandemic, that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

The effect of the COVID-19 pandemic on our operations could have a material adverse effect on our business, financial condition, results of operations, or cash flows. The World Health Organization declared the outbreak of COVID-19, which began in December 2019, a pandemic and the U.S. federal government declared it a national emergency. Our business and operations could be materially and adversely affected by the effects of COVID-19. The global spread of COVID-19 created significant volatility, uncertainty and economic disruption in the markets in which we operate. Governments, public institutions, and other organizations in countries and localities where cases of COVID-19 were detected have taken certain emergency measures to mitigate its spread, including implementing travel restrictions and closing factories, schools, public buildings, and businesses. While the full impact of this outbreak is not yet known, we have closely monitored the spread of COVID-19 and continue to assess its potential effects on our business.

As a result of restrictions put in place to address COVID-19 and the related economic downturn, the Company experienced business disruptions including, but not limited to, office closures and difficulties in maintaining operational continuance during remote operations required by illness, social quarantining, and work from home orders that were in force. The extent to which our results continue to be affected by COVID-19 will largely depend on future developments which cannot be accurately predicted, including the duration and scope of the pandemic, governmental and business responses to the pandemic and the impact on the global economy. While these factors are uncertain, the COVID-19 pandemic or the perception of its effects could continue to have a material adverse effect on our business, financial condition, results of operations, or cash flows

Other factors that could cause actual results to differ materially from those in the forward-looking statements, include, but are not limited to:

- the potential impact of fraud, operational errors, system malfunctions, or cybersecurity incidents;
- financial market conditions, including, but not limited to, changes in interest rates and the stock markets causing a reduction of investment income or investment gains and reduction in the value of our investment portfolio;
- future economic conditions in the market in which we compete that are less favorable than expected;
- the effect of legislative, judicial, economic, demographic, and regulatory events in the jurisdictions where we do business;
- our ability to successfully implement steps to optimize the business portfolio, ensure capital efficiency, and enhance investment returns;
- the risks associated with the management of capital on behalf of investors;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or the expansion of our producer network;
- the success with which our brokers sell our products and our ability to collect payments from our insureds;
- heightened competition, including specifically the intensification of price competition, the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products;
- our concentration in medical professional liability insurance, which makes us particularly susceptible to adverse changes in that industry segment;
- changes in general economic conditions, including inflation, unemployment, interest rates and other factors;
- estimates and adequacy of loss reserves and trends in loss and loss adjustment expenses;
- changes in the coverage terms required by state laws, including higher limits;
- our inability to obtain regulatory approval of, or to implement, premium rate increases;
- inadequacy of premiums we charge to compensate us for our losses incurred;
- the effectiveness of our risk management loss limitation methods;

- our ability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us and to collect amounts that we believe we are entitled to under such reinsurance;
- our ability to attract and retain qualified management personnel;
- the potential impact on our reported net income (loss) that could result from the adoption of future accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies;
- unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations;
- statutory requirements that limit our ability to receive dividends from our insurance subsidiary;
- the impact of future results on the recoverability of our deferred tax asset;
- adverse litigation or arbitration results; and
- adverse changes in applicable laws, regulations or rules governing insurance holding companies and insurance companies, including tax or accounting matters, limitations on premium levels, increases in minimum capital and reserves, other financial viability requirements, and changes that affect the cost of, or demand for, our products.

Because forward-looking information is subject to various risks and uncertainties, actual results may differ materially from that expressed or implied by the forward-looking information. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected or projected. These forward-looking statements speak only as of the date of the report. The Company expressly disclaims any obligation to publicly release any updates or revisions to reflect any change in the Company's expectations with regard to any change in events, conditions or circumstances on which any such statement is based.

Part A. General Company Information

Company Description

Positive Physicians Holdings, Inc. (OTCQX: PPHI) is a Pennsylvania domiciled holding company, which was incorporated on May 1, 2018 for the purpose of acquiring three Pennsylvania based reciprocal insurance exchanges: Positive Physicians Insurance Exchange (“PPIX”), Professional Casualty Association (“PCA”), and Physicians’ Insurance Program Exchange (“PIPE”). In connection with the completion of PPHI’s initial public offering, PPIX, PCA, and PIPE converted from reciprocal insurance exchanges into stock insurance companies and were merged together to form Positive Physicians Insurance Company (“Positive Insurance Company”), a wholly owned subsidiary of the Company. PPHI’s initial public offering and its acquisition of Positive Insurance Company were completed on March 27, 2019. Prior to that time, PPHI had minimal assets and liabilities and had not engaged in any operations. The Company’s standing in Pennsylvania is currently active.

On September 7, 2021, through a newly formed wholly owned subsidiary of PPHI, Positive Professionals Management LLC (“PPM”), the Company entered into an asset purchase agreement with Diversus, Inc. and its wholly owned subsidiary, Diversus Management, LLC (“Diversus Management”) (collectively, “Diversus”). Prior to the acquisition, Diversus had managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. The acquisition includes the working capital of Diversus at closing, the transfer and/or assignment of employment agreements and contracts with key third party vendors, including the lease of our home office, and full membership assignments of Gateway Risk Services, LLC (“Gateway”) and Specialty Insurance Agency LLC (“SIA”). Prior to the acquisition, Gateway and SIA provided claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers. Hereinafter, Diversus, Gateway, and SIA are collectively referred to as the “Diversus Companies.”

Positive Insurance Company underwrites medical professional liability coverage for physicians, their corporations, medical groups, clinics and allied healthcare providers. Medical professional liability insurance protects physicians and other health care providers against liabilities arising from the rendering of, or failure to render, professional medical services. We offer claims-made coverage, claims-made plus, and occurrence-based policies as well as tail coverage in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Our policies include coverage for the cost of defending claims. Claims-made policies provide coverage to the policyholder for claims reported during the period of coverage. We offer extended reporting endorsements, or tails, to cover claims reported after the policy expires. Occurrence-based policies provide coverage to the policyholders for all losses incurred during the policy coverage year regardless of when the claims are reported.

Issuer’s Exact Name: Positive Physicians Holdings, Inc.

Issuer’s Address: 100 Berwyn Park, Suite 220
850 Cassatt Road, Berwyn, PA 19312

Issuer’s Telephone: Telephone: 888-335-5335
Fax: 610-644-5265

Issuer’s Website: www.positivephysicians.com

Investor Relations: Mark J. Keyser
Interim Chief Financial Officer
Positive Physicians Holdings, Inc.
100 Berwyn Park, Suite 220
850 Cassatt Road, Berwyn, PA 19312
Telephone: 888-335-5335
Email: mkeyser@charterlane.com

Name and Address of the Transfer Agent: Computershare U.S.
150 Royall Street
Canton, MA 02021
Telephone: 781-575-2000

Computershare U.S. is registered under the Securities Exchange Act of 1934 (the “Exchange Act”) and regulated by the Securities and Exchange Commission (“SEC”).

Part B. Share Structure

Exact Title and Class of Securities Outstanding

As of December 31, 2021, Positive Physicians Holdings, Inc. had one class of securities outstanding, Common Stock, of which the Company is authorized to issue 10,000,000 shares. There are no preferred stock shares authorized or outstanding.

The CUSIP for our common stock is 73740G-106.

With the completion of the initial public offering on March 27, 2019, the Company's common stock began trading on the Nasdaq Capital Market under the symbol, PPHI, on April 1, 2019. On May 18, 2020, the Company received a written notice from the Listing Qualifications Department of Nasdaq indicating that the Company was not in compliance with Listing Rule 5550(a)(4), due to the Company's failure to meet the minimum 500,000 publicly held shares requirement for continued listing on the Nasdaq Capital Market. On August 5, 2020, the Company filed with the SEC a Form 25, notification to voluntarily delist from the Nasdaq Capital Market. On August 14, 2020, the Company filed a Form 15 with the SEC to suspend its reporting obligations under Section 15(d) of the Exchange Act. The delisting was effective on August 17, 2020 and the deregistration was effective on November 12, 2020. The Company's common stock is currently trading on the OTCQX Best Market under the symbol, PPHI.

Par Value and Description of Common Stock

The Company's common stock has a par value of \$0.01 per share.

Voting, Preemption & Other Material Rights

The holders of common stock possess exclusive voting rights in the Company. Each holder of shares of common stock is entitled to one vote for each share held of record on all matters submitted to a vote of holders of shares of common stock. Shareholders are not entitled to cumulate their votes for election of directors. Also, holders of the common stock do not have preemptive rights, nor rights to convert their shares of common stock into other securities.

In the event of any liquidation, dissolution or winding up of Positive Insurance Company, the Company, as holder of all of the capital stock of Positive Insurance Company, would be entitled to receive all assets of Positive Insurance Company after payment of all debts and liabilities. In the event of a liquidation, dissolution or winding up of the Company, each holder of shares of common stock would be entitled to receive a portion of the Company's assets, after payment of all of the Company's debts and liabilities.

Dividends

Our insurance subsidiary, Positive Insurance Company, is restricted by the insurance laws and regulations of the Commonwealth of Pennsylvania as to the amount of dividends or other distributions it may pay to the holding company. In considering future dividend policy, Positive Insurance Company will consider, among other things, applicable regulatory constraints. At December 31, 2021, Positive Insurance Company had statutory surplus of \$38,290,901.

An order by the Pennsylvania Insurance Department approving the conversions of PPIX, PCA, and PIPE prohibits the declaration or payment of any dividend, return of capital, or other distribution by the Company to Insurance Capital Group, LLC and Enstar Holdings (US) LLC, our two principal shareholders, or any other shareholder without the prior approval of the Pennsylvania Insurance Department, for a period of three years following the effective date of the conversions. Additionally, by the order of the Pennsylvania Insurance Department, Positive Insurance Company cannot pay a dividend to the Company for a period of three years following the effective date of the conversions without the approval of the Pennsylvania Insurance Department.

Prior to its payment of any dividend, Positive Insurance Company will be required to provide notice of the dividend to the Pennsylvania Insurance Department. This notice must be provided to the Pennsylvania Insurance Department 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The Pennsylvania Insurance Department has the power to limit or prohibit dividends if Positive Insurance Company is in violation of any law or regulation. These restrictions or any subsequently imposed restrictions may affect our future liquidity.

Payment of dividends on our common stock is also subject to determination and declaration by our Board of Directors. Our dividend policy will depend upon our financial condition, results of operations and future prospects. At present, we have no intention to pay dividends to our shareholders. We cannot assure you that dividends will be paid, or if and when paid, that they will continue to be paid in the future. No dividends were declared nor paid in 2021 and 2020.

Change in Control

We are subject to provisions of Pennsylvania corporate and insurance law that hinder a change of control. Pennsylvania law requires the Pennsylvania Insurance Department's prior approval of a change of control of an insurance holding company. Under Pennsylvania law, the acquisition of 10% or more of the outstanding voting stock of an insurer or its holding company is presumed to be a change in control. Approval by the Pennsylvania Insurance Department may be withheld even if the transaction would be in the shareholders' best interest if the Pennsylvania Insurance Department determines that the transaction would be detrimental to policyholders.

Our articles of incorporation and bylaws also contain provisions that may discourage a change in control. These provisions include:

- The prohibition of cumulative voting in the election of directors;
- The requirement that nominations for the election of directors made by shareholders and any shareholder proposals for inclusion on the agenda at any shareholders' meeting must be made by notice (in writing) delivered or mailed to us not less than 90 days prior to the meeting; and
- The requirement that the provision of our articles of incorporation prohibiting cumulative voting can only be amended by an affirmative vote of shareholders entitled to cast at least 80% of all votes that shareholders are entitled to cast, unless approved by an affirmative vote of at least 80% of the members of the Board of Directors.

These provisions may serve to entrench management and may discourage a takeover attempt that a shareholder may consider to be in his or her best interest or in which the shareholder would receive a substantial premium over the current market price. These provisions may make it extremely difficult for any one person, entity or group of affiliated persons or entities to acquire voting control of the Company, with the result that it may be extremely difficult to bring about a change in the Board of Directors or management. Some of these provisions also may perpetuate present management because of the additional time required to cause a change in the control of the Board.

The Number of Shares or Total Amount of the Securities Outstanding for Each Class of Securities Authorized

The following table shows our common stock share ownership as of December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Number of shares authorized	10,000,000	10,000,000
Number of shares outstanding ⁽¹⁾	3,685,228	3,654,238
Freely tradable shares (public float)	311,567	311,567
Total number of shareholders of record	~ 100	~ 100

(1) Shares outstanding include vested stock options of 69,728 and 38,738 that were exercisable as of December 31, 2021 and 2020, respectively, as additional shares would need to be issued by the Company, if exercised.

As of December 31, 2021 and 2020, we had more than 50 beneficial shareholders each owning at least 100 shares of our common stock.

Stock Options

On September 27, 2019, the Company granted its Chief Executive Officer options to purchase 216,930 shares of common stock at an exercise price of \$12.01 per share, which was the closing sale price of the Company's common stock on the date the options were granted. Of the total options, 108,465 shares will vest in equal monthly installments over a three-and-one-half year period following September 27, 2019, and the remaining 108,465 shares will vest upon the achievement by the Company of certain milestones. All vested option shares shall be exercisable for eight years from the date of vesting.

On November 15, 2021, the Company granted its President options to purchase 108,465 shares of common stock at an exercise price of \$19.46 per share, which was the book value of the Company's equity at September 30, 2021. Of the total options, 54,233 shares will vest in equal quarterly installments over a four-year period following November 15, 2021, and the remaining 54,232 shares

will vest upon the achievement by the Company of certain milestones. All vested option shares shall be exercisable for eight years from the date of vesting.

Option Agreement

Upon completion of the conversions of PPIX, PCA, and PIPE and the securities offering on March 27, 2019, the Company and Diversus entered into an option agreement whereby either party had the option to cause Diversus, subject to shareholder approval, to merge with and become a wholly owned subsidiary of the Company. Under the terms of the agreement, the option might have been exercised by either the Company or Diversus at any time (1) during the period beginning 2 years after completion of the conversions of the exchanges and ending 54 months after the completion of the conversions, or (2) if earlier than 2 years after the completion of the conversions, then such date that the majority stockholder of the Company no longer has the right to appoint a majority of the board of directors of the Company. With the asset purchase of the Diversus Companies effective as of September 7, 2021, the option agreement was terminated.

Public Trading of Common Stock

The following is information regarding sales prices for our common stock for 2021 and 2020:

	High	Low	Close
2020:			
First quarter	\$ 12.08	\$ 10.15	\$ 10.15
Second quarter	\$ 11.43	\$ 10.15	\$ 11.43
Third quarter	\$ 11.43	\$ 10.15	\$ 10.15
Fourth quarter	\$ 15.00	\$ 6.00	\$ 9.50
2021:			
First quarter	\$ 11.00	\$ 8.00	\$ 11.00
Second quarter	\$ 15.20	\$ 7.11	\$ 12.00
Third quarter	\$ 12.00	\$ 9.00	\$ 9.15
Fourth quarter	\$ 13.55	\$ 13.00	\$ 13.05

Part C. Business Information

The Nature of the Issuer's Business

Overview

Positive Physicians Holdings, Inc. is a Pennsylvania domiciled holding company, which was incorporated on May 1, 2018 for the purpose of acquiring three Pennsylvania based reciprocal insurance exchanges: PPIX, PCA, and PIPE. In connection with the completion of the Company's initial public offering on March 27, 2019, PPIX, PCA, and PIPE converted from reciprocal insurance exchanges into stock insurance companies and were merged together to form Positive Insurance Company, a wholly owned subsidiary of the Company. Positive Insurance Company is domiciled in Pennsylvania and has a wholly owned subsidiary, Positive Physicians Captive Insurance Company, which is a sponsored captive insurance company incorporated in the State of New Jersey.

On September 7, 2021, through a newly formed wholly owned subsidiary of PPHI, Positive Professionals Management LLC ("PPM"), the Company entered into an asset purchase agreement with Diversus, Inc. and its wholly owned subsidiary, Diversus Management, LLC ("Diversus Management") (collectively, "Diversus"). Prior to the acquisition, Diversus had managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. The acquisition includes the full membership assignments of Gateway Risk Services, LLC ("Gateway") and Specialty Insurance Agency LLC ("SIA"). Prior to the acquisition, Gateway and SIA provided claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers.

PPHI, Positive Insurance Company, PPM, SIA, and Gateway (since September 7, 2021) are included in the consolidated financial statements attached to this disclosure statement.

Positive Insurance Company writes medical malpractice insurance for healthcare providers practicing in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Diversus Management managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement through September 7, 2021. Pursuant to the terms of the agreement, effective March 27, 2019, Diversus Management provided such administrative services to Positive Insurance Company in exchange for fees based upon a percentage of Positive Insurance Company's gross written premiums, less return premiums. Positive Insurance Company remained responsible for all underwriting decisions and the payment of all claims and claims related expenses incurred under policies issued by Positive Insurance Company and for all sales commissions paid to producers.

In connection with the aforementioned asset purchase, effective September 7, 2021 PPM entered into a management agreement with Positive Insurance Company to provide the insurance affiliate with management and administrative services. Under the post-closing structure of the Company, Gateway, a wholly owned subsidiary of PPM, continues to provide claims processing and risk management services to Positive Insurance Company and third-party customers. Under a newly formed wholly owned subsidiary of PPM, Positive Professionals Insurance Agency LLC ("PPIA"), SIA provides insurance policy brokerage services to Positive Insurance Company and third-party customers.

Regulations Impacting our Business

General

We are subject to extensive regulation, particularly at the state level. The method, extent and substance of such regulation varies by state, but generally has its source in statutes that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to state insurance regulatory agencies who may then promulgate regulations. In general, such regulation is intended for the protection of those who purchase or use insurance products, not the companies that write the policies. These laws and regulations have a significant impact on our business and relate to a wide variety of matters including accounting methods, agent and company licensure, claims procedures, corporate governance, examinations, investing practices, policy forms, pricing, trade practices, reserve adequacy and underwriting standards.

State insurance laws and regulations require Positive Insurance Company to file financial statements with state insurance departments everywhere we do business, and the operations of Positive Insurance Company and its respective accounts are subject to examination by those departments at any time. Positive Insurance Company prepares statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by Pennsylvania. Pennsylvania generally conforms to National Association of Insurance Commissioners (“NAIC”) practices and procedures, so its examination reports and other filings generally are accepted by other states.

Premium rate regulation varies greatly among jurisdictions and lines of insurance. In the states in which Positive Insurance Company writes insurance, premium rates for the various lines of insurance are subject to either prior approval or limited review upon implementation. Positive Insurance Company was admitted into Texas in November 2019 and, more recently, Florida and Georgia in the first quarter of 2021. We received approval on premium rates in Florida in September 2021 and in Texas in November 2021, and received approval on premium rates in Georgia in the first quarter of 2022. Positive Insurance Company intends to apply for approval to act as a surplus lines carrier in those states where we believe sufficient business opportunities make providing surplus lines coverage to physicians and other healthcare providers in those states attractive. Positive Insurance Company also intends to apply for approval to act as a reinsurer in those states where we believe sufficient business opportunities exist to provide quota share insurance to risk retention groups (“RRGs”) that are attractive acquisition targets.

Examinations

Examinations are conducted by the Pennsylvania Insurance Department every three to five years. Past examinations, including the most recent exam completed through December 31, 2017 did not result in any adjustments to our financial position. In addition, there were no substantive qualitative matters indicated in the examination reports that had a material adverse impact on our operations.

NAIC Risk-Based Capital Requirements

Pennsylvania and most other states have adopted the NAIC system of risk-based capital requirements that require insurance companies to calculate and report information under a risk-based formula. These risk-based capital requirements attempt to measure statutory capital and surplus needs based on the risks in a company’s mix of products and investment portfolio. Under the formula, a company first determines its “authorized control level” risk-based capital. This authorized control level takes into account (i) the risk with respect to the insurer’s assets; (ii) the risk of adverse insurance experience with respect to the insurer’s liabilities and obligations, (iii) the interest rate risk with respect to the insurer’s business; and (iv) all other business risks and such other relevant risks as are set forth in the risk-based capital instructions. A company’s “total adjusted capital” is the sum of statutory capital and surplus and such other items as the risk-based capital instructions may provide. The formula is designed to allow state insurance regulators to identify weakly capitalized companies.

The requirements provide for four different levels of regulatory attention. The “company action level” is triggered if a company’s total adjusted capital is less than 2.0 times its authorized control level but greater than or equal to 1.5 times its authorized control level. At the company action level, the company must submit a comprehensive plan to the regulatory authority that discusses proposed corrective actions to improve the capital position. The “regulatory action level” is triggered if a company’s total adjusted capital is less than 1.5 times but greater than or equal to 1.0 times its authorized control level. At the regulatory action level, the regulatory authority will perform a special examination of the company and issue an order specifying corrective actions that must be followed. The “authorized control level” is triggered if a company’s total adjusted capital is less than 1.0 times but greater than or equal to 0.7 times its authorized control level; at this level, the regulatory authority may take action it deems necessary, including placing the company under regulatory control. The “mandatory control level” is triggered if a company’s total adjusted capital is less than 0.7 times its authorized control level; at this level, the regulatory authority is mandated to place the company under its control. As of December 31, 2021, the total adjusted capital of Positive Insurance Company was 6.3 times its authorized control level, down from 7.3 times its authorized control level a year ago. The capital level of Positive Insurance Company has never triggered any of these regulatory capital levels. We cannot assure you, however, that the capital requirements applicable to Positive Insurance Company will not increase in the future.

NAIC Ratios

The NAIC also has developed a set of 13 financial ratios referred to as the Insurance Regulatory Information System (IRIS). On the basis of statutory financial statements filed with state insurance regulators, the NAIC annually calculates these IRIS ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. The NAIC has established an acceptable range for each of the IRIS financial ratios. If four or more of its IRIS ratios fall outside the range deemed acceptable by the NAIC, an insurance company may receive inquiries from individual state insurance departments. As of December 31, 2021, Positive Insurance Company did not have any IRIS ratios that fell outside of the NAIC’s tolerable range.

Enterprise Risk Assessment

In 2012, the NAIC adopted the NAIC Amendments. The NAIC Amendments, when adopted by the various states, are designed to respond to perceived gaps in the regulation of insurance holding company systems in the United States. One of the major changes is a requirement that an insurance holding company system's ultimate controlling person submit annually to its lead state insurance regulator an "enterprise risk report" that identifies activities, circumstances or events involving one or more affiliates of an insurer that, if not remedied properly, are likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole. Beginning in 2016, Pennsylvania required insurers domiciled in Pennsylvania to include an enterprise risk assessment in its annual report. Other changes include requiring a controlling person to submit prior notice to its domiciliary insurance regulator of its divestiture of control, having detailed minimum requirements for cost sharing and management agreements between an insurer and its affiliates and expanding of the agreements between an insurer and its affiliates to be filed with its domiciliary insurance regulator. In addition, in 2012 the NAIC adopted the Own Risk Solvency Assessment (ORSA) Model Act. The ORSA Model Act, when adopted by the various states, will require an insurance holding company system's chief risk officer to submit at least annually to its lead state insurance regulator a confidential internal assessment appropriate to the nature, scale and complexity of an insurer, conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer's current business plan and the sufficiency of capital resources to support those risks. Although Positive Insurance Company is exempt from ORSA because of its size, we intend to incorporate those elements of ORSA that we believe constitute "best practices" into our annual internal enterprise risk assessment.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing trade practices and the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales practices and complaint handling. State regulatory authorities generally enforce these provisions through periodic market conduct examinations.

Guaranty Fund Laws

All states have guaranty fund laws under which insurers doing business in the state can be assessed to fund policyholder liabilities of insolvent insurance companies. Under these laws, an insurer is subject to assessment depending upon its market share in the state of a given line of business. For the years ended December 31, 2021 and 2020, we incurred total assessment expense (benefit) in the amounts of \$(25,000) and \$28,000, respectively, pursuant to state insurance guaranty association laws.

Positive Insurance Company establishes reserves relating to insurance companies that are subject to insolvency proceedings when it is notified of assessments by the guaranty associations. We cannot predict the amount and timing of any future assessments on Positive Insurance Company under these laws.

Federal Regulation

The U.S. federal government generally has not directly regulated the insurance industry except for certain areas of the market, such as insurance for flood, nuclear and terrorism risks. However, the federal government has undertaken initiatives or considered legislation in several areas that may impact the insurance industry, including tort reform, corporate governance and the taxation of reinsurance companies. The Dodd-Frank Act established the Federal Insurance Office which is authorized to study, monitor and report to Congress on the insurance industry and to recommend that the Financial Stability Oversight Council designate an insurer as an entity posing risks to the U.S. financial stability in the event of the insurer's material financial distress or failure. In December 2013, the Federal Insurance Office issued a report on alternatives to modernize and improve the system of insurance regulation in the United States, including by increasing national uniformity through either a federal charter or effective action by the states. Changes to federal legislation and administrative policies in several areas, including changes in federal taxation, can also significantly impact the insurance industry and us.

We are also subject to the Fair and Accurate Credit Transactions Act of 2003, or FACTA, and the Health Insurance Portability and Accountability Act of 1996, or HIPAA, both of which require us to protect the privacy of our customers' information, including health and credit information.

Privacy

As mandated by the Gramm-Leach-Bliley Act, states continue to promulgate and refine laws and regulations that require financial institutions, including insurance companies, to take steps to protect the privacy of certain consumer and customer information relating to products or services primarily for personal, family or household purposes. An NAIC initiative that affected the insurance industry was the adoption in 2000 of the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the

implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Several states have now adopted similar provisions regarding the safeguarding of customer information. We have implemented procedures to comply with the Gramm-Leach-Bliley Act's related privacy requirements.

OFAC

The Treasury Department's Office of Foreign Asset Control ("OFAC") maintains a list of "Specifically Designated Nationals and Blocked Persons" (the SDN List). The SDN List identifies persons and entities that the government believes are associated with terrorists, rogue nations or drug traffickers. OFAC's regulations prohibit insurers, among others, from doing business with persons or entities on the SDN List. If the insurer finds and confirms a match, the insurer must take steps to block or reject the transaction, notify the affected person and file a report with OFAC. Positive Insurance Company has incorporated this check as part of its underwriting procedures.

JOBS Act

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, such as reduced public company reporting, accounting and corporate governance requirements.

Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards.

We will remain an "emerging growth company" for up to five years following March 27, 2019. In addition, as an emerging growth company, we are exempt from Section 14A (a) and (b) of the Exchange Act, which requires shareholder approval of executive compensation and golden parachutes.

Holding Company Laws

Most states, including Pennsylvania, have enacted legislation that regulates insurance holding company systems. Each insurance company in a holding company system is required to register with the insurance supervisory agency of its state of domicile and furnish certain information. This includes information concerning the operations of companies within the holding company group that may materially affect the operations, management or financial condition of the insurers within the group. Pursuant to these laws, the Pennsylvania Insurance Department requires disclosure of material transactions involving an insurance company and its affiliates, and requires prior notice and/or approval of certain transactions, such as "extraordinary dividends" distributed by the insurance company. Under these laws, the Pennsylvania Insurance Department will have the right to examine us and Positive Insurance Company at any time.

All transactions within our consolidated group affecting Positive Insurance Company must be fair and equitable. Notice of certain material transactions between Positive Insurance Company and any person or entity in our holding company system will be required to be given to the Pennsylvania Insurance Department. Certain transactions cannot be completed without the prior approval of the Pennsylvania Insurance Department.

Approval of the state insurance commissioner is required prior to any transaction affecting the control of an insurer domiciled in that state. In Pennsylvania, the acquisition of 10% or more of the outstanding voting securities of an insurer or its holding company is presumed to be a change in control. Pennsylvania law also prohibits any person or entity from (i) making a tender offer for, or a request or invitation for tenders of, or seeking to acquire or acquiring any voting security of a Pennsylvania insurer if, after the acquisition, the person or entity would be in control of the insurer, or (ii) effecting or attempting to effect an acquisition of control of or merger with a Pennsylvania insurer, unless the offer, request, invitation, acquisition, effectuation or attempt has received the prior approval of the Pennsylvania Insurance Department.

Technology

We use commercially available software to provide the information management systems platform that runs its accounting, policy underwriting and issuance, and claims processing functions. These systems permit us to integrate the accounting and reporting

functions of our insurance operations. We have adopted a disaster recovery plan tailored to meet our needs and geographic location. A portion of our operations is managed in a cloud environment using an outside service provider.

Legal Proceedings

The Company and its wholly owned subsidiaries are periodically subject to litigation in the normal course of its business. Based upon information presently available to us, we do not consider any litigation to be material. However, given the uncertainties attendant to litigation, we cannot assure you that our results of operations and financial condition will not be materially adversely affected by any litigation. Further, PPHI is not subject to any trading suspensions by a securities regulator.

Other Business Information

The Company is currently conducting operations, has a fiscal year-end date of December 31, and its primary SIC Code is 6331: Fire, Marine & Casualty Insurance. The Company is not currently, nor has it ever been, a shell company. It has not been in any bankruptcy, receivership or any similar proceeding, and the Company has not defaulted on the terms of any note, loan, lease, or other indebtedness or financing arrangement. The Company does not engage in research and development activities, and the costs and effects of compliance with environmental laws are minimal. The Company maintains trademarks related to its corporate names, logos, and products.

There has been no change in control since PPHI's initial public offering on March 27, 2019, and there has been no change in the Company's common stock outstanding since then either. As previously disclosed, the Company delisted from the Nasdaq Capital Market, effective August 17, 2020.

As of December 31, 2021, the Company has 23 employees.

The Nature of Products or Services Offered

Positive Insurance Company underwrites medical professional liability coverage for physicians, their corporations, medical groups, clinics and allied healthcare providers. Medical professional liability insurance ("MPLI") protects physicians and other health care providers against liabilities arising from the rendering of, or failure to render, professional medical services. We offer claims-made coverage, claims-made plus, and occurrence-based policies as well as tail coverage in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Our policies include coverage for the cost of defending claims. Claims-made policies provide coverage to the policyholder for claims reported during the period of coverage. We offer extended reporting endorsements, or tails, to cover claims reported after the policy expires. Occurrence-based policies provide coverage to the policyholders for all losses incurred during the policy coverage year regardless of when the claims are reported. Although we generate a majority of our premiums from individual and small group practices, we also insure several major physician groups.

The Company accounts for its medical professional liability insurance business as a single reporting segment line of business.

Underwriting, Risk Assessment and Pricing

Although we are willing to consider physicians in most specialties and classifications for insurance coverage, we recognize that certain specialties present a higher exposure to frequency or severity of claims. Although the number of medical malpractice claims filed in Pennsylvania has decreased significantly since 2008, the severity of the claims brought has not decreased. Accordingly, we rely heavily on individual risk characteristics in determining which medical professionals to whom we will offer coverage.

Our underwriting philosophy is aimed at consistently generating profits through sound risk selection and pricing discipline. Through the management and underwriting staff, we regularly establish rates and rating classifications for our physician and medical group insureds based on loss and loss adjustment expense experience that we have developed over the years and the loss and loss adjustment expense experience for the entire medical professional liability market. We have various rating classifications based on practice location, medical specialty and other liability factors.

The nature of our business requires that we remain sensitive to the marketplace and the pricing strategies of our competitors. Using the market information as our background, we normally set our prices based on our estimated future costs. From time to time, we may reduce or increase our discounts or apply a premium surcharge to achieve an appropriate return. Pricing flexibility allows us to provide a fair rate commensurate with the assumed liability. If our pricing strategy cannot yield sufficient premium to cover our costs on a particular type of risk, we may determine not to underwrite that risk. It is our philosophy not to sacrifice profitability for premium growth.

We also encourage our insureds to adopt and practice loss reduction methods and loss mitigation practices. Our integrated risk management platform can reduce claims occurring from lack of informed consent, surgical complications, or missed diagnoses. Similarly, required educational sessions for doctors and other medical professionals regarding record keeping, patient follow-up and other basic practices can reduce the frequency of claims. Premium credits are provided to physicians in higher risk specialties who take advantage of these loss reduction methods and loss mitigation practices. Medical professionals who do not commit to these practices and methods can be refused coverage.

Our competitive strategy in underwriting is to provide very high-quality service to our producers and insureds by responding quickly and effectively to information requests and policy submissions. Each policy undergoes the entire underwriting process prior to renewal. We maintain information on all aspects of our business, which is regularly reviewed to determine both agency and policyholder profitability. Specific information regarding individual insureds is monitored to assist us in making decisions about policy renewals or modifications.

Claims and Litigation Management

Our policies require us to provide a defense for our insureds in any suit involving a medical incident covered by the policy. The defense costs we incur are in addition to the limit of liability under the policy. Medical professional liability claims often involve the evaluation of highly technical medical issues, severe injuries and conflicting expert opinions.

Our claims management philosophy involves: (i) closure of claims through prompt and thorough investigation of the facts related to the claim; (ii) equitable settlement of meritorious claims; (iii) vigorous defense of unfounded claims as to coverage, liability or the amount claimed; and (iv) the use of mediation and arbitration combined, when appropriate, with agreements with plaintiff's counsel limiting the range of damage awards. Our claims team supports our underwriting strategy by working to provide a timely, good faith claims handling response to our policyholders. Claims excellence is achieved by timely investigation and handling of claims, settlement of meritorious claims for equitable amounts, maintenance of adequate case reserves, and control of loss adjustment expenses.

Claims on insurance policies are received directly from the insured or through our independent producers. Our claims department supports our producer relationship strategy by working to provide a consistently responsive level of claim service to our policyholders. Positive Insurance Company is required by applicable insurance laws and regulations to maintain reserves for payment of losses and loss adjustment expenses for reported claims and for claims incurred but not reported, arising from policies that have been issued. Generally, these laws and regulations require that we provide for the ultimate cost of those claims, subject to our policy limits, without regard to how long it takes to settle them or the time value of money. We are also required to maintain reserves for extended reporting coverage we provide in the event of a physician's death, disability and retirement, or DDR reserves, which are included in our reserves as a component of unearned premiums. The determination of reserves involves actuarial and statistical projections of what we expect to be the cost of the ultimate settlement and administration of such claims based on facts and circumstances then known, estimates of future trends in claims severity, and other variable factors such as inflation and potential changing judicial theories of liability.

Our actuaries utilize standard actuarial techniques to project ultimate losses based on our paid and incurred loss information, as well as drawing from industry data. These projections are done using actual loss dollars and claim counts. We analyze loss trends and claims frequency and severity to determine our best estimate of the required reserves. We then record this best estimate in Positive Insurance Company's financial statements. Our reserve methodology is discussed in greater detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies."

As previously mentioned, PPM acquired the full membership interests of Gateway on September 7, 2021. Prior to September 7, 2021, we had contracts with Gateway and Andrews Outsource Solutions LLC ("AOS"), a former wholly owned subsidiary of Diversus, under which those companies provide claims processing and risk management services. Effective July 1, 2020, we discontinued our loss adjustment expense payments to AOS.

Reinsurance

Reinsurance Ceded. In accordance with insurance industry practice, we reinsure a portion of our exposure and pay to the reinsurers a portion of the premiums received on all policies reinsured. Insurance policies written by us are reinsured with other insurance companies principally to:

- reduce net liability on individual risks and clash occurrences;
- mitigate the effect of individual loss occurrences;
- cover us against losses in excess of policy limits and extra contractual obligation claims;

- stabilize underwriting results; and
- increase our underwriting capacity.

Under Pennsylvania law, each insured must maintain MPLI of at least \$1,000,000 for each claim and \$3,000,000 of annual aggregate coverage. We provide primary insurance coverage up to \$500,000 per claim and \$1,500,000 of annual aggregate coverage. The Pennsylvania Medical Care Availability and Reduction of Error (“MCARE”) Fund provides coverage for any losses above \$500,000 per claim up to \$1,000,000. In cases where coverage under the Pennsylvania MCARE Fund does not apply, the primary insurance provides coverage up to \$1,000,000 per claim and \$3,000,000 of annual aggregate coverage. We retain the first \$300,000 in loss on all Pennsylvania claims and reinsurance covers the excess up to \$1,000,000 that is not covered by the Pennsylvania MCARE Fund. We cede to reinsurers any Pennsylvania claims in excess of \$1,000,000.

Other states in which we write insurance require doctors to maintain certain minimum coverage and provide a fund that provides coverage for losses above a certain amount, but some states do not prescribe insurance requirements for doctors.

We offer primary coverage up to \$1,000,000 for each claim and \$3,000,000 of annual aggregate coverage in Delaware, Maryland, Michigan, Ohio, New Jersey, South Carolina, Florida, Texas, and Georgia. We retain the first \$300,000 in loss for claims from these states, and reinsurance covers the excess up to \$1,000,000. If an insured in Delaware or New Jersey requests, additional coverage of \$1,000,000, each claim, each insured, each policy can be provided and is fully ceded to the reinsurer up to a maximum aggregate liability of \$2,000,000 to the reinsurer per the term of the reinsurance agreement. In South Carolina and Michigan, the insured can elect policy limits of \$200,000 per claim and, on these claims, we retain the first \$100,000 and the reinsurer covers the next \$100,000.

We also purchase additional reinsurance coverage for clash, losses in excess of policy limits and extra contractual obligation claims.

Our premiums under our current treaty year reinsurance agreement are based on a percentage of our earned premiums during the term of the agreement. The agreement was renewed on January 1, 2022.

Reinsurance does not legally discharge the insurance company issuing the policy from primary liability for the full amount due under the reinsured policies. A primary factor in the selection of reinsurers from whom we purchase reinsurance is their financial strength. Our reinsurance arrangements are generally renegotiated annually. The insolvency or inability of any reinsurer to meet its obligations to us could have a material adverse effect on our results of operations or financial condition. Our reinsurance providers, the majority of whom are longstanding partners that understand our business, are all carefully selected with the help of our reinsurance broker. We monitor the solvency of reinsurers through regular review of their financial statements and, if available, their A.M. Best ratings. Hannover Re, our current reinsurance partner, has an “A+ (Superior)” rating from A.M. Best. According to A.M. Best, companies with a rating of “A” or better “have an excellent ability to meet their ongoing obligations to policyholders.”

Reinsurance Assumed. We generally do not assume risks from other insurance companies. However, we could be required by statute to participate in guaranty funds, which are formed to pay claims on policies issued by insolvent property and casualty insurers domiciled in certain states, such as Pennsylvania. This participation, where applicable, requires us to pay an annual assessment based on our premiums written and determined on a market share basis. At December 31, 2021, our participation was not material.

Captive Insurance. On October 9, 2018, Positive Physicians Captive Insurance Company (“PPCIC”), a sponsored captive insurance company, was incorporated in the State of New Jersey and is a wholly owned subsidiary of Positive Insurance Company. PPCIC was licensed under the New Jersey Captive Insurance Act on October 16, 2018. PPCIC has one protected unincorporated cell, Keystone Captive Group (“Keystone”). Keystone is owned by an insured of Positive Insurance Company. Effective October 16, 2018, Positive Insurance Company entered into a reinsurance agreement with Keystone and that agreement was endorsed in 2019 for continuous annual renewal.

Losses and Loss Adjustment Expenses

We are required by applicable insurance laws and regulations to maintain reserves for payment of losses and loss adjustment expenses (“LAE”). These reserves are established for both reported claims and for claims incurred but not reported (“IBNR”), arising from the policies we have issued. The laws and regulations require that provision be made for the ultimate cost of those claims without regard to how long it takes to settle them or the time value of money. The determination of reserves involves actuarial and statistical projections of what we expect to be the cost of the ultimate settlement and administration of such claims. The reserves are set based on facts and circumstances then known, estimates of future trends in claims severity, and other variable factors such as inflation and potential changing judicial theories of liability.

Estimating the ultimate liability for losses and LAE is an inherently uncertain process. Therefore, the reserve for losses and LAE does not represent an exact calculation of that liability. Our reserve policy recognizes this uncertainty by maintaining reserves at a level providing for the possibility of adverse development relative to the estimation process. We do not discount our reserves to recognize the time value of money. For a more detailed overview of our estimation process for reserves for losses and loss adjustment expenses, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies.”

When a claim is reported to us, our claims personnel establish a “case reserve” for the estimated amount of the ultimate payment. This estimate reflects an informed judgment based upon general insurance reserving practices and on the experience and knowledge of our claims staff. In estimating the appropriate reserve, our claims staff considers the nature and value of the specific claim, the severity of injury or damage, and the policy provisions relating to the type of loss, to the extent determinable at the time. Case reserves are adjusted by our claims staff as more information becomes available and discovery progresses. It is our policy to settle each claim as expeditiously as possible.

We maintain IBNR reserves to provide for already incurred claims that have not yet been reported and developments on reported claims. The IBNR reserve is determined by estimating our ultimate net liability for both reported and IBNR claims and then subtracting the case reserves and paid losses and LAE for reported claims.

Each quarter, we compute our estimated ultimate liability using principles and procedures we have developed over several years. However, because the establishment of loss reserves is an inherently uncertain process, we cannot assure you that ultimate losses will not exceed the established loss reserves. Adjustments in aggregate reserves, if any, are reflected in the operating results of the period during which such adjustments are made.

Investments

Our investments in fixed maturity securities are classified as available for sale and are carried at fair value with unrealized gains and losses, net of taxes, reflected as a component of equity. We also hold investments in equity securities which are stated at fair value with unrealized gains and losses credited or charged to net income (loss) as incurred. The goal of our investment activities is to complement and support our overall mission. An important component of our operating results has been the return on invested assets. Our investment objectives are (i) accumulation and preservation of capital, (ii) optimization, within accepted risk levels, of after-tax returns, (iii) assuring proper levels of liquidity, (iv) providing for an acceptable and stable level of current income, (v) managing the maturities of our investment securities to reflect the maturities of our liabilities, and (vi) maintaining a quality, diversified portfolio.

In addition to any investments prohibited by the insurance laws and regulations of Pennsylvania, our investment policy prohibits the following investments and investing activities:

- Commodities and futures contracts;
- Options (except covered call options);
- Interest-only, principal-only, and residual tranche collateralized mortgage obligations;
- Foreign currency trading;
- Venture-capital investments;
- Securities lending;
- Portfolio leveraging, i.e., margin transactions; and
- Short selling.

The Board of Directors of Positive Insurance Company reviews and approves our investment policy annually. Our investment portfolio is managed by Positive Insurance Company’s Investment Committee and Wilmington Trust.

We use quoted values and other data provided by independent pricing services as inputs in our process for determining fair values of our investments. The pricing services cover substantially all of the securities in our portfolio for which publicly quoted values are not available. The pricing services' evaluations represent an exit price, a good faith opinion as to what a buyer in the marketplace would pay for a security in a current sale. The pricing is based on observable inputs either directly or indirectly, such as quoted prices in markets that are active, quoted prices for similar securities at the measurement date, or other inputs that are observable.

The investment manager provides us with pricing information that we utilize, together with information obtained from independent pricing services, to determine the fair value of our fixed maturity securities.

Marketing and Distribution

Our marketing philosophy is to sell profitable business in our core states, using a focused, cost-effective distribution system. Our medical professional liability insurance products are currently sold through approximately 82 retail producers in our territories of Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, and Texas. All of these producers represent multiple insurance companies and are established businesses in the communities in which they operate. While we view our insureds as our primary customer, we view our independent insurance producers as important partners because they are in a position to recommend either our insurance products or those of a competitor to their customers. We consider our relationships with these producers to be good.

We review our producers annually with respect to both premium volume and profitability. Our producers will be monitored and supported primarily by our marketing employees, who have the principal responsibility for recruiting and training new producers. We meet regularly with producers to provide both technical training about our products and sales training about how to effectively market our products.

Producers are compensated through a fixed base commission. Agents receive commission as a percentage of premiums as their primary compensation from us. No profit-sharing commissions are paid to agents based upon the profitability of the business they produce.

Our marketing efforts are further supported by our claims philosophy, which is designed to provide prompt and efficient service and claims processing, resulting in a positive experience for producers and policyholders. We believe that these positive experiences result in higher policyholder retention and new business opportunities when communicated by producers and policyholders to potential customers. While we rely on our independent agents for distribution and customer support, underwriting and claim handling responsibilities are retained by us. Many of our agents have had direct relationships with us for a number of years. Furthermore, the concentration risk within our current customer base is low, as no one insured accounted for more than 10% of gross written premium in 2021 and 2020.

Competition

The medical professional liability insurance market is highly competitive. We compete with stock and mutual insurance companies, RRGs, reciprocal exchanges, and other underwriting organizations. Our largest competitors in Pennsylvania are NORCAL Group, MedPro Group, Central Pennsylvania Physicians Risk Retention Group, and Medical Mutual of North Carolina. Most of these competitors have substantially greater financial, technical and operating resources than we do and may be able to offer lower rates to policyholders or higher commissions to their producers.

We compete on a number of factors such as pricing, agency relationships, policy support, claim service, and market reputation. Like other writers of MPLI, our policy terms vary from state to state based on the maximum prescribed limits in each state, as established by state law. We believe our company differentiates itself from many larger companies competing for this business by focusing on service and responsiveness.

To compete successfully in the MPLI industry, we rely on our ability to: identify insureds that are most likely to produce an underwriting profit; operate with a disciplined underwriting approach; practice prudent claims management; and provide services and competitive commissions to our independent agents.

Ratings

Demotech, Inc. ("Demotech"), a nationally recognized, independent rating agency, rates the financial strength of Positive Insurance Company. Ratings are not recommendations to buy the Company's stock.

Rating agencies rate insurance companies based on financial strength and the ability to pay claims and other factors more relevant to policyholders than investors. We believe that the rating assigned by Demotech is material to our operations. We currently only participate in the ratings process of Demotech. However, we intend to seek participation in the ratings process of A.M. Best Company, Inc. in the future.

The rating scale of Demotech is characterized as follows:

- A'' (A Double Prime), *Unsurpassed*
- A' (A Prime), *Unsurpassed*
- A, *Exceptional*
- S, *Substantial*
- M, *Moderate*
- L, *Licensed*
- NR, *Not Rated*
- N/A, *Ineligible*

Positive Insurance Company's financial stability rating of A' (A Prime), *Unsurpassed* was affirmed on November 15, 2021.

A downgrade in the Demotech rating of Positive Insurance Company would result in a material loss of business as policyholders would move to other insurance carriers with higher financial strength ratings. Accordingly, such a downgrade would have a material adverse effect on our results of operations, liquidity and capital resources. This rating is subject to revision or withdrawal at any time by the rating agency and, therefore, no assurance can be given that this rating can be maintained.

The Nature and Extent of the Issuer's Facilities

The home office of the Company is located at 100 Berwyn Park, Suite 220, 850 Cassatt Road, Berwyn, PA 19312, and its telephone number is 888-335-5335. The office in Berwyn was leased by Diversus Management on our behalf prior to September 7, 2021, and our rental fee for use of the facilities was implicitly included as part of Positive Insurance Company's monthly management fee paid to Diversus Management. With the asset purchase of the Diversus Companies on September 7, 2021, the Company assumed the lease of the office space. The Company's website address is www.positivephysicians.com. Information contained on our website is not incorporated by reference into this Annual Report, and such information should not be considered to be part of this Annual Report.

Part D. Management Structure and Financial Information

The Name of the Chief Executive Officer, Members of the Board of Directors, as well as Control Persons

Directors and Officers

Our Board of Directors consists of Lewis S. Sharps, M.D., Scott C. Penwell, William E. Hitselberger, Stephen J. Johnson, Duncan McLaughlin, Robert Redpath, Matthew T. Popoli, and Jack Sun, each of whom also serves as a director of Positive Insurance Company. Each of the directors serves a term of one year, is elected annually, and will hold office until his successor has been elected and qualified or until his earlier death, resignation or removal. Annually, the director nominees are reviewed and proposed by the nominating/ governance committee and are selected by the Board of Directors. Insurance Capital Group, LLC (“ICG”) and Enstar Holdings (US) LLC (“Enstar”) have entered into an agreement that, among other things, affects the nomination and election of our directors.

Our Executive Officers are elected annually and, subject to the terms of their respective employment agreements, will hold office until their respective successors have been elected and qualified or until death, resignation or removal by the Board of Directors.

The following table sets forth certain information regarding our current directors.

	Age at March 30, 2022	Director Since (1)	Position with Positive Physicians Holdings, Inc.
Dr. Lewis S. Sharps, M.D.	72	2018	CEO, and Director
Scott C. Penwell	69	2018	Director
William E. Hitselberger	64	2018	Director
Stephen J. Johnson	67	2018	Director
Duncan McLaughlin	51	2019	Vice Chairman of the Board of Directors
Robert Redpath	54	2021	Director
Matthew T. Popoli	46	2019	Chairman of the Board of Directors
Jack Sun	33	2020	Director

(1) Indicates year first elected as a director of Positive Physicians Holdings, Inc.

The business experience of each nonemployee director for at least the past five years is set forth below.

Lewis S. Sharps, M. D.

Dr. Sharps founded Positive Physicians Insurance Exchange (now Positive Insurance Company) in 2002 and has served as the CEO and President since its inception. Dr. Sharps attended medical school and completed his orthopaedic residency training at Thomas Jefferson University. He is a Fellow of The American Orthopaedic Society and The American Orthopaedic Association. He founded and managed multiple health care related companies and developed numerous instrument patents for minimally invasive spine surgery. Dr. Sharps served as President of the Pennsylvania Orthopaedic Society (POS) from 1999 to 2000. He was also instrumental in the creation of the Political Action Committee (PAC) of POS and was Chairman of the PAC from 1993 to 2011. During that time, the POS PAC became a major factor in Pennsylvania politics, protecting the long-term needs of the medical and orthopaedic communities. His experience and insights as a spine surgeon have greatly benefitted our risk management and claim management platform. He is a strong advocate of “integrated risk management,” whereby the medical malpractice insurer partners with the insureds and trains their in-house staff as to the benefits of notifying Positive Insurance Company of any unforeseen events and then working aggressively to resolve the issue.

Dr. Sharps has also been instrumental in developing technologies that promote patient safety in the operating room and continues to stress the need for integrated risk management in the freestanding outpatient office environment.

Scott C. Penwell

Scott C. Penwell, Esq., is an attorney who has practiced corporate, securities and insurance law for 35 years and has been a member of the law firm of Penwell, Bowman + Curran LLC since 2017. Prior to that, Mr. Penwell was an associate and partner at Duane Morris LLP from 1981 to 2004, a partner at Stevens & Lee, PC, from 2004 to 2012, and a partner at Rhoads & Sinon, LLP from 2012 to 2017. In addition to practicing law, he has served on the boards of directors of numerous companies including banks, mutual funds and technology companies. He also founded and has served as a director and corporate officer of two insurance companies. From 1987 until its sale in 2014, he was a director and corporate secretary of Eastern Alliance Insurance Company, a publicly traded, national insurance company, and from 2010 until its sale in 2017, he was a director and Chairman of the Board of Directors of Great Falls Insurance Company, a regional insurance company that writes insurance in the northeastern United States. Mr. Penwell has been Chairman of the Business Law Section of the Pennsylvania Bar Association and a member of the attorney advisory committees of both the Pennsylvania Corporation Bureau and the Pennsylvania Securities Commission. Mr. Penwell received his BA from Rutgers University, his MA from Villanova University and his JD from Temple Law School, where he was Editor-in-Chief of Temple Law Review.

William E. Hitselberger

William E. Hitselberger is the Chief Financial Officer of Sutton National Insurance Company, a property and casualty insurance company formed in 2019. Prior thereto, Mr. Hitselberger was the Treasurer of Castlepoint National Insurance Company from July 2016 through December 2018 and the Chief Financial Officer and Executive Vice President of Tower Group International, Ltd. (formerly, Tower Group Inc.) since March 15, 2010 and served as its Principal Accounting Officer during that time. Mr. Hitselberger joined the Tower Group International on December 8, 2009 as Senior Vice President. Mr. Hitselberger served as Executive Vice President of PMA Companies, Inc. (formerly, PMA Capital Corporation) from April 2004 to December 8, 2009. He served as Senior Vice President, Chief Financial Officer, and Treasurer of PMA Companies, Inc. from June 2002 to December 8, 2009. Mr. Hitselberger is a Certified Public Accountant and Chartered Financial Analyst. Mr. Hitselberger graduated from the University of Pennsylvania, where he received a B.S. in Economics in 1980.

Stephen J. Johnson

Stephen J. Johnson served as an Insurance Financial and Regulatory Specialist with the law firm of Stradley Ronon Stevens & Young, LLP until his retirement in 2021. Prior to joining Stradley Ronon in 2016, Mr. Johnson served as Deputy Insurance Commissioner for the Pennsylvania Insurance Department's Office of Corporate and Financial Regulation from 1998-2015, where he oversaw the Bureau of Company Licensing and Financial Analysis and the Bureau of Financial Examinations. Before that, Mr. Johnson served as Director of the Bureau of Financial Examinations where he oversaw a team of examiners and exam managers who conducted on-site reviews of the financial health of nearly 300 insurance companies in Pennsylvania, as well as continuing care retirement communities. Mr. Johnson also worked as Chief of the Financial Analysis Division in the Office of Corporate and Financial Regulation, supervising the department's financial analysts and overseeing the analysis and review of financial statements filed by Pennsylvania's licensed insurance companies. Before joining the Pennsylvania Insurance Department, Mr. Johnson worked at the Pennsylvania Securities Commission as Chief Analyst and at the Department of Auditor General as a Field Auditor. He also worked as an Audit Supervisor for the accounting firm Laventhol and Horwath. Mr. Johnson has been involved with numerous committees, task forces and financial working groups of the National Association of Insurance Commissioners (NAIC), including the Statutory Accounting Principles Working Group, which he has been involved with since its founding in 1994, and the Financial Analysis Working Group, of which he was appointed Chair in 2011. Mr. Johnson has 30 years of experience in the insurance industry and is a Certified Public Accountant.

Duncan McLaughlin

Duncan McLaughlin has been a Director of Cranmore (EU) Ltd, a United Kingdom affiliate of Enstar, since relocating back from the United States in 2018. Cranmore is a specialist insurance and reinsurance audit and consultancy firm with six worldwide offices. From 2012 to 2018, Mr. McLaughlin was a Senior Vice President of Enstar (US) Inc. in the United States, and prior to that, he was a Director of Enstar (EU) Limited in the United Kingdom. Mr. McLaughlin joined Enstar Group in 2000 and has over 25 years of experience in the reinsurance business.

Robert Redpath

Robert Redpath is Senior Vice President, U.S. Legal Director at Enstar, and is head of the corporate legal and regulatory department at Enstar and is a member of the Enstar executive management team. He is an attorney licensed to practice in New York, where he is based. Prior to joining Enstar in 2011, Mr. Redpath served as the General Counsel of Clarendon National Insurance Company and subsidiaries from April 2006. From January 2002 until April 2006, he was Vice President in charge of litigation at

Clarendon. From 1996 until 2002, he worked for Hannover Re in Hannover, Germany in the legal and claims departments. Prior to that, he worked for four years at the London law firm of Lawrence Graham specializing in insurance litigation.

Matthew T. Popoli

Matthew T. Popoli is the Managing Partner and Chief Executive Officer of Insurance Capital Group, with 20 years of insurance industry experience with a specialized focus on sponsored demutualizations and similar complex conversion transactions. Prior to founding Insurance Capital Group, Mr. Popoli was a Partner and Senior Managing Director at Reservoir Capital Group, which he joined in 2005, and led its financial services investing activities until he left Reservoir in May 2018 to found ICG. Previously, Mr. Popoli was a Principal at Capital Z Partners and began his career as an investment banker in the insurance group at Morgan Stanley & Co. Mr. Popoli is a graduate of Amherst College, where he received a B.A. in Economics.

Jack Sun

Jack Sun is a Vice President of Insurance Capital Group, which he joined in 2018. Previously, he was a Vice President at Reservoir Capital Group, which he joined in 2016 and where he was a member of the investment team. Prior to that, Mr. Sun was an investment professional at Centerbridge Partners, where he focused on the firm's distressed credit and private equity opportunities. He began his career at Lazard in the Restructuring Group. Mr. Sun received an A.B. in Economics with a secondary in Statistics from Harvard College.

Board Governance

ICG and Enstar have agreed that the number of members of the Board of Directors of the Company shall be nine, and that six of such members shall be designated by ICG and two of such members shall be designated by Enstar. They have also agreed that one of the directors designated by ICG shall be elected as the Chairman of the Board, one of the directors designated by Enstar shall be elected as the Vice Chairman, and that the Chief Executive Officer of the Company will be a member of the Board of Directors. The agreement also provides that at least five directors must be present at any meeting to constitute a quorum.

During 2020, the size of the Company's Board decreased from nine to eight members, which represents a deviation from the agreement described above. On March 4, 2021, the Company announced the resignation of Paul Brockman from the Board, and on May 12, 2021 announced the appointment of Robert Redpath to replace Mr. Brockman. Both Mr. Brockman and Mr. Redpath were designated as a member of the Board by Enstar. The Company intends to keep the size of its Board at eight members.

The agreement between ICG and Enstar provides that any of the following actions by the Company or any of its subsidiaries must be approved in writing by both ICG and Enstar:

- the creation, incurrence, or guarantee of indebtedness in excess of \$1,000,000, other than (i) borrowings under credit facilities previously approved by ICG and Enstar, and (ii) indebtedness contemplated by the standby stock purchase agreement among the Company and ICG;
- authorization or issuance of shares of capital stock of the Company or any of its subsidiaries or securities convertible into, or exercisable or exchangeable for, such shares of capital stock;
- the distribution of cash or other property to shareholders of the Company on other than a pro rata basis;
- the repurchase by the Company of any shares of its capital stock if either ICG or Enstar is not provided with the opportunity to participate in such repurchase on a pro rata basis;
- any acquisition of any business in which the aggregate consideration paid would exceed \$1,000,000;
- any disposal, whether in a single or a series of related transactions, by merger, consolidation, sale or otherwise, of (i) any asset of the Company or any of its subsidiaries with a fair market value greater than \$1,000,000, or (ii) all or substantially all of the capital stock of any subsidiary of the Company, excluding sales of investments in connection with the management of the investment portfolios of the Company or any of its subsidiaries;
- an election to dissolve or liquidate the Company or any of its subsidiaries, or to file bankruptcy or similar proceedings;
- making or changing any material election in respect of taxes, adopting or changing in any material respect any accounting method in respect of taxes, settling or compromising any material claim or assessment in respect of taxes, or filing any amended tax return that is reasonably likely to result in a material increase in liability in respect of taxes;
- initiating, conducting, or settling any legal or regulatory proceeding or threatened legal or regulatory proceeding, excluding claims under insurance policies in the ordinary course of business, for an amount in excess of \$1,000,000;

- creating any new subsidiary of the Company that is not wholly owned by the Company;
- amending, altering, waiving or repealing any provision of the articles of incorporation, bylaws, or other organizational documents of the Company or any of its subsidiaries in a manner that would negatively impact the economic, voting or other rights of either ICG or Enstar in a material manner; and
- entering into or becoming a party to any transaction with an employee, officer, or director of the Company or any subsidiary or any other party related to any such person except for transactions arising in the ordinary course of business or such transactions that are conducted on an arms-length basis.

ICG and Enstar have also agreed that for so long as Enstar continues to own the shares of Company common stock purchased in the offering, ICG will use commercially reasonable efforts to cause the Company to consider a proposal from Enstar with respect to any reinsurance proposed to be purchased by the Company or any of its subsidiaries. In connection with this agreement, Enstar agreed to dismiss litigation brought by Enstar against Diversus and its directors that sought to enjoin Diversus from entering into the transaction with ICG contemplated by the standby stock purchase agreement.

Executive Management

The executive management team includes Lewis S. Sharps, M.D., Michael G. Roque, Mark J. Keyser, Brian J. Durkin, and Kim E. Casteel.

Lewis S. Sharps, M.D. is the Chief Executive Officer of the Company.

Michael G. Roque, age 44, joined the Company as President in November 2021. Mr. Roque has over 25 years of experience in medical professional liability, working on both the broker and carrier sides and has served as the Chief Operating Officer of Integris Group. Throughout his career, Mr. Roque has specialized in strategic planning, operations management, and market growth within the medical professional liability industry. Mr. Roque has a B.B.A. in Risk Management & Insurance from Temple University.

Mark J. Keyser, age 69, became the Interim Chief Financial Officer with the departure of Donovan C. Augustin, Former Chief Financial Officer and Treasurer, in October 2021. Mr. Keyser has over 40 years of experience in the property and casualty insurance industry. Mr. Keyser was a Partner in the financial services practices of two national accounting firms before serving as the Chief Financial Officer for a regional group of companies writing commercial and personal lines products and later for a multi-state auto insurer. Mr. Keyser's experience includes extensive work in mergers and acquisitions, statutory, and GAAP reporting, tax reporting, complex reinsurance structures, capital management. Mr. Keyser is a Certified Public Accountant (inactive) and is a graduate of Bloomsburg University.

Brian J. Durkin, age 41, joined the Company as Controller in December 2020. Mr. Durkin was promoted to the position of Senior Vice President and Treasurer in October 2021 with the departure of Mr. Augustin, Former Chief Financial Officer and Treasurer. Mr. Durkin has over 15 years of experience in the property and casualty insurance industry. Prior to joining the Company, Mr. Durkin served in various roles during his eight-year term at Chubb, including his last position as Assistant Vice President, Financial Reporting. Mr. Durkin is a Certified Public Accountant (Pennsylvania) and has a Bachelor of Science degree in Accounting and Finance from Syracuse University.

Kim E. Casteel, age 54, joined Positive Insurance Company as Vice President of Development & Quality Assurance in March 2020. On January 5, 2021, she was appointed by the Board as the Chief Operating Officer of Positive Insurance Company. Her responsibilities encompass strategy, production, product development, underwriting management, P&L performance, and oversight of operations for the insurance company. She brings to us 30 years of underwriting, operations, risk management, and leadership within the Professional Liability and Casualty P&C space. Prior to joining us, Kim was Vice President of Underwriting at Berkley Select, which she joined in 2015, with responsibility and oversight for identifying, measuring, monitoring, and minimizing operational, financial, and strategic risks. She attended Robert Morris University in Chicago and holds a degree in Accounting.

Code of Ethics and Business Conduct

The Company has adopted a Code of Ethics and Business Conduct, which is designed to help directors, officers and employees maintain ethical behavior and resolve ethical issues in an increasingly complex global business environment. The Code of Ethics and Business Conduct applies to all directors, officers and employees, including the Chief Executive Officer, the Chief Financial Officer, and any other employee. The Code of Conduct covers topics including, but not limited to, ethical behavior, conflicts of interest, corporate opportunities, confidentiality of information and compliance with laws and regulations. A copy of our Code of Ethics and Business Conduct is available at the Company's website under the "Resources" section at www.positivephysicians.com. Any amendments to the Code of Ethics and Business Conduct will be posted on the website.

Executive Compensation

Compensation Committee Report

Our Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, our Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report.

Compensation Committee:

Scott C. Penwell (Chair)
William E. Hitselberger
Stephen J. Johnson

Summary Compensation Table

The following table sets forth information regarding the total annual compensation received by our named executive officers from the Company for the years ended December 31, 2021 and 2020.

	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) ⁽¹⁾	Nonequity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total
Dr. Lewis S. Sharps, M.D.,									
CEO	2021	\$210,423	\$ 58,736	—	\$94,829	—	—	—	\$363,988
	2020	135,000	33,981	—	118,536	—	—	—	287,517
Michael G. Roque									
President	2021	40,385	50,000	—	6,385	—	—	—	96,770
Mark J. Keyser									
Interim CFO	2021	—	—	—	—	—	—	23,500	23,500
Brian J. Durkin									
Treasurer	2021	43,538	11,500	—	—	—	—	—	55,038

(1) Option awards reflect stock-based compensation, resulting from option shares which are to vest in future years.

Compensation Discussion and Analysis

On September 27, 2019, the Company granted Dr. Sharps options to purchase 216,930 shares of common stock at an exercise price of \$12.01 per share, which was the closing sale price of the Company's common stock on the date the options were granted. Of the total options, 108,465 shares will vest in equal monthly installments over a three-and-one-half year period following September 27, 2019, and the remaining 108,465 shares will vest upon the achievement by the Company of certain milestones, as noted below. All vested option shares shall be exercisable for eight years from the date of vesting.

One third of 108,465 options will vest upon achievement of each of the following milestones: (i) Positive Insurance Company attaining an "A-" rating from A.M. Best, (ii) the completion of acquisitions by the Company, Positive Insurance Company, or any other subsidiary of the Company of risk bearing entities, including risk retention groups, stock and mutual insurance companies, reciprocal insurance exchanges, and reinsurance transactions and loss portfolio transfers with total acquired statutory surplus of \$50 million or more, and (iii) purchasers of shares in the offering who continue to hold such shares achieving a 300% return on their

investment (including all dividends and proceeds from sales of shares of Company common stock and any other distributions to shareholders of the Company).

On November 15, 2021, the Company granted Mr. Roque options to purchase 108,465 shares of common stock at an exercise price of \$19.46 per share, which is the consolidated book value of equity as of September 30, 2021. Of the total options, 54,233 shares will vest in equal quarterly installments over a four-year period following November 15, 2021, and the remaining 54,232 shares will vest upon the achievement by the Company of certain milestones, as noted below. All vested options shall be exercisable for eight years from the date of vesting.

One third of 54,232 options will vest upon achievement of each of the following milestones: (i) Positive Insurance Company attaining an “A-” rating from A.M. Best, (ii) achieving an average combined ratio of 96% or lower (using the central actuarial estimate for reserves as determined by the Board) over a three-year period from January 1 2022 to December 31, 2024 (excluding impact on such ratio due to the markup from costs on fees paid by Positive Insurance Company to PPM for management services), and (iii) purchasers of shares in the offering who continue to hold such shares achieving a 300% return on their investment (including all dividends and proceeds from sales of shares of Company common stock and any other distributions to shareholders of the Company).

The Company intends to adopt an equity incentive plan that will permit the Company to issue stock options and shares of restricted stock in an aggregate amount equal to ten percent of the number of shares of the Company that were outstanding immediately after completion of the offering, or 361,550 shares. The stock options granted to Dr. Sharps and Mr. Roque will be counted towards the number of shares, restricted stock and stock options, that can be granted under such plan.

Director Compensation

Effective March 27, 2019, the Company agreed to pay Messrs. Penwell, Hitselberger, Johnson, and Zech a flat annual fee of \$25,000 for Board of Directors' meeting attendance in person or participation by telephone, regardless of the number of such meetings. No additional compensation is paid for attending committee meetings. Each director is entitled to be reimbursed for all reasonable out-of-pocket expenses incurred in connection with attending meetings of the Board of Directors and of any committees of which such director is a member.

The following table sets forth information regarding the total annual compensation paid by the Company during the years ended December 31, 2021 and 2020 to the nonemployee directors who serve as directors of the Company.

	Year	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Nonequity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total
Scott C. Penwell	2021	\$25,000	—	—	—	—	—	\$ 25,000
	2020	25,000	—	—	—	—	—	25,000
William E. Hitselberger	2021	25,000	—	—	—	—	—	25,000
	2020	25,000	—	—	—	—	—	25,000
Stephen J. Johnson	2021	25,000	—	—	—	—	—	25,000
	2020	25,000	—	—	—	—	—	25,000
Paul M. J. Brockman ⁽¹⁾	2021	—	—	—	—	—	—	—
	2020	—	—	—	—	—	—	—
Duncan McLaughlin	2021	—	—	—	—	—	—	—
	2020	—	—	—	—	—	—	—
Robert Redpath ⁽²⁾	2021	—	—	—	—	—	—	—
Matthew T. Popoli	2021	—	—	—	—	—	—	—
	2020	—	—	—	—	—	—	—
Jack Sun ⁽³⁾	2021	—	—	—	—	—	—	—
	2020	—	—	—	—	—	—	—
James L. Zech ⁽⁴⁾	2021	—	—	—	—	—	—	—
	2020	6,250	—	—	—	—	—	6,250
Craig A. Huff ⁽⁴⁾	2021	—	—	—	—	—	—	—
	2020	—	—	—	—	—	—	—

(1) The Company announced Mr. Brockman's resignation from the Board on March 4, 2021.

(2) Mr. Redpath was elected to the Company's Board of Directors on May 12, 2021

(3) Mr. Sun was elected to the Company's Board of Directors on March 25, 2020.

(4) The Company's Board of Directors accepted the resignations of Messrs. Zech and Huff on March 25, 2020.

Number of Securities Beneficially Owned by Directors and Officers

The table below sets forth information regarding the beneficial ownership of our common shares at March 30, 2022 by:

- each of our directors;
- each of our named executive officers; and
- all of our executive officers and directors as a group.

In computing the number of common shares beneficially owned by a person and the percentage ownership of that person, we deemed outstanding common shares subject to options or other convertible or exercisable securities held by that person that are currently exercisable or convertible or exercisable or convertible within 60 days of March 30, 2022. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. The percentage of beneficial ownership is based on 3,615,500 common shares outstanding.

Except as indicated by footnote, and subject to applicable community property laws, the persons named in the table below have sole voting and investment power with respect to all common shares shown as beneficially owned by them. Unless otherwise indicated, the address of each of the individuals and entities named below is c/o Positive Physicians Holdings, Inc., 100 Berwyn Park, Suite 220, 850 Cassatt Road, Berwyn, Pennsylvania 19312.

Name of Beneficial Owner	Number of Shares	Percent
Named Executive Officers and Directors:		
Dr. Lewis S. Sharps, M.D. ⁽¹⁾	119,728	3.3%
Scott C. Penwell	—	*
William E. Hitselberger	—	*
Stephen J. Johnson	—	*
Duncan McLaughlin ⁽²⁾	—	*
Robert Redpath ⁽²⁾	—	*
Matthew T. Popoli ⁽³⁾	—	*
Jack Sun ⁽³⁾	—	*
All Executive Officers and Directors as a Group	<u>119,728</u>	<u>3.3%</u>

(1) Number of shares includes options of 69,728 that are currently exercisable or will be exercisable within 60 days of March 30, 2022.

(2) Mr. McLaughlin and Mr. Redpath disclaim beneficial ownership of any shares owned by Enstar Holdings (US) LLC.

(3) Mr. Popoli and Mr. Sun disclaim beneficial ownership of any shares owned by Insurance Capital Group, LLC.

* Represents beneficial ownership of less than 1%.

Legal/Disciplinary History

None of the officers or directors of Positive Physicians Holdings, Inc. has, in the past five years, been the subject of any of the following:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the SEC, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

Disclosure of Family Relationships

None.

Disclosure of Related Party Transactions

None.

Disclosure of Conflicts of Interest

None.

Financial Information for the Issuer's Most Recent Fiscal Period and Preceding Fiscal Year

The consolidated financial statements of the Company, as of and for the years ended December 31, 2021 and 2020 are attached hereto as Exhibit F-1 and are hereby incorporated by reference into this Annual Report, including:

- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Comprehensive Income (Loss)
- Consolidated Statements of Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

The consolidated financial statements and the accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America.

Beneficial Owners

As of December 31, 2021, the following shareholders beneficially own 5% or more of the Company's common stock:

	Number of Shares Beneficially Owned	Percent of Outstanding Common Stock
Insurance Capital Group, LLC 767 Fifth Avenue, 16th Floor, New York, New York 10153	2,277,753	63.0%
Enstar Holdings (US) LLC 150 2nd Avenue N 3rd Floor, St. Petersburg, Florida 33701	976,180	27.0%

The Name, Address, and Telephone Number of Each of our Outside Providers

Investment Broker: None

Promoter: None

Securities Counsel: Locke Lord LLP
111 South Wacker Drive, Suite 4100
Chicago, Illinois 60606
Telephone: 312-443-0700
Website: www.lockelord.com

Auditor: Baker Tilly US, LLP
1650 Market Street, Suite 4500
Philadelphia, Pennsylvania 19103
Telephone: 215-972-0701
Website: www.bakertilly.com

Preparation of our consolidated financial statements is the responsibility of PPHI management. Baker Tilly US, LLP (“Baker Tilly”) is responsible for expressing an opinion on the consolidated financial statements for the year ended December 31, 2021, based on their audit. During 2021 and 2020, we incurred audit fees from Baker Tilly of \$123,292 and \$146,352, respectively, related to the audits of our consolidated financial statements. We did not incur any other audit-related fees from Baker Tilly during 2021 and 2020. We incurred tax fees and other fees of \$14,795 and \$10,000 during 2021 and 2020, respectively.

Baker Tilly has confirmed to us that the firm is licensed to practice public accounting in the states in which we conduct our business.

Public Relations Consultant: None

Investor Relations Consultant: None

Corporate Secretary: Scott C. Penwell, General Counsel

Any Other Advisor: Agee Fisher Barrett, LLC
750 Hammond Drive, Building 17
Atlanta, Georgia 30328
Telephone: 404-250-4570
Website: www.afblc.com

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to provide a more comprehensive review of the Company's operating results and financial condition than can be obtained from reading the Financial Statements alone. The discussion should be read in conjunction with the audited Consolidated Financial Statements and the notes thereto included in "Part F. Exhibits, F-1 Consolidated Financial Statements" of the Company. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report constitutes forward-looking information that involves risk and uncertainties. Please see "Statement on Forward-Looking Information" on page 1 for more information.

OVERVIEW

Positive Physicians Holdings, Inc. is a Pennsylvania domiciled holding company, which was incorporated on May 1, 2018 for the purpose of acquiring three Pennsylvania based reciprocal insurance exchanges: Positive Physicians Insurance Exchange ("PPIX"), Professional Casualty Association ("PCA"), and Physicians' Insurance Program Exchange ("PIPE"). In connection with the completion of PPHI's initial public offering, PPIX, PCA, and PIPE converted from reciprocal insurance exchanges into stock insurance companies.

As part of the conversions, on March 27, 2019, PPIX merged with and into PPIX Conversion Corp., PCA merged with and into PCA Conversion Corp., and PIPE merged with and into PIPE Conversion Corp. Accordingly, PPIX, PCA, and PIPE no longer exist. Immediately thereafter, PCA Conversion Corp. and PIPE Conversion Corp. merged with and into PPIX Conversion Corp., which then changed its name to Positive Physicians Insurance Company ("Positive Insurance Company") and became our single insurance company subsidiary and successor to PPIX, PCA, and PIPE. PPHI had minimal assets and liabilities and had not engaged in any operations prior to March 27, 2019.

On September 7, 2021, through a newly formed wholly owned subsidiary of PPHI, Positive Professionals Management LLC ("PPM"), the Company entered into an asset purchase agreement with Diversus, Inc. and its wholly owned subsidiary, Diversus Management, LLC ("Diversus Management") (collectively, "Diversus"). Prior to the acquisition, Diversus had managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. The acquisition includes the working capital of Diversus at closing, the transfer and/or assignment of employment agreements and contracts with key third party vendors, including the lease of our home office, and full membership assignments of Gateway Risk Services, LLC ("Gateway") and Specialty Insurance Agency LLC ("SIA"). Prior to the acquisition, Gateway and SIA provided claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers. Hereinafter, Diversus, Gateway, and SIA are collectively referred to as the "Diversus Companies."

Positive Insurance Company writes medical malpractice insurance for healthcare providers practicing in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Prior to September 7, 2021, Diversus Management managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. Pursuant to the terms of the agreement, effective March 27, 2019, Diversus Management provided such administrative services to Positive Insurance Company in exchange for fees based upon a percentage of Positive Insurance Company's gross written premiums, less return premiums. Positive Insurance Company might have also incurred quarterly performance management fees based on its combined ratio and net earned premiums. Positive Insurance Company remained responsible for all underwriting decisions and the payment of all claims and claims related expenses incurred under policies issued by Positive Insurance Company and for all sales commissions paid to producers.

Effective September 7, 2021, PPM entered into a management agreement with PPIC to provide its insurance affiliate with management and administrative services. The management agreement has been approved by the Pennsylvania Insurance Department.

Positive Insurance Company underwrites medical professional liability coverage for physicians, their corporations, medical groups, clinics and allied healthcare providers. Medical professional liability insurance ("MPLI") protects physicians and other health care providers against liabilities arising from the rendering of, or failure to render, professional medical services. We offer claims-made coverage, claims-made plus, and occurrence-based policies as well as tail coverage in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Our policies include coverage for the cost of defending claims. Claims-made policies provide coverage to the policyholder for claims reported during the period of coverage. We offer extended reporting endorsements, or tails, to cover claims reported after the policy expires. Occurrence-based policies provide coverage to the policyholders for all losses incurred during the policy coverage year regardless of when the claims are reported. Although we generate a majority of our premiums from individual and small group practices, we also insure several major physician groups.

Marketplace Conditions and Trends

The MPLI industry is affected by recurring industry cycles known as “hard” and “soft” markets. A soft market is characterized by intense competition, resulting in lower pricing in order to compete for business. A hard market, generally considered a beneficial industry trend, is characterized by reduced competition that results in higher pricing. From approximately 2001 until approximately 2007, the Pennsylvania MPLI market experienced a hard market cycle. This resulted in the creation of several alternative MPLI providers, such as PPIX, PCA, and PIPE.

The MPLI market began to experience a soft market cycle around the second quarter of 2008, due primarily to the large rate increases taken over the previous six years. The soft market continued and was facilitated by the restructuring of the healthcare industry, partially as a result of the Affordable Care Act. This resulted in significant price competition, as the number of medical professionals practicing independent of hospitals or large professional groups began to decline. According to a study prepared by the National Association of Insurance Commissioners, MPLI direct premiums written declined by 17.5% on a national basis from 2006 to 2020 and declined by 1.9% in Pennsylvania and 26.9% in New Jersey during this same time period. This resulted in lower direct premiums written and lower operating profits for many MPLI carriers.

The soft market cycle troughed in 2012, and since then, national loss payouts, on average, have steadily increased through 2019. As a result, underwriting criteria in the MPLI industry has started to become more stringent, with opportunities for improved pricing, and we believe the market cycle has transitioned to a hard market. At Positive Insurance Company, our renewal book of business has been experiencing price increases through reduced credits, a development which we expect to continue and extend through our policy renewals in 2022. We are also seeing rate increases take place by other carriers in many of the states in which we write business.

In addition to pricing increases, we intend to achieve further premium growth with our expansion into new states. Positive Insurance Company was admitted into Texas in November 2019 and, more recently, Florida and Georgia in the first quarter of 2021. We received approval on premium rates in Florida in September 2021 and in Texas in November 2021. We obtained approval on premium rates in Georgia in the first quarter of 2022. No new business was written in Florida during the year ended December 31, 2021. We wrote a nominal amount of business in Texas in the fourth quarter of 2021.

Effects of COVID-19

As a result of the COVID-19 pandemic, we saw premium decreases due to policy endorsements associated with doctors electing to work part time, take a leave of absence or retire. In addition, some of our insureds changed their surgical practice to non-surgical because of closure of surgery centers or hospital operating room availability. We received notification for such requests from our policyholders which went into effect on June 30, 2020 and necessary reimbursements or credits against future payments were applied. During 2020, we recorded approximately \$300,000 in return premium adjustments, or reductions in direct premiums written, associated with these policy endorsements.

In terms of collections, prior to the pandemic, our policy was to cancel any insurance policies for which premiums had not been received within 60 days subsequent to policy effective date, with notice of intent to cancel sent to the insured after 30 days post-inception date, or post-payment due date. As a result of COVID-19, we updated this policy and suspended cancellations of insurance contracts resulting from non-payment of premium and deferred payments until June 30, 2020 for invoices due after April 1, 2020. The amount of premium payment deferrals was approximately \$950,000. Dependent upon the extent to which our policyholders' own businesses have been impacted by the pandemic, our collection of premiums against current in-force policies could be significantly impacted.

With respect to claims, our policyholder base mainly consists of physicians, their corporations and medical groups. During the COVID-19 pandemic, on-site visits to doctors have declined and been replaced by an increase in telehealth/virtual office visits. Since the COVID-19 pandemic resulted in government-issued work from home orders, although we have seen the number of new claims reported since then decline, it is unclear if this is from the closure of courts during this period of time or due to other factors. In general, our expectation is that the frequency of new claims reported regarding medical care rendered during this time period will decrease. As to actual claims relating to COVID-19 exposures, we anticipate that the number of claims will be minimal. Unless some unforeseen fact pattern is established, we expect that the difficulty of establishing the source of a COVID-19 exposure, as well as the heroic efforts of healthcare providers, will serve to make such claims unattractive to both patients and their counsel. We do not anticipate our loss and LAE ratios to be impacted. However, this view could change in the future depending on the duration of the pandemic and if the lower frequency of new claims reported becomes a trend.

Principal Revenue and Expense Items

Positive Insurance Company derives its revenue primarily from net premiums earned, net investment income, and net realized and unrealized gains (losses) from investments.

Net premiums earned

Gross premiums written is equal to direct and assumed premiums before the effect of ceded reinsurance. Net premiums written is the difference between gross premiums written and premiums ceded or paid to reinsurers (ceded premiums written).

Premiums earned are the earned portion of net premiums written. Gross premiums written include all premiums recorded by an insurance company during a specified policy period. Insurance premiums on MPLI policies are recognized in proportion to the underlying risk insured and are earned ratably over the duration of the policies. At the end of each accounting period, the portion of the premiums that is not yet earned is included in unearned premiums and recognized as revenue in subsequent periods over the remaining term of the policy. The policies written by Positive Insurance Company typically have a term of twelve months. Thus, for example, for a policy that is written on July 1, 2021, one-half of the premiums would be earned in 2021 and the other half would be earned in 2022.

Net investment income and net realized and unrealized gains (losses) from investments

We invest our surplus and the funds supporting our insurance liabilities (including unearned premiums and unpaid loss and loss adjustment expenses) in cash, cash equivalents, short-term investments, and equity and debt securities. Investment income includes interest and dividends earned. We recognize realized gains when invested assets are sold for an amount greater than their cost or amortized cost (in the case of fixed maturity securities) and recognize realized losses when investment securities are written down as a result of other-than-temporary-impairment or sold for an amount less than their cost or amortized cost, as applicable. Realized gains and losses on sales of fixed maturity and equity securities and unrealized holding gains and losses on equity securities are included in realized investment gains (losses), net. Our portfolio of investment securities is managed by our outside investment manager, who has discretion to buy and sell securities in accordance with the investment policy approved by Positive Insurance Company's Board of Directors.

Losses and loss adjustment expenses

Losses and loss adjustment expenses ("LAE") represent the largest expense item and include: (1) claim payments made, (2) estimates for future claim payments and changes in those estimates for prior periods, and (3) costs associated with investigating, defending and adjusting claims, including legal fees.

Other underwriting expenses

Expenses incurred to underwrite risks include policy acquisition costs and underwriting and administrative expenses. Policy acquisition costs consist of commission expenses, premium taxes, and certain other underwriting expenses that vary with and are primarily related to the writing and acquisition of new and renewal business. These policy acquisition costs are deferred and amortized over the effective period of the related insurance policies. Underwriting and administrative expenses consist of salaries, rent, office supplies, depreciation, and all other operating expenses not otherwise classified separately, and payments to bureaus and assessments of statistical agencies for policy service and administration items such as rating manuals, rating plans and experience data.

Income taxes

We use the asset and liability method of accounting for income taxes. Deferred income taxes arise from the recognition of temporary differences between financial statement carrying amounts and the tax bases of our assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The effect of a change in tax rates is recognized in the period of the enactment date.

Key Financial Measures

We evaluate our insurance operations by monitoring certain key measures of growth and profitability. Some of these measurements are "non-GAAP" financial measurements under Securities and Exchange Commission rules and regulations. We utilize certain non-GAAP financial performance measures that are widely used in the property and casualty insurance industry and that we

believe are valuable in managing our business and for comparison to our peers. These financial performance measures are the loss and LAE ratio, expense ratio, combined ratio, underwriting income (loss), and operating income (loss).

We measure growth by monitoring changes in gross premiums written and net premiums written, and measure underwriting profitability by examining losses and LAE, underwriting expenses and combined ratios. We also measure profitability by examining underwriting income (loss) and operating income (loss).

Loss and LAE ratio

The loss and LAE ratio is the ratio (expressed as a percentage) of losses and loss adjustment expenses incurred to premiums earned. Positive Insurance Company measures the loss and LAE ratio on a policy year and calendar year loss basis to measure underwriting profitability. A policy year loss and LAE ratio measures losses and loss adjustment expenses for insured events occurring in a particular year, regardless of when they are reported, as a percentage of premiums earned during that year. A calendar year loss and LAE ratio measures losses and loss adjustment expenses for insured events occurring during a particular year and the change in loss reserves from prior policy years as a percentage of premiums earned during that year.

Expense ratio

The expense ratio is the ratio (expressed as a percentage) of other underwriting expenses (attributable to insurance operations) to premiums earned, and measures our operational efficiency in producing, underwriting and administering the Company's insurance business.

Combined ratio

The combined ratio is a measure of property and casualty underwriting performance. The combined ratio computed on a GAAP basis is equal to the sum of losses and loss adjustment expenses and other underwriting expenses, all divided by net premiums earned. If the combined ratio is below 100%, we are making an underwriting profit. If our combined ratio is at or above 100%, we are not profitable without investment income and may not be profitable if investment income is insufficient.

Underwriting income (loss)

Underwriting income (loss) measures the pre-tax profitability of insurance operations. It is derived by subtracting losses and loss adjustment expenses and other underwriting expenses from earned premiums.

Operating income (loss)

Operating income (loss) measures the profitability of business operations. We define it as GAAP net income (loss) excluding net realized investment gains and losses, net of tax. Net realized investment activity is excluded because net realized investment gains and losses are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business operations. Operating income is a non-GAAP measure which is important for an understanding of our overall results of operations. However, it does not replace net income (loss) as the GAAP measure of our consolidated results of operations, nor should it be viewed as a substitute for measures determined in accordance with GAAP.

Critical Accounting Policies

General

The preparation of financial statements in accordance with GAAP requires both the use of estimates and judgment relative to the application of appropriate accounting policies. We are required to make estimates and assumptions in certain circumstances that affect amounts reported in our 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 adversely affected by the need to make accounting adjustments to reflect

changes in these estimates and assumptions from time to time. We believe the following policies are the most sensitive to estimates and judgments:

- losses and loss adjustment expenses;
- the valuation of our investment portfolio and assessment of other-than-temporary impairments (“OTTI”);
- deferred acquisition costs;
- reinsurance recoverable; and
- valuation of deferred tax assets.

We believe our accounting policies for these items are of critical importance to our consolidated financial statements. The following discussion provides more information regarding the estimates and assumptions required to arrive at these amounts.

Losses and Loss Adjustment Expenses

We maintain reserves for the payment of claims (indemnity losses) and expenses related to adjusting those claims (loss adjustment expenses). The loss reserves consist of case reserves, which are reserves for claims that have been reported to us, and reserves for claims that have been incurred but have not yet been reported and for the future development of case reserves.

When a claim is reported to us, our claims personnel establish a case reserve for the estimated amount of the ultimate payment to the extent it can be determined or estimated. The amount of the loss reserve for the reported claim is based primarily upon a claim-by-claim evaluation of coverage, liability, and injury severity, and any other information considered pertinent to estimating the exposure presented by the claim. Each claim is contested or settled individually based upon its merits, and some claims may take years to resolve, especially if legal action is involved. Case reserves are reviewed on a regular basis and are updated as new information becomes available.

In addition to case reserves, we maintain reserve estimates for those that have been incurred but not reported (“IBNR”). These reserves include estimates for the future development of case reserves and claims in which case reserves have not yet been established. Some claims may not be reported for several years. As a result, the liability for unpaid losses and LAE reserves includes significant estimates for IBNR.

We utilize an independent actuary to assist with the estimation of our losses and LAE reserves on a quarterly basis. Our independent actuary prepares estimates of the ultimate liability for unpaid losses and LAE based on established actuarial methods described below. We review these estimates and supplement the actuarial analysis with information not fully incorporated into the actuarially based estimate, such as changes in the external business environment and changes in internal company processes and strategy. We may adjust the actuarial estimates based on this supplemental information in order to arrive at the amount recorded in the financial statements.

We accrue liabilities for unpaid losses and LAE based upon estimates of the ultimate amount payable. We project our estimate of ultimate losses and LAE by using the following actuarial methodologies:

- **Actual versus Expected Model** - The Actual versus Expected Model utilizes the actuarial point ultimate loss and defense containment cost (“DCC”) estimates as of the prior reserve review which are adjusted based on the difference between actual and expected loss development between the prior reserve review and the current evaluation to arrive at an updated actuarial point ultimate loss and DCC estimate. The method is dependent on the loss development factors used to determine the expected losses.
- **Bornhuetter-Ferguson Method (Paid and Incurred)** - The Bornhuetter-Ferguson Method is a blended method that explicitly takes into account both actual loss development to date and expected future loss emergence. This method is applied on both a paid loss development basis and an incurred loss development basis. This method uses the selected loss development patterns from each of the two loss development methods to calculate the expected percentage of loss unpaid or unreported, as applicable. The expected future loss component of the method is calculated by multiplying earned premium for the given exposure period by a selected *a priori* (i.e. deductive) loss ratio. The resulting dollars are then multiplied by the expected percentage of unpaid (or unreported) loss described above. This provides an estimate of future paid (or reported) losses that is then added to actual paid (or incurred) loss data to produce estimated ultimate loss.

- **Expected Loss Ratio Method** - The Expected Loss Ratio Method utilizes some measure of anticipated losses and does not consider actual losses. An expected loss ratio, a ratio of anticipated losses relative to some measure of exposure, is applied to that measure of exposure to determine estimated ultimate losses for each year. This method provides stability over time because the ultimate loss estimates do not change unless the exposure measure changes. This is offset by a lack of responsiveness to actual loss experience.
- **Frequency/Severity Method** - The Frequency/Severity Method estimates ultimate losses by estimating a frequency and a severity component. For each year, the actuary estimates ultimate claim counts and an ultimate average severity. The actuary then multiplies these two estimates together. The method is useful when the claim count development pattern is more stable than the loss development pattern.
- **Incurred Loss Development Method** - The Incurred Loss Development Method utilizes historical incurred loss (the sum of cumulative historical loss payments plus outstanding case reserves) patterns to estimate future losses. This method is often preferred over the paid method as it includes the additional information provided by the aggregation of individual case reserves. The resulting loss development factors (LDFs) tend to be lower and more stable than those of the paid development method. However, the incurred development method may be affected by changes in case reserving practices and any unusually large individual claims. The actuaries produce and review several indications of ultimate loss using this method based on various LDF selections.

We estimate IBNR reserves by first deriving an actuarially based estimate of the ultimate cost of total losses and loss adjustment expenses incurred as of the financial statement date. We then reduce the estimated ultimate losses and LAE by loss and LAE payments and case reserves carried as of the financial statement date. The actuarially determined estimate is based upon indications from one of the above actuarial methodologies or uses a weighted average of these results. The specific method used to estimate the ultimate losses will vary depending on the judgment of the actuary as to what is the most appropriate method for the MPLI business. Finally, we consider other factors that impact reserves that are not fully incorporated in the actuarially based estimate, such as changes in the external business environment and changes in internal company processes and strategy.

The process of estimating loss reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as changes in claims handling procedures, inflation, legal trends, and legislative changes, among others. The impact of many of these items on ultimate costs for claims and claim adjustment expenses is difficult to estimate. Loss reserve estimation is affected by the volume of claims, the potential severity of individual claims, the determination of occurrence date for a claim, and reporting lags (the time between the occurrence of the policyholder event and when it is actually reported to the insurer). Informed judgment is applied throughout the process, including the application of various individual experiences and expertise to multiple sets of data and analyses. We continually refine our loss reserve estimates in a regular ongoing process as historical loss experience develops and additional claims are reported and settled. We consider all significant facts and circumstances known at the time loss reserves are established.

Due to the inherent uncertainty underlying loss reserve estimates, final resolution of the estimated liability for losses and loss adjustment expense reserves may be higher or lower than the related loss reserves at the reporting date. Therefore, actual paid losses, as claims are settled in the future, may be materially higher or lower in amount than current loss reserves. We reflect adjustments to loss reserves in the results of operations in the period the estimates are changed.

Our independent actuary determined a range of reasonable reserve estimates, which reflect the uncertainty inherent in the loss reserve process. This range does not represent the range of all possible outcomes. We believe that the actuarially determined ranges represent reasonably likely changes in the loss and LAE estimates, however, actual results could differ significantly from these estimates. The range was determined after a review of the output generated by the various actuarial methods utilized. Our actuary reviewed the variance around the select loss reserve estimates for each of the actuarial methods and selected reasonable low and high estimates based on their knowledge and judgment. In addition, when selecting these low and high estimates, the actuary considered:

- Historical industry development experience in MPLI;
- Historical company development experience;
- Changes in the company's internal claims processing policies and procedures; and
- Trends and risks in claim costs, such as risk that medical cost inflation could increase.

Our actuary is required to exercise a considerable degree of judgment in the evaluation of all of these and other factors in the analysis of losses and loss adjustment expenses, and related range of anticipated losses. Because of the level of uncertainty impacting the estimation process, it is reasonably possible that different actuaries would arrive at different conclusions. The method of determining the reserve range has not changed and the reserve range generated by the actuary is consistent with the observed development of our loss reserves over the last few years.

The width of the range in reserves arises primarily because specific losses may not be known and reported for some time and the ultimate losses and LAE paid and incurred with respect to known losses may be larger or smaller than currently estimated. The ultimate frequency or severity of the claims can be very different than the assumptions used in the estimation of our ultimate reserves for these exposures.

Specifically, the following factors could impact the frequency and severity of claims and, therefore, the ultimate amount of losses and loss adjustment expenses paid:

- The rate of increase in medical costs that underlie insured risks; and
- Impact of changes in laws or regulations.

The estimation process for determining the liability for unpaid losses and LAE inherently results in adjustments each year for claims incurred (but not paid) in preceding years. Negative amounts reported for claims incurred related to prior years are a result of claims being settled or resolved for amounts less than originally estimated or a reduction in the estimate for unpaid losses and loss adjustment expense (favorable development). Positive amounts reported for claims incurred related to prior years are a result of claims being settled or resolved for amounts greater than originally estimated or an increase in the estimate for unpaid losses and loss adjustment expense (unfavorable development).

Positive Insurance Company uses a combination of the Actual versus Expected Method, Bornhuetter-Ferguson Method, Expected Loss Ratio Method, Frequency/Severity Method, and the Incurred Loss Development Method in order to estimate its liability for losses and LAE. Our loss reserve analysis for 2020 assumed that the Company would no longer utilize Andrews Outsource Solutions LLC (“AOS”) to provide claims processing and risk management services following 2020, a measure which was expected to reduce the amount of LAE incurred in subsequent periods. Effective July 1, 2020, the Company discontinued its LAE payments to AOS, which is a half-year sooner compared to our original assumptions for 2020. This change was reflected accordingly in the loss reserve analysis as of December 31, 2020. There were no other significant changes in the methodologies and assumptions used to develop the liabilities for losses and LAE during the years ended December 31, 2021 and 2020.

The following tables provide case and IBNR reserves for losses and LAE at December 31, 2021 and 2020.

At December 31, 2021

	Case Reserves	IBNR Reserves	Total Reserves
Medical professional liability	\$ 36,136,848	\$ 22,282,652	\$ 58,419,500
Total net reserves	36,136,848	22,282,652	58,419,500
Reinsurance recoverable on unpaid claims	8,779,075	2,319,738	11,098,813
Gross reserves	<u>\$ 44,915,923</u>	<u>\$ 24,602,390</u>	<u>\$ 68,518,313</u>

At December 31, 2020

	Case Reserves	IBNR Reserves	Total Reserves
Medical professional liability	\$ 32,816,233	\$ 22,547,601	\$ 55,363,834
Total net reserves	32,816,233	22,547,601	55,363,834
Reinsurance recoverable on unpaid claims	5,253,919	5,061,661	10,315,580
Gross reserves	<u>\$ 38,070,152</u>	<u>\$ 27,609,262</u>	<u>\$ 65,679,414</u>

At December 31, 2021 and 2020, Positive Insurance Company’s total liability for losses and LAE was \$68,518,413 and \$65,679,414, respectively.

The components of our net unfavorable development of reserves for losses and LAE for prior years by accident/report year were as follows (dollars in thousand):

Accident/Report Year	2021	2020
2012 and prior	\$ (173)	\$ (157)
2013	428	(87)
2014	45	42
2015	(209)	(111)
2016	(165)	(495)
2017	(5)	(43)
2018	871	1,215
2019	2,190	233
2020	(520)	—
Total net unfavorable development	<u>\$ 2,462</u>	<u>\$ 597</u>

During 2021, we experienced unfavorable development primarily related to reserve strengthening in the 2019 and 2018 accident/report years of \$2,462,000.

During 2020, we experienced unfavorable development primarily related to reserve strengthening in the 2018 report/accident year for both claims-made and occurrence policies of \$597,000.

As discussed earlier, the estimation of Positive Insurance Company's losses and LAE reserves is based on several actuarial methods, each of which incorporates many quantitative assumptions. The judgment of the actuary plays an important role in selecting among various loss development factors and selecting the appropriate method, or combination of methods, to use for a given policy year.

Dollars in thousands	Recent Variabilities of the Liability for Unpaid Losses and Loss Adjustment Expenses, Net of Reinsurance Recoverable				
	2017	2018	2019	2020	2021
As originally estimated	\$ 61,046	\$ 60,442	\$ 56,093	\$ 55,364	\$ 58,419
As estimated at December 31, 2021	65,431	63,218	61,010	59,330	58,419
Net cumulative redundancy (deficiency)	<u>(4,385)</u>	<u>(2,776)</u>	<u>(4,917)</u>	<u>(3,966)</u>	<u>—</u>
% redundancy (deficiency)	(7.2)%	(4.6)%	(8.8)%	(7.2)%	-%

At December 31, 2021, our carried reserves for losses and loss adjustment expenses, net of reinsurance, reflect an estimate of loss and LAE reserves that is approximately the point estimate of our actuaries' range of loss reserves. If the liability for losses and loss adjustment expenses were recorded at the high end of the actuarially determined range, then the liability for losses and loss adjustment expenses would increase, which would result in a higher net loss and lower equity. If the liability for losses and loss adjustment expenses were recorded at the low end of the actuarially determined range, then the liability for losses and loss adjustment expenses would be reduced with a corresponding increase in net income and equity.

Investments

Our investment portfolio is invested primarily in publicly traded, investment grade, fixed maturity securities with an average credit quality of A as rated by nationally recognized credit rating agencies. The portfolio is externally managed by independent, professional investment managers and is broadly diversified across sectors and issuers. Exposures are aggregated, monitored, and actively managed by our Investment Committee. We also have an investment policy statement which requires managers to maintain highly diversified exposures to individual issuers and closely monitor compliance with portfolio guidelines. Our investment portfolio also includes equity securities.

We have structured our investment portfolio to provide an appropriate matching of maturities with anticipated claims payments. The fair values of these investments are subject to fluctuation in interest rates. If we decide or are required in the future to sell securities in a rising interest rate environment, then we would expect to incur losses from such sales. As of December 31, 2021, the average duration of our fixed maturity security investments that support the insurance reserves was 3.6 years and the duration of our insurance reserves was less than 3 years. The difference in the duration of our investments and our insurance reserves reflects our decision to maintain longer asset duration in order to enhance overall yield, while maintaining a high overall credit quality. We

estimate that a 100 basis points (bps) increase in interest rates would reduce the valuation of our fixed maturity portfolio by \$3,712,272 at December 31, 2021.

Our investments at December 31 were as follows:

	December 31, 2021		December 31, 2020	
	Fair Value	Percentage of Total	Fair Value	Percentage of Total
Fixed maturity securities available-for-sale:				
U.S. government	\$ 5,778,055	5.6%	\$ 11,108,213	10.5%
States, territories, and possessions	876,296	0.8%	936,364	0.9%
Subdivisions of states, territories, and possessions	9,793,857	9.4%	12,485,451	11.7%
Industrial and miscellaneous	87,580,737	84.0%	81,575,982	76.7%
Total fixed maturity securities	104,028,945	99.8%	106,106,010	99.8%
Equity securities	240,876	0.2%	227,866	0.2%
Total investments	<u>\$ 104,269,821</u>	<u>100.0%</u>	<u>\$ 106,333,876</u>	<u>100.0%</u>

Our investment portfolio is comprised of mostly investment grade fixed maturity securities and equity securities, all of which are publicly traded. We believe the portfolio is sufficiently diversified because it does not contain any significant concentrations in single issuers other than U.S. government obligations. Our largest exposure to a single corporate issuer is \$1,600,020, or less than 2% of total invested assets. In addition, we do not have a significant concentration of our investments in any single industry segment other than finance companies, which comprised approximately 25% of invested assets at December 31, 2021. Included in this industry segment are diverse financial institutions, including financial service companies (11%), banks (10%), real estate investment trusts (3%) and insurance companies (1%), with no single issuer exceeding 2% of the total investment portfolio. We sold the majority of our equity securities in 2020 in order to de-risk our consolidated balance sheet. All of our investments as of December 31, 2021 are U.S. dollar denominated.

At December 31, 2021, our fixed maturity securities had an overall average credit quality of A. The credit quality of our fixed maturity securities at the end of the year was as follows:

	December 31, 2021	
	Fair Value	Percentage of Total
U.S. government and AAA	\$ 8,446,998	8.1%
AA	12,804,626	12.3%
A	42,044,817	40.4%
BBB	39,099,364	37.6%
Below investment grade	1,633,140	1.6%
Total	<u>\$ 104,028,945</u>	<u>100.0%</u>

Ratings as assigned by Standard and Poor's. Such ratings are generally assigned at the time of the issuance of the securities, subject to revision on the basis of ongoing evaluations.

At December 31, 2021, all but 12 of the publicly traded securities in our fixed maturity portfolio were of investment grade credit quality. The 12 below investment grade securities had an aggregate fair value of \$1,633,140 and a net unrealized gain of \$16,798.

Investments in fixed maturity securities are classified as available-for-sale and are stated at fair value. Unrealized holding gains and losses, net of related tax effects, on available-for-sale fixed maturity securities are recorded directly to accumulated other comprehensive income. Investments in equity securities are stated at fair value and unrealized holding gains and losses are credited or charged to net income (loss) as incurred. Realized gains and losses on sales of equity and fixed maturity securities are recognized into income based upon the specific identification method. Interest and dividends are recognized as earned. We regularly evaluate all of our investments based on current economic conditions, credit loss experience, and other specific developments. If there is a decline in a security's net realizable value that is other than temporary, it is considered as a realized loss and the cost basis in the security is reduced to its estimated fair value.

The following table presents the fair value and amortized cost/cost of our available-for-sale fixed maturity securities:

	December 31, 2021		December 31, 2020	
	Fair Value	Amortized Cost/Cost	Fair Value	Amortized Cost/Cost
U.S. government	\$ 5,778,055	\$ 5,728,192	\$ 11,108,213	\$ 10,988,463
States, territories, and possessions	876,296	864,670	936,364	916,703
Subdivisions of states, territories, and possessions	9,793,857	9,542,554	12,485,451	12,015,681
Industrial and miscellaneous	87,580,737	86,323,037	81,575,982	77,444,191
Total fixed maturity securities	<u>\$104,028,945</u>	<u>\$102,458,453</u>	<u>\$106,106,010</u>	<u>\$101,365,038</u>

The fair value of these securities decreased \$2,077,065 during 2021, primarily due to unrealized depreciation, mainly in corporate bonds, which resulted from increasing interest rates. The net unrealized gain on these securities at December 31, 2021 was \$1,570,492, nearly 1.5% of the amortized cost or cost basis. The net unrealized gain included gross unrealized gains of \$2,192,899 and gross unrealized losses of \$622,407.

Year-to-date movements in the unrealized gain (loss) position of our fixed maturity and equity securities are as follows:

	December 31, 2021	December 31, 2020	YTD Change
Fixed maturity securities:			
Unrealized gains	\$ 2,192,899	\$ 4,814,033	\$ (2,621,134)
Unrealized losses	(622,407)	(73,061)	(549,346)
Net fixed maturity securities unrealized gains	<u>1,570,492</u>	<u>4,740,972</u>	<u>(3,170,480)</u>
Equity securities:			
Unrealized gains	13,145	1,332	11,813
Unrealized losses	(400,525)	(401,722)	1,197
Net equity securities unrealized gains (losses)	<u>(387,380)</u>	<u>(400,390)</u>	<u>13,010</u>
Net unrealized gain	<u>\$ 1,183,112</u>	<u>\$ 4,340,582</u>	<u>\$ (3,157,470)</u>

For our fixed maturity securities that were temporarily impaired at December 31, 2021 and 2020, the length of time that such securities were in a continuous unrealized loss position, as measured by their year-end fair value, are as follows:

Description of securities	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021:						
U.S. government	\$ 2,955,456	\$ 15,765	\$ 197,744	\$ 2,256	\$ 3,153,200	\$ 18,021
States, territories, and possessions	—	—	—	—	—	—
Subdivisions of states, territories, and possessions	—	—	72,664	2,573	72,664	2,573
Industrial and miscellaneous	30,585,850	574,110	550,192	27,703	31,136,042	601,813
Total fixed maturity securities	<u>\$33,541,306</u>	<u>\$ 589,875</u>	<u>\$ 820,600</u>	<u>\$ 32,532</u>	<u>\$34,361,906</u>	<u>\$ 622,407</u>

Description of securities	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020:						
U.S. government	\$ 1,969,008	\$ 3,609	\$ 436,381	\$ 17,716	\$ 2,405,389	\$ 21,325
States, territories, and possessions	—	—	—	—	—	—
Subdivisions of states, territories, and possessions	—	—	70,834	4,463	70,834	4,463
Industrial and miscellaneous	1,292,441	46,128	125,259	1,145	1,417,700	47,273
Total fixed maturity securities	<u>\$3,261,449</u>	<u>\$ 49,737</u>	<u>\$ 632,474</u>	<u>\$ 23,324</u>	<u>\$ 3,893,923</u>	<u>\$ 73,061</u>

At December 31, 2021, we had gross unrealized losses on fixed maturity securities of \$622,407, compared to gross unrealized losses of \$73,061 at December 31, 2020. Most of these unrealized losses were attributable to fluctuations in interest rates. We have not observed any evidence which would lead us to believe that the entire amortized cost basis will not be recovered.

Fair values of interest rate sensitive instruments may be affected by increases and decreases in prevailing interest rates which generally translate, respectively, into decreases and increases in fair values of fixed maturity investments. The fair values of interest rate sensitive instruments also may be affected by the credit worthiness of the issuer, prepayment options, the liquidity of the instrument, and other general market conditions.

We evaluated each security and took into account the severity and duration of the impairment, the current rating on the bond, and the outlook for the issuer according to independent analysts. We found that the declines in fair value are most likely attributable to increases in interest rates, and there is no evidence that the likelihood of not receiving all of the contractual cash flows as expected has changed. Our fixed maturity portfolio is managed by our investment committee in concert with an outside investment manager for investment grade bond investments. By agreement, the investment manager cannot sell any security without the consent of our investment committee if such sale will result in a net realized loss.

We monitor our investment portfolio and review securities that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. When assessing whether the amortized cost basis of the security will be recovered, we compare the present value of the cash flows likely to be collected, based on an evaluation of all available information relevant to the collectability of the security, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as the “credit loss.” If there is a credit loss, the impairment is considered to be other-than-temporary. If we identify that an other-than-temporary impairment loss has occurred, we then determine whether we intend to sell the security, or if it is more likely than not that we will be required to sell the security prior to recovering the amortized cost basis less any current-period credit losses. If we determine that we do not intend to sell, and it is not more likely than not that we will be required to sell the security, the amount of the impairment loss related to the credit loss will be recorded in earnings, and the remaining portion of the other-than-temporary impairment loss will be recognized in other comprehensive income (loss), net of tax. If we determine that we intend to sell the security, or that it is more likely than not that we will be required to sell the security prior to recovering its amortized cost basis less any current-period credit losses, the full amount of the other-than-temporary impairment will be recognized in earnings.

For 2021 and 2020, we determined that none of our securities were other-than-temporarily impaired. Adverse investment market conditions, or poor operating results of underlying investments, could result in impairment charges in the future.

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. Fixed maturity available-for-sale securities and equity securities are recorded at fair value on a recurring basis. FASB ASC Topic 820 “Fair Value Measurements and Disclosures” (“ASC Topic 820”), establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The three levels of the fair value hierarchy under ASC Topic 820 are as follows:

- Level 1:* Quoted (unadjusted) prices for identical assets in active markets.
- Level 2:* Other observable inputs, either directly or indirectly, including:
 - Quoted prices for similar assets in active markets;
 - Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
 - Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.); and
 - Inputs that are derived principally from or corroborated by other observable market data.
- Level 3:* Unobservable inputs that cannot be corroborated by observable market data.

Under ASC Topic 820, we base fair values of assets on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in FASB ASC Topic 820. Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon our or other third-party’s estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Management uses its best judgment in estimating the fair value of financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts we could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period end and have not been re-evaluated or updated for purposes of the consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts

reported at each period-end. Additionally, changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future valuations.

We obtain one price for each security primarily from a third-party pricing service (“pricing service”), which generally uses quoted prices or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The table below presents the level within the fair value hierarchy generally utilized to estimate the fair value of assets disclosed on a recurring basis at December 31, 2021 and 2020:

December 31, 2021	Total	Level 1	Level 2	Level 3
Fixed maturity securities	\$104,028,945	\$ —	\$104,028,945	\$ —
Equity securities	240,876	240,876	—	—
	<u>\$104,269,821</u>	<u>\$ 240,876</u>	<u>\$104,028,945</u>	<u>\$ —</u>

December 31, 2020	Total	Level 1	Level 2	Level 3
Fixed maturity securities	\$106,106,010	\$ —	\$106,106,010	\$ —
Equity securities	227,866	227,866	—	—
	<u>\$106,333,876</u>	<u>\$ 227,866</u>	<u>\$106,106,010</u>	<u>\$ —</u>

Deferred Acquisition Costs

Certain direct acquisition costs consisting of commissions, premium taxes and certain other direct underwriting expenses that vary with and are primarily related to the successful production of business are deferred and amortized over the effective period of the related insurance policies as the underlying policy premiums are earned. The method followed in computing deferred acquisition costs limits the amount of deferred costs to their estimated realizable value, which gives effect to the premium to be earned, related investment income, losses and loss adjustment expenses, and certain other costs expected to be incurred as the premium is earned. Future changes in estimates, the most significant of which is expected losses and loss adjustment expenses, may require adjustments to deferred acquisition costs. If the estimation of net realizable value indicates that the deferred acquisition costs are not recoverable, then they would be written off.

Reinsurance Recoverable

We cede reinsurance risk to other insurance companies. This arrangement allows us to reduce the net loss potential arising from large risks. Reinsurance contracts do not relieve us of our obligation to our policyholders. Reinsurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contract.

Our reinsurance recoverable balance at December 31, 2021 was \$12,750,153, which we anticipate will be fully collectible. Although the contractual obligation of individual reinsurers to pay their reinsurance obligations is determinable from specific contract provisions, the collectability of such amounts requires estimation by management. Many years may pass between the occurrence of a claim, when it is reported to us and when we ultimately settle and pay the claim. As a result, it can be several years before a reinsurer has to actually remit amounts to us. Over this period of time, economic conditions and operational performance of a particular reinsurer may impact their ability to meet these obligations and while they may still acknowledge their contractual obligation to do so, they may not have the financial resources to fully meet their obligation to us. If this occurs, we may have to write down a reinsurance recoverable to its then determined net realizable value and reflect that write-down in earnings in the period such determination is made. We attempt to limit any such exposure to uncollectible reinsurance recoverable by assessing the creditworthiness of our reinsurers. In addition, we require collateral, such as assets held in trust or letters of credit, for certain reinsurance recoverable balances. However, if our future estimate of uncollectible recoverable exceeds our current expectations, we may need to record an

allowance for uncollectible reinsurance recoverable. This allowance would result in a charge to earnings in the period recorded. Accordingly, any related charge could have a material adverse effect on our financial condition, results of operations and liquidity.

At December 31, 2021, the amount of our reinsurance recoverable which was uncollateralized was \$4,753,729. This uncollateralized balance was recoverable from reinsurers rated “A” or better by A.M. Best.

Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred income taxes arise from the recognition of temporary differences between financial statement carrying amounts and the tax bases of its assets and liabilities. The effect of a change in tax rates is recognized in the period of the enactment date.

At December 31, 2021, we had a net deferred tax asset of \$1,662,704, resulting from \$2,805,512 of gross deferred tax assets reduced by \$1,142,808 of deferred tax liabilities. In establishing the appropriate value of this asset, management must make judgments about our ability to utilize the net tax benefit from the reversal of temporary differences and the utilization of operating loss carryforwards that will begin to expire in 2038.

We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets.

RESULTS OF OPERATIONS

Our results of operations are influenced by factors affecting the MPLI industry, in general. The operating results of the United States MPLI industry are subject to significant variations due to competition, changes in regulation, rising medical expenses, judicial trends, fluctuations in interest rates, and other changes in the investment environment.

Our premium levels and underwriting results have been, and continue to be, influenced by market conditions. Pricing in the MPLI industry historically has been cyclical. During a soft market cycle, price competition is more significant than during a hard market cycle which makes it difficult to attract and retain properly priced MPLI business. As previously discussed, the markets in which we operate, and the national MPLI markets, were in a prolonged period of a soft market cycle. However, we did start to see price increases with our policy renewals toward the latter part of 2020 and we believe the market is hardening. Therefore, it is generally likely that insurers will be able to increase their rates or profit margins, as market conditions continue to improve. A hard market typically has a positive effect on premium growth, which can include absolute increases in premiums written.

We reported a net loss of \$2,520,277 for 2021, compared to a net loss of \$1,211,535 for 2020. The decrease for the year was primarily driven by the strengthening of our loss reserve and, to a lesser extent, non-recurring expenses related to the asset purchase of the Diversus Companies, which were offset by a reduction of investment losses in 2021 as compared to 2020. We also had operating losses of \$2,516,874 in 2021, compared to \$56,175 in 2020, which was primarily due to the strengthening of our loss reserves. In addition, 2020 included an income tax benefit resulting from the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) which did not recur in 2021.

Total revenues for 2021 were \$22,335,123, compared to \$20,200,224 for 2020. The increase in revenues for 2021 reflects the aforementioned unrealized losses on equity securities recognized in prior year which did not recur in current year as well as higher net premiums earned, partially offset by a reduction in net investment income.

The major components of consolidated revenues and net loss for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31,	
	2021	2020
Revenues:		
Net premiums earned	\$ 19,640,049	\$ 19,084,303
Net investment income	2,342,464	2,578,402
Realized investment losses	(4,307)	(1,462,481)
Other revenue	356,917	—
Total revenues	22,335,123	20,200,224
Expenses:		
Losses and loss adjustment expenses	16,607,042	13,357,997
Other underwriting expenses	8,933,868	9,125,664
Interest expense	15,850	2,510
Total expenses	25,556,760	22,486,171
Loss before income taxes	(3,221,637)	(2,285,947)
Income tax benefit	(701,360)	(1,074,412)
Net loss	<u>\$ (2,520,277)</u>	<u>\$ (1,211,535)</u>
Underwriting loss ⁽¹⁾	<u>\$ (2,155,693)</u>	<u>\$ (1,054,098)</u>
Operating loss	<u>\$ (2,516,874)</u>	<u>\$ (56,175)</u>

(1) Underwriting loss excludes holding company and captive expenses of \$2,444,339 and \$2,345,260 for the years ended December 30, 2021 and 2020.

Premiums Written and Premiums Earned

The comparative changes in premiums written and premiums earned for the years ended December 31, 2021 and 2020 are reflected in the table below.

	Year Ended December 31,		
	2021	2020	% Change
Premiums written:			
Direct	\$24,261,521	\$23,285,804	4.2%
Ceded	3,483,619	3,655,277	-4.7%
Premiums written, net of reinsurance	<u>\$20,777,902</u>	<u>\$19,630,527</u>	5.8%
Premiums earned:			
Direct	\$23,979,239	\$22,749,370	5.4%
Ceded	4,339,190	3,665,067	18.4%
Premiums earned, net of reinsurance	<u>\$19,640,049</u>	<u>\$19,084,303</u>	2.9%

The growth in direct premiums written during 2021, compared to 2020, is due to new business bound in the current year. Ceded premiums written, which are determined based on a percentage of direct premiums earned, were relatively comparable between both periods.

Net Investment Income

The following table sets forth our average cash and invested assets and investment income for the reported periods:

	Year Ended December 31,	
	2021	2020
Average cash and invested assets	\$123,339,482	\$125,437,092
Net investment income	2,342,464	2,578,402
Annualized return on average cash and invested assets	1.90%	2.06%

Net investment income for 2021 was \$2,342,464, compared to \$2,578,402 for 2020. The average monthly net investment income decreased from \$215,000 in 2020 to \$195,000 in 2021. The decrease in net investment income reflects lower investment yields in 2021, resulting from turnover of securities within the investment portfolio.

Realized Investment Gains (Losses), Net

Net realized investment gains (losses) for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31,	
	2021	2020
Total gain (loss) on sales of investments	\$ (17,317)	\$ 92,413
Unrealized gain (loss) on equity securities	13,010	(1,554,894)
Total net realized investment losses	<u>\$ (4,307)</u>	<u>\$ (1,462,481)</u>

The unrealized loss on equity securities for 2020 primarily reflects the market volatility associated with the COVID-19 pandemic. During the second quarter of 2020, we sold the majority of our equity holdings for a modest net realized gain following a partial recovery in corresponding fair values. Our fixed maturity investments are available-for-sale because we may, from time to time, make sales of securities that are not impaired, consistent with our investment goals and policies.

Losses and Loss Adjustment Expenses

The components of the GAAP combined ratios were as follows:

	Year Ended December 31,	
	2021	2020
Loss and LAE ratio	84.6%	70.0%
Expense ratio ⁽¹⁾	33.8%	35.5%
Combined ratio	<u>118.4%</u>	<u>105.5%</u>

(1) Expense ratio excludes holding company and captive expenses of \$2,444,339 and \$2,345,260 for the years ended December 31, 2021 and 2020, respectively.

The increase in the loss and LAE ratio for 2021, compared to the prior year, primarily reflects the strengthening of our loss reserves in prior accident/report years recorded in 2021 of \$2,462,000. The adverse prior year loss reserve development of \$2,462,000 recorded in 2021 was primarily related to reserve strengthening in the 2019 and 2018 accident/report years.

The MPLI line of business is prone to variability in the loss reserving process due to the extended period of time during which claims can be made and the subsequent time required to settle those claims. Adjustments to our original estimates resulting from claims are not made until the period in which there is reasonable evidence that an adjustment to the reserve is appropriate.

Other Underwriting Expenses

Other underwriting expenses, including changes in deferred acquisition costs, decreased to \$8,933,868 in 2021, compared to \$9,125,664 in 2020. The decrease in Other underwriting expenses was primarily due to lower amortization expense resulting from the effective settlement of the prepaid management fee in September 2021, partially offset by non-recurring costs related to the asset purchase of the Diversus companies and higher employee-related expenses.

Income Tax Expense (Benefit)

The provision for income taxes for 2021 resulted in an income tax benefit of \$701,360, compared to income tax benefit of \$1,074,412 for 2020. The Company's effective tax rate for both years was 21%.

On March 27, 2020, President Trump signed the CARES Act into law. The CARES Act includes certain income tax-related law changes that have a material effect on our deferred income taxes. The most significant effect on our deferred income taxes is due to changes in the federal net operating loss ("NOL") carryback provisions which allow us to carryback NOLs originating in 2018 and 2019 to prior tax years with corporate income tax rates of 34% (as opposed to forward to future tax years with corporate income tax

rates of 21%). As a result of this legislation, we reduced our NOL balance in 2020 by \$2,969,550, or \$623,606 tax-effected, and recorded additional federal income tax refunds of \$1,205,964, which resulted in an income tax benefit of \$582,358.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measure of an entity's ability to secure sufficient cash to meet its contractual obligations and operating needs. Our insurance operations generate cash by writing policies and collecting premiums. The cash generated is used to pay losses and LAE as well as other underwriting expenses. Any excess cash is invested and earns investment income.

We maintain investment and reinsurance programs that are intended to provide sufficient funds to meet our obligations without forced sales of investments. As such, our investment portfolio contains a high degree of liquidity, with relatively short-term and highly liquid assets, to ensure the availability of funds and to meet the demands of claim settlements and operating expenses. We also have an Investment Committee which meets regularly to discuss cash flow projections and our short-term cash needs as well as asset allocation within our investment portfolio.

Furthermore, liquidity requirements are met primarily through operating cash flows and by maintaining a portfolio with maturities that reflect our estimates of future cash flow requirements. Our investment strategy includes setting guidelines for asset quality standards, allocating assets among investment types and issuers, and other relevant criteria for our portfolio. In addition, invested asset cash flows, which include both current interest income received and investment maturities, are structured to consider projected liability cash flows of loss reserve payouts that are based on actuarial models. Property and casualty claim demands are somewhat unpredictable in nature and require liquidity from the underlying invested assets. Our invested assets are structured to emphasize current investment income while maintaining appropriate portfolio quality and diversity.

Cash flows for the years ended December 31, 2021 and 2020 were as follows:

	Year Ended December 31,	
	2021	2020
Cash flows provided by (used in) operating activities	\$ 2,380,372	\$ (1,256,780)
Cash flows used in investing activities	(6,627,046)	(788,697)
Cash flows provided by (used in) financing activities	2,703,949	(64,858)
Net decrease in cash and cash equivalents	<u>\$ (1,542,725)</u>	<u>\$ (2,110,335)</u>

Cash flows from operating activities improved during 2021, compared to 2020, primarily due to timing of loss and expense payments between years and increased collections of premiums in the current year. Cash flows from investing activities decreased during 2021, compared to 2020, reflecting the sales of equity securities in prior year and the asset purchase of the Diversus Companies in September 2021. Cash flows from financing activities increased for the current year primarily due to the execution of a master credit agreement with Oak Street Bank, LLC in September 2021.

At the holding company level, our primary sources of liquidity are dividends and tax payments received from Positive Insurance Company and capital raising activities. We utilize cash to pay debt obligations, taxes to the federal government, and corporate expenses. At December 31, 2021, we had \$12,286,815 of cash and short-term investments at our holding company which we believe, combined with our other capital sources, will continue to provide us with sufficient funds to meet our foreseeable ongoing expenses and other obligations. In connection with the asset purchase of the Diversus Companies, PPHI made a capital contribution of \$3,250,000 to PPM.

Our insurance subsidiary, Positive Insurance Company, is restricted by the insurance laws and regulations of the Commonwealth of Pennsylvania as to the amount of dividends or other distributions it may pay to the holding company. In considering future dividend policy, Positive Insurance Company will consider, among other things, applicable regulatory constraints. At December 31, 2021, Positive Insurance Company had statutory surplus of \$38,290,901.

An order by the Pennsylvania Insurance Department approving the conversions of PPIX, PCA, and PIPE prohibits the declaration or payment of any dividend, return of capital, or other distribution by PPHI to Insurance Capital Group, LLC and Enstar Holdings (US) LLC, the two principal stockholders of PPHI, or any other shareholder without the prior approval of the Pennsylvania Insurance Department, for a period of three years following the effective date of the conversions. Additionally, by the order of the Pennsylvania Insurance Department, Positive Insurance Company cannot pay a dividend to PPHI for a period of three years following the effective date of the conversions without the approval of the Pennsylvania Insurance Department.

Prior to its payment of any dividend, Positive Insurance Company will be required to provide notice of the dividend to the Pennsylvania Insurance Department. This notice must be provided to the Pennsylvania Insurance Department 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The Pennsylvania Insurance Department has the power to limit or prohibit dividends if Positive Insurance Company is in violation of any law or regulation. These restrictions or any subsequently imposed restrictions may affect our future liquidity.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity, capital expenditures, or capital reserves.

Disclosures About Market Risk

Market Risk

Market risk is the risk that a company will incur losses due to adverse changes in the fair value of financial instruments. We have exposure to three principal types of market risk through our investment activities: interest rate risk, credit risk and equity risk. Our primary market risk exposure is changes in interest rates. We have not entered, and do not plan to enter, into any derivative financial instruments for hedging, trading or speculative purposes.

Interest Rate Risk

Interest rate risk is the risk that a company will incur economic losses due to adverse changes in interest rates. Our exposure to interest rate changes primarily results from our significant holdings of fixed rate investments. Fluctuations in interest rates have a direct impact on the fair value of these securities.

The average duration of the fixed maturity securities in our investment portfolio at December 31, 2021 was 3.3 years. Our fixed maturity investments include U.S. government bonds, securities issued by government agencies, obligations of state and local governments and governmental authorities, and corporate bonds, most of which are exposed to changes in prevailing interest rates and which may experience moderate fluctuations in fair value resulting from changes in interest rates. We hold these investments as available for sale. This allows us to manage our exposure to risks associated with interest rate fluctuations through active review of our investment portfolio by management, our investment adviser and our board of directors.

Fluctuations in near-term interest rates could impact our results of operations and operating cash flows. Certain of these securities may have call features. In a declining interest rate environment these securities may be called by their issuer and replaced with securities bearing lower interest rates. If we are required to sell these securities in a rising interest rate environment, then we may recognize losses.

As a general matter, we attempt to match the durations of our assets with the durations of our liabilities. Our investment objectives include maintaining adequate liquidity to meet our operational needs and optimizing our after-tax investment income and our after-tax total return, all of which are subject to our tolerance for risk.

The table below shows the interest rate sensitivity on our fixed maturity investments measured in terms of fair value (which is equal to the carrying value for all of our investment securities that are subject to interest rate changes) at December 31, 2021:

Hypothetical Change in Interest Rates	Estimated Change in Fair Value	Fair Value
200 basis point increase	\$ (7,430,788)	\$ 96,598,157
100 basis point increase	(3,712,272)	100,316,673
No change		104,028,945
100 basis point decrease	3,693,028	107,721,973
200 basis point decrease	7,411,022	111,439,967

Credit Risk

Credit risk is the potential economic loss principally arising from adverse changes in the financial condition of a specific debt issuer. We address this risk by investing primarily in fixed maturity securities that are rated at least "A" by Moody's or an equivalent rating quality. We also independently, and through our outside investment manager, monitor the financial condition of all the issuers

of fixed maturity securities in our portfolio. To limit our exposure to risk, we employ diversification rules that limit the credit exposure to any single issuer or asset class.

Equity Risk

Equity price risk is the risk that we will incur economic losses on our equity securities due to adverse changes in equity prices.

Impact of Inflation

Increases in the cost of medical procedures and related services can affect the losses that we may incur in connection with resolving claims under policies that we issue. These cost increases reduce profit margins to the extent that rate increases are not implemented on an adequate and timely basis. We, like all insurance companies, establish insurance premium levels before the amount of losses and loss adjustment expenses, or the extent to which inflation may impact these expenses, are known. Therefore, we attempt to anticipate the potential impact of inflation when establishing rates. Because inflation has remained relatively low in recent years, our financial results have not been significantly affected by it.

Comparison of SAP and GAAP Results

Results presented in accordance with GAAP vary in certain respects from results presented in accordance with statutory accounting practices prescribed or permitted by the Pennsylvania Insurance Department (collectively “SAP”). Prescribed SAP includes state laws, regulations and general administrative rules, as well as a variety of National Association of Insurance Commissioners publications. Permitted SAP encompasses all accounting practices that are not prescribed. Our domestic insurance subsidiary uses SAP to prepare various financial reports for use by insurance regulators.

Part E. Issuance History

During the year ended December 31, 2019, the following shares of our common stock were issued. There were no issuances of our common stock in 2020 and 2021.

Month/Year of Issuance	Issuance Type	Shares Issued	Price at Issuance	Issuance Class
March 2019	Initial public offering	3,615,500	\$ 10.00	Public
September 2019	Option grant	216,930	\$ 12.01	Employee
November 2021	Option grant	108,465	\$ 19.46	Employee

Part F. Exhibits

F-1 Consolidated Financial Statements

- 1.1 Independent Auditors' Report
- 1.2 Consolidated Financial Statements

F-2 Material Contracts

2.1 Management Agreement between Positive Physicians Insurance Company, Positive Physicians Holdings, Inc., Diversus Management, Inc., and Diversus, Inc. dated March 27, 2019 (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K on April 24, 2019).

2.2 Standby Stock Purchase Agreement dated as of June 8, 2018, among Insurance Capital Group, LLC, Positive Physicians Insurance Exchange, Professional Casualty Association, Physician's Insurance Program Exchange, and Positive Physicians Holdings, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (333-229322)).

2.3 Amendment to Standby Stock Purchase Agreement dated as of September 21, 2018, among Insurance Capital Group, LLC, Positive Physicians Insurance Exchange, Professional Casualty Association, Physician's Insurance Program Exchange, and Positive Physicians Holdings, Inc. (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (333-229322)).

2.4 Amendment No. 2 to the Standby Stock Purchase Agreement dated as of December 6, 2018, among Insurance Capital Group, LLC, Positive Physicians Insurance Exchange, Professional Casualty Association, Physicians' Insurance Program Exchange, and Positive Physicians Holdings, Inc. (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (333-229322)).

2.5 Amended and restated Supplemental Agreement dated September 21, 2018, among Diversus, Inc., Insurance Capital Group, LLC, Positive Physicians Insurance Exchange, Professional Casualty Association, Physician's Insurance Program Exchange, and Positive Physicians Holdings, Inc. (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (333-229322)).

2.6 Option Agreement among Diversus, Inc., Insurance Capital Group, LLC, and Positive Physicians Holdings, Inc. dated March 27, 2019 (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K filed on April 24, 2019).

2.7 Management Services Agreement between Positive Physicians Holdings, Inc. and Diversus Management Inc. dated March 27, 2019 (incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K filed on April 24, 2019).

2.8 Medical Malpractice Working Excess Reinsurance Contract effective January 1, 2018 between Hannover Ruck Se and Positive Physicians Insurance Exchange (incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (333-229322)).

2.9 Governance Agreement dated September 19, 2018 between Insurance Capital Group LLC and Enstar Holdings (US) LLC (incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (333-229322)).

2.10 Loan Agreement between Positive Physicians Holdings, Inc. and Diversus, Inc. dated March 27, 2019 (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed on April 24, 2019).

2.11 Medical Malpractice Working Excess Reinsurance Contract effective January 1, 2018 between Hannover Ruck Se and Professional Casualty Association (incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-1 (333-229322)).

2.12 Medical Malpractice Working Excess Reinsurance Contract effective January 1, 2018 between Hannover Ruck Se and Physicians' Insurance Program Exchange (incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1 (333-229322)).

2.13 Non-Qualified Stock Option Agreement Between Positive Physicians Holdings, Inc. and Lewis Sharps, MD. (incorporated by reference to Exhibit 10.13 filed with Form 8-K on October 2, 2019)

2.14 Offer Letter dated September 5, 2019, between Positive Physicians Holdings, Inc. and Donovan Augustin (incorporated by reference to Exhibit 10.14 filed with Form 8-K on October 15, 2019)

2.15 Tax Sharing Agreement dated September 24, 2020, between Positive Physicians Holdings, Inc. and Positive Physicians Insurance Company.

2.16* Asset Purchase Agreement dated September 7, 2021 between Positive Professionals Management LLC, Positive Professionals Insurance Agency LLC, Diversus, Inc. and Diversus Management LLC.

* Filed herewith

F-3 Articles of Incorporation and Bylaws

3.1 Amended and Restated Articles of Incorporation of Positive Physicians Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (333-229322)).

3.2 Bylaws of Positive Physicians Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (333-229322)).

F-4 Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the years ended December 31, 2021 and 2020, there were no purchases of equity securities by the Company or its subsidiaries.

F-5 Issuer's Certifications



Independent Auditors' Report

To the Stockholders and Board of Directors of
Positive Physicians Holdings, Inc.

Opinion

We have audited the consolidated financial statements of Positive Physicians Holdings, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, Comprehensive income (loss), stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

GAAP requires that the incurred and paid loss development information on pages 68 and 69 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by GAAP who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly US, LLP

Philadelphia, Pennsylvania
March 30, 2022

Exhibit F-1.2 Consolidated Financial Statements
**Positive Physicians Holdings, Inc.
Consolidated Balance Sheets**

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Assets		
Available-for-sale fixed maturity securities, at fair value	\$ 104,028,945	\$ 106,106,010
Equity securities, at fair value	240,876	227,866
Total investments	104,269,821	106,333,876
Cash and cash equivalents	17,197,521	18,877,746
Restricted cash	137,500	—
Accrued investment income	640,485	676,997
Premiums receivable	7,913,812	8,425,746
Other receivables	54,076	—
Reinsurance recoverable	12,750,153	10,357,039
Income taxes recoverable	1,575,662	2,055,261
Unearned ceded premiums	315,984	1,171,555
Deferred acquisition costs	2,697,307	2,611,445
Deferred income taxes	1,662,704	294,604
Goodwill	5,977,000	—
Intangible assets, net of accumulated amortization	5,553,334	—
Right-of-use lease asset	663,539	—
Prepaid management fee	—	7,500,000
Other assets	283,492	139,994
Total assets	<u>\$ 161,692,390</u>	<u>\$ 158,444,263</u>
Liabilities and Stockholders' Equity		
Liabilities		
Losses and loss adjustment expenses	\$ 69,518,313	\$ 65,679,414
Unearned premiums	13,601,841	13,319,558
Reinsurance payable	1,980,790	1,681,645
Accounts payable, accrued expenses, and other liabilities	3,937,440	3,557,594
Lease liability	666,469	—
Note payable, net of debt issuance costs	2,705,228	—
Total liabilities	<u>92,410,081</u>	<u>84,238,211</u>
Stockholders' Equity		
Common stock, \$0.01 par value, 10,000,000 shares authorized; 3,615,500 shares issued and outstanding	36,155	36,155
Additional paid-in capital	49,640,830	49,539,617
Retained earnings	18,364,635	20,884,912
Accumulated other comprehensive income	1,240,689	3,745,368
Total stockholders' equity	<u>69,282,309</u>	<u>74,206,052</u>
Total liabilities and stockholders' equity	<u>\$ 161,692,390</u>	<u>\$ 158,444,263</u>

The accompanying notes are an integral part of these consolidated financial statements.

Positive Physicians Holdings, Inc.
Consolidated Statements of Operations

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Revenues		
Net premiums earned	\$ 19,640,049	\$ 19,084,303
Net investment income	2,342,464	2,578,402
Realized investment losses, net	(4,307)	(1,462,481)
Other income	356,917	—
Total revenues	<u>22,335,123</u>	<u>20,200,224</u>
Expenses		
Losses and loss adjustment expenses, net	16,607,042	13,357,997
Other underwriting expenses	8,933,868	9,125,664
Interest expense	15,850	2,510
Total expenses	<u>25,556,760</u>	<u>22,486,171</u>
Loss before provision for income taxes	(3,221,637)	(2,285,947)
Provision for income taxes	(701,360)	(1,074,412)
Net loss	<u>\$ (2,520,277)</u>	<u>\$ (1,211,535)</u>
Loss per common share		
Common stock - basic	<u>\$ (0.70)</u>	<u>\$ (0.34)</u>
Common stock - diluted	<u>\$ (0.70)</u>	<u>\$ (0.34)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Positive Physicians Holdings, Inc.
Consolidated Statements of Comprehensive Income (Loss)

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Net loss	\$ (2,520,277)	\$ (1,211,535)
Other comprehensive income (loss) , net of tax:		
Unrealized gain (loss) on available-for-sale fixed maturity securities:		
Unrealized holding gain (loss) during the year, net of income tax benefit (expense) of \$665,801 and \$(559,729), respectively	(2,521,996)	2,177,180
Reclassification adjustments for (gains) losses included in net loss, net of income tax benefit (expense) of \$4,603 and \$(19,015), respectively	17,317	(71,534)
Other comprehensive income (loss)	(2,504,679)	2,105,646
Comprehensive income (loss)	<u>\$ (5,024,956)</u>	<u>\$ 894,111</u>

The accompanying notes are an integral part of these consolidated financial statements.

Positive Physicians Holdings, Inc.
Consolidated Statements of Stockholders' Equity

	Year Ended December 31, 2021				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, January 1, 2021	\$ 36,155	\$49,539,617	\$20,884,912	\$ 3,745,368	\$ 74,206,052
Stock based compensation expense	—	101,213	—	—	101,213
Net loss	—	—	(2,520,277)	—	(2,520,277)
Other comprehensive loss	—	—	—	(2,504,679)	(2,504,679)
Balance, December 31, 2021	<u>\$ 36,155</u>	<u>\$49,640,830</u>	<u>\$18,364,635</u>	<u>\$ 1,240,689</u>	<u>\$ 69,282,309</u>

	Year Ended December 31, 2020				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, January 1, 2020	\$ 36,155	\$49,421,081	\$22,096,447	\$ 1,639,722	\$73,193,405
Stock based compensation expense	—	118,536	—	—	118,536
Net loss	—	—	(1,211,535)	—	(1,211,535)
Other comprehensive income	—	—	—	2,105,646	2,105,646
Balance, December 31, 2020	<u>\$ 36,155</u>	<u>\$49,539,617</u>	<u>\$20,884,912</u>	<u>\$ 3,745,368</u>	<u>\$74,206,052</u>

The accompanying notes are an integral part of these consolidated financial statements.

Positive Physicians Holdings, Inc.
Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (2,520,277)	\$ (1,211,535)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Deferred income taxes	(702,299)	37,250
Net realized loss (gain) on sales of investments	17,317	(92,413)
Unrealized (gain) loss on equity securities	(13,010)	1,554,894
Amortization of fixed maturity premiums	387,235	332,197
Depreciation and amortization expense	1,172,682	1,482,495
Stock based compensation expense	101,213	118,536
Changes in operating assets and liabilities:		
Accrued investment income	36,512	22,090
Premiums receivable	511,934	(1,041,870)
Other receivables	286,111	—
Reinsurance recoverable	(2,393,114)	(2,506,630)
Income taxes recoverable	479,599	(741,326)
Unearned ceded premiums	855,571	9,790
Deferred acquisition costs	(85,862)	(26,959)
Right-of-use lease asset	46,719	—
Other assets	(75,079)	(69,412)
Losses and loss adjustment expenses	3,838,899	2,071,439
Unearned premiums	282,283	536,434
Reinsurance payable	299,145	(280,008)
Accounts payable, accrued expenses, and other liabilities	(101,418)	(1,451,752)
Lease liability	(43,789)	—
Net cash flows provided by (used in) operating activities	<u>2,380,372</u>	<u>(1,256,780)</u>
Cash flows from investing activities:		
Proceeds from maturities and sales of fixed maturity securities	21,239,104	21,117,524
Proceeds from sales of equity securities	—	6,327,709
Purchases of fixed maturity securities	(22,737,071)	(29,070,778)
Purchases of equity securities	—	(332,624)
Net sales of short-term investments	—	1,169,472
Acquisition of Diversus Companies, net of cash acquired of \$890,034	(5,129,079)	—
Net cash flows used in investing activities	<u>(6,627,046)</u>	<u>(788,697)</u>
Cash flows from financing activities		
Payment of debt issuance costs	(46,051)	—
Proceeds from issuance of note payable	2,750,000	—
Payments of notes payable	—	(64,858)
Net cash flows provided by (used in) financing activities	<u>2,703,949</u>	<u>(64,858)</u>
Net change in cash and cash equivalents and restricted cash	(1,542,725)	(2,110,335)
Cash and cash equivalents and restricted cash, at beginning of year	18,877,746	20,988,081
Cash and cash equivalents and restricted cash, at end of year	<u>\$ 17,335,021</u>	<u>\$ 18,877,746</u>
Cash paid during the year for interest	<u>\$ 14,571</u>	<u>\$ 2,510</u>
Cash recovered during the year for income taxes	<u>\$ 456,559</u>	<u>\$ 370,337</u>

The accompanying notes are an integral part of these consolidated financial statements.

Positive Physicians Holdings, Inc.
Notes to Consolidated Financial Statements

1. Organization

The accompanying consolidated financial statements include the accounts of Positive Physicians Holdings, Inc. and its wholly owned subsidiaries (collectively referred to as the “Company”). Positive Physicians Holdings, Inc. is a Pennsylvania domiciled holding company, which was incorporated on May 1, 2018 for the purpose of acquiring three Pennsylvania based reciprocal insurance exchanges: Positive Physicians Insurance Exchange (“PPIX”), Professional Casualty Association (“PCA”), and Physicians’ Insurance Program Exchange (“PIPE”). In connection with the completion of the Company’s initial public offering, PPIX, PCA, and PIPE converted from reciprocal insurance exchanges into stock insurance companies and were merged together to form Positive Physicians Insurance Company (“Positive Insurance Company”), a wholly owned subsidiary of the Company. The Company’s initial public offering and its acquisition of Positive Insurance Company were completed on March 27, 2019. Prior to that time, the Company had minimal assets and liabilities and had not engaged in any operations. References to the Company or Positive Insurance Company financial information in this Annual Report prior to the conversion and merger date is to the financial information of PPIX, PCA, and PIPE on a combined basis. When used in this Annual Report, “we” and “our” mean PPIX, PCA, and PIPE prior to March 27, 2019, and Positive Insurance Company thereafter.

On May 18, 2020, the Company received a written notice from the Listing Qualifications Department of Nasdaq indicating that the Company was not in compliance with Listing Rule 5550(a)(4), due to the Company’s failure to meet the minimum 500,000 publicly held shares requirement for continued listing on the Nasdaq Capital Market. On August 5, 2020, the Company filed with the Securities and Exchange Commission (“SEC”) a Form 25, notification to voluntarily delist from the Nasdaq Capital Market. On August 14, 2020, the Company filed a Form 15 with the SEC to suspend its reporting obligations under Section 15(d) of the Securities Exchange Act of 1934. The delisting was effective on August 17, 2020 and the deregistration was effective on November 12, 2020. The Company’s stock is currently trading on the OTCQX Best Market under the symbol, PPHI.

On September 7, 2021, through a newly formed wholly owned subsidiary of PPHI, Positive Professionals Management LLC (“PPM”), the Company entered into an asset purchase agreement with Diversus, Inc. and its wholly owned subsidiary, Diversus Management, LLC (collectively, “Diversus”). Prior to the acquisition, Diversus had managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. The acquisition includes the working capital of Diversus at closing, the transfer and/or assignment of employment agreements and contracts with key third party vendors, including the lease of our home office, and full membership assignments of Gateway Risk Services, LLC (“Gateway”) and Specialty Insurance Agency LLC (“SIA”). Hereinafter, Diversus, Gateway, and SIA are collectively referred to as the “Diversus Companies.”

Prior to the acquisition, Gateway and SIA provided claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers. In connection with the asset purchase, effective September 7, 2021 PPM entered into a management agreement with Positive Insurance Company and PPHI to provide the insurance affiliate with management and administrative services. Under the post-closing structure of the Company, Gateway, a wholly owned subsidiary of PPM, continues to provide claims processing and risk management services to Positive Insurance Company and third-party customers. Under a newly formed wholly owned subsidiary of PPM, Positive Professionals Insurance Agency LLC (“PPIA”), SIA provides insurance policy brokerage services to Positive Insurance Company and third-party customers.

See Note 5. Acquisition of the Diversus Companies and Note 13. Agreements with Diversus for additional information.

Products and Services

Positive Insurance Company underwrites medical professional liability coverage for physicians, their corporations, medical groups, clinics and allied healthcare providers. Medical professional liability insurance (“MPLI”) protects physicians and other health care providers against liabilities arising from the rendering of, or failure to render, professional medical services. We offer claims-made coverage, claims-made plus, and occurrence-based policies as well as tail coverage in Pennsylvania, New Jersey, Ohio, Delaware, Maryland, South Carolina, Michigan, Florida, Texas, and Georgia. Our policies include coverage for the cost of defending claims. Claims-made policies provide coverage to the policyholder for claims reported during the period of coverage. We offer extended reporting endorsements, or tails, to cover claims reported after the policy expires. Occurrence-based policies provide coverage to the policyholders for all losses incurred during the policy coverage year regardless of when the claims are reported. Although we generate a majority of our premiums from individual and small group practices, we also insure several major physician groups. The Company accounts for its medical professional liability insurance business as a single reporting segment line of business.

Gateway and SIA provide claims processing and risk management services and insurance policy brokerage services, respectively, to Positive Insurance Company and third-party customers. Since September 7, 2021, the services provided by PPM and its wholly owned subsidiaries to Positive Insurance Company and PPHI are eliminated upon consolidation in the accompanying consolidated financial statements.

Option Agreement

Upon completion of the conversions of PPIX, PCA, and PIPE and the securities offering on March 27, 2019, the Company and Diversus entered into an option agreement whereby either party had the option to cause Diversus, subject to shareholder approval, to merge with and become a wholly owned subsidiary of the Company. Under the terms of the agreement, the option might have been exercised by either the Company or Diversus at any time (1) during the period beginning 2 years after completion of the conversions of the exchanges and ending 54 months after the completion of the conversions, or (2) if earlier than 2 years after the completion of the conversions, then such date that the majority stockholder of the Company no longer has the right to appoint a majority of the board of directors of the Company. With the asset purchase of the Diversus Companies effective as of September 7, 2021, the option agreement was terminated.

2. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Positive Physicians Holdings, Inc. was formed on May 1, 2018. Prior to the completion of the initial public offering, the Company, PPIX, PCA, and PIPE were under the common control of Diversus. Additionally, prior to March 27, 2019, the Company did not engage in substantive pre-combination activities, and accordingly, is not considered the acquirer of the net assets of Positive Insurance Company. The acquirer of these net assets is the majority stockholder of the Company. Accordingly, the accompanying financial statements do not reflect any adjustments to fair value as might have been determined had the Company accounted for the acquisition of Positive Insurance Company's net assets as a business combination.

Our consolidated financial statements include our accounts and those of our wholly owned subsidiaries. We have eliminated all inter-company accounts and transactions in consolidation. The consolidated financial statements include the accounts of the Diversus Companies since their acquisition on September 7, 2021.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and notes. Actual results could differ from these estimates and such differences could be material. The Company's principal estimates include the liability for losses and loss adjustment expenses, deferred acquisition costs, other-than-temporary impairments of investments, and valuation of deferred tax assets.

Cash and Cash Equivalents

The Company considers cash and cash equivalents to be cash on hand and depository bank accounts with original maturities of three months or less, are readily convertible to known amounts of cash, and present insignificant risk of changes in value due to changing interest rates.

Restricted Cash

Restricted cash represents amounts held for the benefit of third parties and is contractually restricted to withdrawal or usage. Amount represents balances pledged as collateral to meet financing agreements.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets that total to the amounts shown in the consolidated statements of cash flows:

	2021	2020
Cash and cash equivalents	\$ 17,197,521	\$ 18,877,746
Restricted cash	137,500	—
Total cash and cash equivalents and restricted cash shown on consolidated statements of cash flows	\$ 17,335,021	\$ 18,877,746

Premiums Receivable

Premiums receivable is presented net of allowances for estimated policy cancellations and doubtful accounts. The allowance for doubtful accounts is management's best estimate of the amount of probable policies being cancelled in the Company's existing premiums receivable. The Company determines the allowance based on historical write-off experience and the probability that outstanding premiums will be paid prior to cancellation. The allowance for doubtful accounts balance at December 31, 2021 and 2020 was \$45,510 and \$111,648, respectively.

Investments

Investments in fixed maturity securities are classified as available-for-sale and are stated at fair value. Unrealized holding gains and losses, net of related tax effects, on available-for-sale fixed maturity securities are recorded directly to accumulated other comprehensive income. Investments in equity securities are stated at fair value and unrealized holding gains and losses are credited or charged to net income (loss) as incurred and are included in realized investment gains (losses), net in the accompanying consolidated statements of operations.

Realized gains and losses on sales of equity and fixed maturity securities are recognized into income based upon the specific identification method. Interest and dividends are recognized as earned. Short-term investments are considered to be short-term, highly liquid investments that are less than one year in term to the dates of maturity at the purchase dates, and they present insignificant risk of changes in value due to changing interest rates.

The Company regularly evaluates all of its investments based on current economic conditions, credit loss experience, and other specific developments. If there is a decline in a security's net realizable value that is other than temporary, it is considered as a realized loss and the cost basis in the security is reduced to its estimated fair value.

A fixed maturity security is considered to be other-than-temporarily impaired when the security's fair value is less than its amortized cost basis and 1) we intend to sell the security, 2) it is more likely than not that we will be required to sell the security before recovery of the security's amortized cost basis, or 3) we believe we will be unable to recover the entire amortized cost basis of the security (i.e., credit loss has occurred). Other-than-temporary-impairments ("OTTI") of fixed maturity securities are separated into credit and noncredit-related amounts when there are credit-related losses associated with the impaired fixed maturity security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors is recorded in other comprehensive income (loss). A credit loss is determined by assessing whether the amortized cost basis of the security will be recovered, by comparing the present value of cash flows expected to be collected from the security, computed using original yield as the discount rate, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the "credit loss."

Deferred Acquisition Costs

Certain direct acquisition costs consisting of commissions, premium taxes and certain other direct underwriting expenses that vary with and are primarily related to the successful production of business are deferred and amortized over the effective period of the related insurance policies as the underlying policy premiums are earned. The method followed in computing deferred acquisition costs limits the amount of deferred costs to their estimated realizable value, which gives effect to the premium to be earned, related investment income, losses and loss adjustment expenses, and certain other costs expected to be incurred as the premium is earned. Future changes in estimates, the most significant of which is expected losses and loss adjustment expenses, may require adjustments to deferred acquisition costs. If the estimation of net realizable value indicates that the deferred acquisition costs are not recoverable, then they would be written off.

Business Combinations

The Company accounts for its business combinations using the acquisition method of accounting. Under this method, assets and liabilities are recognized at fair value at the date of acquisition. The excess of the purchase price over the fair value of assets acquired net of liabilities assumed is recognized as goodwill. Certain adjustments to the assessed fair values of the assets or liabilities made subsequent to the acquisition date, but within the measurement period, which is up to one year, are recorded as adjustments to goodwill. Any adjustments subsequent to the measurement period are recorded to earnings. Results of operations of the acquired entity are included in the Company's consolidated results from the date of the acquisition onward and include amortization expense arising from acquired tangible and intangible assets. The Company expenses all costs incurred related to an acquisition in the accompanying consolidated statements of operations.

Goodwill

Goodwill represents the excess of the purchase price related to a business combination over the fair value of the net assets acquired. The Company does not amortize goodwill, but rather it is tested for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. The Company assesses goodwill for possible impairment by comparing the carrying amount of the Company's net assets to their fair value. If the carrying value of the net assets is greater than the fair value of the net assets, the difference is recognized as an impairment loss. There was no impairment of goodwill at December 31, 2021.

Intangible Assets

Amortizing identifiable intangible assets represent the cost of customer relationships, covenants not-to-compete, and trademarks. In valuing these assets, the Company makes assumptions regarding useful lives and projected growth rates, and significant judgment is required. The Company periodically reviews identifiable intangibles for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of the assets exceed their respective fair values, additional impairment tests are performed to measure the amount of the impairment loss, if any. There was no impairment of intangible assets at December 31, 2021.

Prepaid Management Fee

Prior to September 7, 2021, the prepaid management fee comprised costs incurred by the Company to execute a new management agreement with Diversus Management and it was being amortized on a straight-line basis over the seven-year useful life of the former agreement. With the asset purchase of the Diversus Companies on September 7, 2021, the prepaid management fee of the Company was effectively settled and eliminated upon consolidation within the accompanying consolidated financial statements.

Liability for Losses and Loss Adjustment Expenses

Liability for losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on prior experience, actuarial assumptions and management judgments for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates for establishing the resulting liabilities are continually reviewed. Estimating the ultimate cost of future losses and loss adjustment expenses is an uncertain and complex process. This estimation process is based upon the assumption that past developments are an appropriate indicator of future events and involves a variety of actuarial techniques that analyze experience, trends, and other relevant factors. The uncertainties involved with the reserving process include internal factors, such as changes in claims handling procedure, as well as external factors, such as economic trends and changes in the concepts of legal liability and damage awards. Accordingly, final loss settlements may vary from the present estimates, particularly when those payments may not occur until well into the future. Adjustments to previously established reserves are reflected in the operating results of the period in which the adjustment is determined to be necessary. Such adjustments could possibly be significant, reflecting any variety of new and adverse or favorable trends.

We also offer extended reporting coverage at no additional charge in the event of disability, death or retirement after a policyholder reaches the age of 55 and has been a mature-claims policyholder with Positive Insurance Company for at least one year. An extended reporting endorsement policy reserve is required to assure that premiums are not earned prematurely. This reserve is actuarially determined and the balance is included in unearned premiums in the consolidated balance sheets.

Premium Deficiency Reserves

Premium deficiency reserves and the related expenses are recognized when it is probable that expected future benefit payments, loss adjustment expenses, direct administration costs, and an allocation of indirect administration costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries considered over the remaining lives of the contracts, and are recorded as a component of deferred acquisition costs in the accompanying consolidated balance sheets. The Company does not consider anticipated investment income when calculating premium deficiency reserves. As of December 31, 2021 and 2020, the Company did not have any premium deficiency reserves.

Reinsurance

The Company cedes insurance risk to other insurance companies. This arrangement allows us to minimize the net loss potential arising from large risks. Reinsurance contracts do not relieve the Company of its obligation to its policyholders. Reinsurance

premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contract.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments, non-U.S. government bonds, premiums receivable, and balances recoverable from reinsurers. Non-U.S. government bonds are diversified, and no one investment accounts for greater than 5% of our invested assets. Cash and cash equivalents are deposited with financial institutions with balances that fluctuate in excess of federally insured limits. If the financial institutions were not to honor their contractual liability to us, we could incur losses. We are of the opinion that there is low risk because of the financial strength of the respective financial institutions. We are also subject to concentrations of credit risk through short-term money market investments. The credit risk related to short-term money market investments is minimized by our investing in money market funds or repurchase agreements, both secured by U.S. government securities.

No one insured accounted for over 10% of premiums receivable as of December 31, 2021 and 2020 or gross written premium for the years ended December 31, 2021 and 2020. We have reinsurance contracts with various reinsurers all of whom have A.M. Best ratings of A or better or have provided collateral to secure their obligations.

Debt Issuance Costs

Unamortized debt issuance costs consisting of direct costs of origination such as legal costs are reported in the accompanying consolidated balance sheets as a direct deduction from the face amount of the related debt obligation. Debt issuance costs are amortized on a straight-line basis over the term of related debt obligation and are reported as a component of interest expense in the accompanying consolidated statements of operations.

Revenue Recognition

Premiums are earned on a daily pro rata basis over the terms of the insurance policies. Unearned premium reserves are established to cover the unexpired portion of the policies in force less amounts ceded to reinsurers. For consideration received for policies with effective dates subsequent to the reporting period, the Company records an advance premium liability in lieu of written premium.

Premiums associated with tails are generally earned as written, except for the afore-mentioned extended reporting coverage in the event of disability, death or retirement. Other forms of tails, in which premiums are earned as written, include the following: 1) An insured who terminates a claims-made policy with their prior carrier, and who purchases tail coverage (extended reporting coverage) from their old carrier or obtains retroactive (prior-acts) coverage from a new carrier, or 2) Stand-alone tail coverage in which an insured is offered a tail policy by their prior carrier but seeks a competitive quote from a different carrier. Both types of tail coverage insure against claims reported after the end of the original policy period for incidents that occurred while that policy was in effect.

Claims processing and risk management services provided to third party customers are earned as the services are provided. Insurance policy brokerage services provided to third party customers are recognized as revenue at a point in time, when the insurance policies are incepted, based on a specified percentage of the face value of the policies written. Claims processing and risk management services are primarily under fixed price contracts which are recognized as revenue ratably over the annual contract period. The variability of the brokerage commission revenue ends when the insurance policy is incepted and the fixed fee is determined.

Comprehensive Income (Loss)

Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale fixed maturity securities and unrealized losses related to factors other than credit on fixed maturity securities, are reported as a separate component in the equity section in the accompanying consolidated balance sheets. Such items, along with net income (loss), are components of comprehensive income (loss), and are reflected in the accompanying consolidated statements of comprehensive income (loss). Reclassifications of realized gains and losses on sales of investments out of accumulated other comprehensive income are recorded in realized investment gains (losses), net in the accompanying consolidated statements of operations.

Income Taxes

The Company accounts for income taxes under the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial

statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the consolidated financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversal of existing taxable temporary differences, tax planning strategies, projected future taxable income, and recent financial operations.

Prior to March 27, 2019, PPIX, PCA, and PIPE filed separate federal income tax returns. PPIX, PCA, and PIPE remain subject to examination by the Internal Revenue Service for tax years 2017 and 2018 as well as the final short stub period in 2019. Beginning with the 2019 tax year, the Company files a consolidated federal income tax return, subject to a tax sharing agreement under which taxes are allocated on a separate tax return basis. The Company recognized an income tax benefit of \$13,191 related to interest and penalties in the accompanying consolidated statements of operations for the year ended December 31, 2021. No such amounts were recognized during the same period in 2020.

4. Recent Accounting Pronouncements

The following discussion includes effective dates for public business entities, as well as whether specific guidance may be adopted early.

Recently Adopted Accounting Pronouncements

Effective with entering into the asset purchase agreement for the Diversus Companies on September 7, 2021, the Company adopted the following accounting pronouncements upon the acquisition date.

The Financial Accounting Standards Board ("FASB") issued guidance through the issuance of Accounting Standards Update ("ASU" or "Update") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and its clarifying amendments that created ASC Topic 606, *Revenue from Contracts with Customers*. ASC Topic 606 supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. ASC Topic 606 applies to the claims processing and risk management services and the insurance policy brokerage services of the Company. The adoption of this guidance did not have a material impact on our financial condition or results of operations given that the majority of our business is outside the scope of this guidance.

In February 2016, the FASB issued ASU 2016-12, *Leases (Topic 842)*. The amendments to this Update increase transparency and comparability among entities by recognizing right-of-use assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current GAAP and disclosing key information about leasing arrangements. ASU 2016-12 applies to the assumption of our home office lease. The adoption of this guidance did not have a material impact on our results of operations, financial condition or liquidity.

Recently Issued Accounting Pronouncements

New accounting rules and disclosure requirements can impact the results and the comparability of the Company's consolidated financial statements. The following recently issued accounting pronouncements are relevant to the Company's consolidated financial statements:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*. The amendments in this Update require a new topic to be added (Topic 326) to the Accounting Standards Codification ("ASC") and removes the thresholds that entities apply to measure credit losses on financial instruments measured at amortized cost, such as loans, trade receivables, reinsurance recoverables, off-balance-sheet credit exposures, and held-to-maturity securities. Under current GAAP, entities generally recognize credit losses when it is probable that the loss has been incurred. The guidance under ASU 2016-13 will remove all current recognition thresholds and will require entities under the new current expected credit loss ("CECL") model to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that an entity expects to collect over the instrument's contractual life. The new CECL model is based upon expected losses rather than incurred losses. Additionally, the credit loss recognition guidance for available-for-sale securities is amended and will require that credit losses on such debt securities should be recognized as an allowance for credit losses rather than a direct write-down of amortized cost balance. The ASU was effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which extended the

effective date of adopting ASU 2016-13. ASU 2016-13 will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption will continue to be permitted; that is, early adoption is allowed for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (that is, effective January 1, 2019, for calendar year-end companies). The Company's expected adoption date for ASU 2016-13 is January 1, 2023. At this time, we are evaluating the potential impact of ASU 2016-13 in the Company's consolidated financial statements.

5. Acquisition of the Diversus Companies

On September 7, 2021, the Company entered into an asset purchase agreement with Diversus for \$12.6 million, including \$6.0 million in cash and \$6.5 million reflecting the effective settlement of a preexisting relationship, the prepaid management fee. See Note 13. Agreements with Diversus for additional information.

Diversus had managed and administered essentially all of the operations of Positive Insurance Company under the terms of a management agreement. The acquisition includes the working capital of Diversus at closing, the transfer and/or assignment of employment agreements and contracts with key third party vendors, including the lease of our home office, and full membership assignments of Gateway and SIA.

The asset purchase agreement of the Diversus Companies on September 7, 2021 was accounted for under the acquisition method of accounting. Accordingly, the Company conducted an assessment of the net assets acquired and recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while transaction costs associated with the acquisition were expensed as incurred.

The following assets and liabilities were initially recognized in connection with the acquisition as of September 7, 2021:

Consideration:	
Cash paid	\$ 5,500,000
Liabilities assumed	519,113
Prepaid management fee	6,547,619
Total consideration transferred	\$ 12,566,732
Identifiable net assets:	
Cash	\$ 890,034
Accounts receivable	340,187
Right-of-use lease asset	710,258
Other assets	78,775
Accounts payable, accrued expenses, and other liabilities	(481,264)
Lease liability	(710,258)
Total identifiable net assets	827,732
Goodwill	5,977,000
Other intangible assets	5,762,000
Total	\$ 12,566,732

The amount of the Company's revenues and net income included in the accompanying consolidated statement of operations before elimination of intercompany transactions for the period from September 7, 2021 through December 31, 2021 related to the operations of Gateway and SIA were \$461,543 and \$113,829, respectively. Effective with the execution of the new management agreement between PPM, Positive Insurance Company, and PPHI as of September 7, 2021, the acquired operations of Diversus Management were terminated as of the same date.

Intangible assets consisted of the following at December 31, 2021:

	December 31, 2021	Useful life
Customer relationships	\$ 5,470,000	10 years
Trademarks	220,000	10 years
Covenants not-to-compete	72,000	2 years
	5,762,000	
Less accumulated amortization	208,666	
	<u>\$ 5,553,334</u>	

Customer relationships, trademarks, and covenants not-to-compete acquired as part of the Diversus Companies asset purchase are amortized on a straight-line basis over a range of two to ten years. Amortization expense for the period ended December 31, 2021 was \$208,666. Future amortization expense for the ensuing five years is \$598,000, \$593,000, \$569,000, \$569,000, and \$569,000, and approximately \$2.7 million thereafter.

6. Investments

The Company uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. Fixed maturity available-for-sale securities and equity securities are recorded at fair value on a recurring basis. FASB ASC Topic 820 “Fair Value Measurements and Disclosures” establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The three levels of the fair value hierarchy under ASC Topic 820 are as follows:

Level 1: Quoted (unadjusted) prices for identical assets in active markets.

Level 2: Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3: Unobservable inputs that cannot be corroborated by observable market data.

Under ASC Topic 820, we base fair values of assets on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in FASB ASC Topic 820. Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon our or other third-party’s estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Management uses its best judgment in estimating the fair value of financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts we could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective period end and have not been re-evaluated or updated for purposes of the consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period-end. Additionally, changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future valuations.

We obtain one price for each security primarily from a third-party pricing service (“pricing service”), which generally uses quoted prices or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest-level input that is significant to the fair value measurement in its entirety. Our

assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Amortized cost/cost, gross unrealized gains, gross unrealized losses, and fair value of fixed maturity securities by major security type for the results at December 31, 2021 and 2020 are as follows:

	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
U.S. government	\$ 5,728,192	\$ 67,884	\$ 18,021	\$ 5,778,055
States, territories, and possessions	864,670	11,626	—	876,296
Subdivisions of states, territories, and possessions	9,542,554	253,876	2,573	9,793,857
Industrial and miscellaneous	86,323,037	1,859,513	601,813	87,580,737
Total fixed maturity securities	<u>\$102,458,453</u>	<u>\$ 2,192,899</u>	<u>\$ 622,407</u>	<u>\$104,028,945</u>
	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
U.S. government	\$ 10,988,463	\$ 141,075	\$ 21,325	\$ 11,108,213
States, territories, and possessions	916,703	19,661	—	936,364
Subdivisions of states, territories, and possessions	12,015,681	474,233	4,463	12,485,451
Industrial and miscellaneous	77,444,191	4,179,064	47,273	81,575,982
Total fixed maturity securities	<u>\$101,365,038</u>	<u>\$ 4,814,033</u>	<u>\$ 73,061</u>	<u>\$106,106,010</u>

The table below sets forth the contractual maturity profile of our investments in fixed maturity securities at December 31, 2021 and 2020. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	December 31, 2021		December 31, 2020	
	Amortized Cost/Cost	Fair Value	Amortized Cost/Cost	Fair Value
Due in less than one year	\$ 13,749,319	\$ 13,854,653	\$ 11,539,731	\$ 11,604,979
Due after one year to five years	63,705,363	65,153,681	63,654,608	66,741,475
Due after five years to ten years	23,758,972	23,734,190	24,615,645	26,098,900
Due after ten years	1,244,799	1,286,421	1,555,054	1,660,656
	<u>\$102,458,453</u>	<u>\$104,028,945</u>	<u>\$101,365,038</u>	<u>\$106,106,010</u>

Realized gains and losses are determined using the specific identification method. During the years ended December 31, 2021 and 2020, proceeds from maturities and sales and gross realized gains and losses on securities are as follows:

	Year Ended December 31,	
	2021	2020
Proceeds	\$ 21,239,104	\$ 27,445,233
Gross gains	35,855	868,230
Gross losses	53,172	775,817

The components of net realized investment gains (losses) for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31,	
	2021	2020
Gain (loss) on sales of fixed maturity securities	\$ (17,317)	\$ 71,534
Gain on sales of equity securities	—	20,879
Total gain (loss) on sales of investments	(17,317)	92,413
Unrealized gain (loss) on equity securities	13,010	(1,554,894)
Total net realized investment losses	<u>\$ (4,307)</u>	<u>\$ (1,462,481)</u>

The components of net investment income for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31,	
	2021	2020
Fixed maturity securities	\$ 2,382,953	\$ 2,408,658
Cash and short-term investments	26,890	168,346
Equity securities	11,250	79,872
Other income	29,333	28,500
	<u>2,450,426</u>	<u>2,685,376</u>
Less investment expenses	107,962	106,974
Net investment income	<u>\$ 2,342,464</u>	<u>\$ 2,578,402</u>

The following table shows fair value and gross unrealized losses of our fixed maturity investments with unrealized losses that are not deemed to be other-than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2021:

Description of securities	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021:						
U.S. government	\$ 2,955,456	\$ 15,765	\$ 197,744	\$ 2,256	\$ 3,153,200	\$ 18,021
States, territories, and possessions	—	—	—	—	—	—
Subdivisions of states, territories, and possessions	—	—	72,664	2,573	72,664	2,573
Industrial and miscellaneous	30,585,850	574,110	550,192	27,703	31,136,042	601,813
Total fixed maturity securities	<u>\$ 33,541,306</u>	<u>\$ 589,875</u>	<u>\$ 820,600</u>	<u>\$ 32,532</u>	<u>\$ 34,361,906</u>	<u>\$ 622,407</u>

At December 31, 2021, we had 116 fixed maturity securities in unrealized loss positions of less than 12 months with a combined gross unrealized loss of \$589,875 and 5 securities in unrealized loss positions of 12 months or longer with a combined gross unrealized loss of \$32,532.

The following table shows fair value and gross unrealized losses of our fixed maturity investments with unrealized losses that are not deemed to be other-than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020:

Description of securities	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020:						
U.S. government	\$ 1,969,008	\$ 3,609	\$ 436,381	\$ 17,716	\$ 2,405,389	\$ 21,325
States, territories, and possessions	—	—	—	—	—	—
Subdivisions of states, territories, and possessions	—	—	70,834	4,463	70,834	4,463
Industrial and miscellaneous	1,292,441	46,128	125,259	1,145	1,417,700	47,273
Total fixed maturity securities	<u>\$ 3,261,449</u>	<u>\$ 49,737</u>	<u>\$ 632,474</u>	<u>\$ 23,324</u>	<u>\$ 3,893,923</u>	<u>\$ 73,061</u>

At December 31, 2020, we had 15 fixed maturity securities in unrealized loss positions of less than 12 months with a combined gross unrealized loss of \$49,737 and 6 securities in unrealized loss positions of 12 months or longer with a combined gross unrealized loss of \$23,324.

Fair values of interest rate sensitive instruments may be affected by increases and decreases in prevailing interest rates, which generally translate, respectively, into decreases and increases in fair values of fixed maturity investments. The fair values of interest rate sensitive instruments also may be affected by the credit worthiness of the issuer, prepayment options, the liquidity of the instrument, and other general market conditions.

We evaluated each security and took into account the severity and duration of the impairment, the current rating on the bond, and the outlook for the issuer according to independent analysts. We found that the declines in fair value are most likely attributable to increases in interest rates, and there is no evidence that the likelihood of not receiving all of the contractual cash flows as expected has changed. Our fixed maturity portfolio is managed by our investment committee in concert with an outside investment manager for investment grade bond investments. By agreement, the investment manager cannot sell any security without the consent of our investment committee if such sale will result in a net realized loss.

We monitor our investment portfolio and review securities that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. When assessing whether the amortized cost basis of the security will be recovered, we compare the present value of the cash flows likely to be collected, based on an evaluation of all available information relevant to the collectability of the security, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as the “credit loss.” If there is a credit loss, the impairment is considered to be other-than-temporary. If we identify that an other-than-temporary impairment loss has occurred, we then determine whether we intend to sell the security, or if it is more likely than not that we will be required to sell the security prior to recovering the amortized cost basis less any current-period credit losses. If we determine that we do not intend to sell, and it is more likely than not that we won’t be required to sell the security, then the amount of the impairment loss related to the credit loss will be recorded in earnings, and the remaining portion of the other-than-temporary impairment loss will be recognized in other comprehensive income (loss), net of tax. If we determine that we intend to sell the security, or that it is more likely than not that we will be required to sell the security prior to recovering its amortized cost basis less any current-period credit losses, then the full amount of the other-than-temporary impairment will be recognized in earnings.

For the years ended December 31, 2021 and 2020, we determined that none of our fixed maturity securities were other-than-temporarily impaired. Adverse investment market conditions, or poor operating results of underlying investments, could result in impairment charges in the future.

The table below presents the level within the fair value hierarchy generally utilized by us to estimate the fair value of assets disclosed on a recurring basis at December 31, 2021:

	Total	Level 1	Level 2	Level 3
U.S. government	\$ 5,778,055	\$ —	\$ 5,778,055	\$ —
States, territories, and possessions	876,296	—	876,296	—
Subdivisions of states, territories and possessions	9,793,857	—	9,793,857	—
Industrial and miscellaneous	87,580,737	—	87,580,737	—
Total fixed maturity securities	104,028,945	—	104,028,945	—
Equity securities	240,876	240,876	—	—
	<u>\$ 104,269,821</u>	<u>\$ 240,876</u>	<u>\$ 104,028,945</u>	<u>\$ —</u>

The table below presents the level within the fair value hierarchy generally utilized by us to estimate the fair value of assets disclosed on a recurring basis at December 31, 2020:

	Total	Level 1	Level 2	Level 3
U.S. government	\$ 11,108,213	\$ —	\$ 11,108,213	\$ —
States, territories, and possessions	936,364	—	936,364	—
Subdivisions of states, territories and possessions	12,485,451	—	12,485,451	—
Industrial and miscellaneous	81,575,982	—	81,575,982	—
Total fixed maturity securities	106,106,010	—	106,106,010	—
Equity securities	227,866	227,866	—	—
	<u>\$ 106,333,876</u>	<u>\$ 227,866</u>	<u>\$ 106,106,010</u>	<u>\$ —</u>

7. Deferred Acquisition Costs

The following table summarizes the movements in deferred acquisition costs for the years ended December 31, 2021 and 2020:

	Year Ended December 31,	
	2021	2020
Balance, beginning of year	\$ 2,611,445	\$ 2,584,486
Amount capitalized during the year	5,677,788	5,292,703
Amount amortized during the year	5,591,926	5,265,744
Balance, end of year	<u>\$ 2,697,307</u>	<u>\$ 2,611,445</u>

8. Reinsurance

Under the Company's current reinsurance agreement, we retain a portion of our exposure and pay to the reinsurers a portion of the premiums received on all policies reinsured. Insurance policies written by us are reinsured with other insurance companies principally to:

- reduce net liability on individual risks and clash occurrences;
- mitigate the effect of individual loss occurrences;
- cover us against losses in excess of policy limits and extra contractual obligation claims;
- stabilize underwriting results; and
- increase our underwriting capacity.

Under Pennsylvania law, each insured must maintain MPLI of at least \$1,000,000 for each claim and \$3,000,000 of annual aggregate coverage. We provide primary insurance coverage up to \$500,000 per claim and \$1,500,000 of annual aggregate coverage. The Pennsylvania Medical Care Availability and Reduction of Error ("MCARE") Fund provides coverage for any losses above \$500,000 per claim up to \$1,000,000. In cases where coverage under the Pennsylvania MCARE Fund does not apply, the primary insurance provides coverage up to \$1,000,000 per claim and \$3,000,000 of annual aggregate coverage. We retain the first \$300,000 in loss on all Pennsylvania claims and reinsurance covers the excess up to \$1,000,000 that is not covered by the Pennsylvania MCARE Fund. We cede to reinsurers any Pennsylvania claims in excess of \$1,000,000.

Other states in which we write insurance require doctors to maintain certain minimum coverage and provide a fund that provides coverage for losses above a certain amount, but some states do not prescribe insurance requirements for doctors.

We offer primary coverage up to \$1,000,000 for each claim and \$3,000,000 of annual aggregate coverage in Delaware, Maryland, Michigan, Ohio, New Jersey, South Carolina, and Florida. We retain the first \$300,000 in loss for claims from these states, and reinsurance covers the excess up to \$1,000,000. If an insured in Delaware or New Jersey requests, additional coverage of \$1,000,000, each claim, each insured, each policy can be provided and is fully ceded to the reinsurer up to a maximum aggregate liability of \$2,000,000 to the reinsurer per the term of the reinsurance agreement. In South Carolina and Michigan, the insured can elect policy limits of \$200,000 per claim and, on these claims, we retain the first \$100,000 and the reinsurer covers the next \$100,000.

We also purchase additional reinsurance coverage for clash, losses in excess of policy limits and extra contractual obligation claims.

Our premiums under the current reinsurance agreement are based on a percentage of our earned premiums during the term of the agreement. The agreement was renewed on January 1, 2022.

The Company also has a reinsurance agreement with Keystone Captive Group ("Keystone"), a protected unincorporated cell of Positive Physicians Captive Insurance Company, which is a wholly owned subsidiary of Positive Insurance Company. Keystone is owned by an insured of Positive Insurance Company.

Reinsurance does not legally discharge the insurance company issuing the policy from primary liability for the full amount due under the reinsured policies. A primary factor in the selection of reinsurers from whom we purchase reinsurance is their financial strength. Our reinsurance arrangements are generally renegotiated annually. The insolvency or inability of any reinsurer to meet its obligations to us could have a material adverse effect on our results of operations or financial condition. Our reinsurance providers, the majority of whom are longstanding partners that understand our business, are all carefully selected with the help of our reinsurance

broker. We monitor the solvency of reinsurers through regular review of their financial statements and, if available, their A.M. Best ratings. Hannover Re, our current reinsurance partner, has an “A+ (Superior)” rating from A.M. Best. According to A.M. Best, companies with a rating of “A” or better “have an excellent ability to meet their ongoing obligations to policyholders.”

As of December 31, 2021, the Company’s reinsurance recoverable of \$12,750,153 was supported by \$7,996,345 of collateral. The uncollateralized portion of this balance was recoverable from reinsurers rated “A” or better by A.M. Best.

As of December 31, 2021, the Company had reinsurance recoverable balances due from the following unaffiliated reinsurer in excess of 5% of shareholders’ equity:

	Reinsurance Recoverable	Collateral
Hannover Re	\$ 8,793,000	\$ 6,732,000

We generally do not assume risks from other insurance companies. However, we could be required by statute to participate in guaranty funds, which are formed to pay claims on policies issued by insolvent property and casualty insurers domiciled in certain states, such as Pennsylvania. This participation, where applicable, requires us to pay an annual assessment based on our premiums written and determined on a market share basis. As of December 31, 2021, our participation was not material.

The effect of reinsurance on premiums written, amounts earned, and losses incurred for the years ended December 31, 2021 and 2020 is as follows:

	Year Ended December 31,	
	2021	2020
Premiums written:		
Direct	\$ 24,261,521	\$ 23,285,804
Ceded	3,483,619	3,655,277
Premiums written, net of reinsurance	<u>\$ 20,777,902</u>	<u>\$ 19,630,527</u>
Premiums earned:		
Direct	\$ 23,979,239	\$ 22,749,370
Ceded	4,339,190	3,665,067
Premiums earned, net of reinsurance	<u>\$ 19,640,049</u>	<u>\$ 19,084,303</u>
Losses and loss adjustment expenses incurred:		
Direct	\$ 20,917,914	\$ 18,604,126
Ceded	4,310,872	5,246,129
Losses and loss adjustment expenses incurred, net of reinsurance	<u>\$ 16,607,042</u>	<u>\$ 13,357,997</u>

9. Losses and Loss Adjustment Expenses

The following table provides a reconciliation of our beginning and ending unpaid loss and loss adjustment expense (“LAE”) reserve balances for the years ended December 31, 2021 and 2020.

	2021	2020
Balance at January 1	\$ 65,679,414	\$ 63,607,975
Less: Reinsurance recoverable on liability for losses and loss adjustment expenses	10,357,039	7,850,409
Add: Reinsurance recoverable on claims paid	41,459	335,274
Net liability at January 1	55,363,834	56,092,840
Losses and loss adjustment expenses incurred, net:		
Current year	14,144,894	12,760,612
Prior years	2,462,148	597,385
Total incurred losses and loss adjustment expenses	16,607,042	13,357,997
Less losses and loss adjustment expenses paid, net:		
Current year	406,000	461,000
Prior years	13,145,376	13,626,003
Total losses and loss adjustment expenses paid	13,551,376	14,087,003
Net liability for losses and loss adjustment expenses, at December 31	58,419,500	55,363,834
Add: Reinsurance recoverable on liability for losses and loss adjustment expenses	12,750,153	10,357,039
Less: Reinsurance recoverable on claims paid	1,651,340	41,459
Liability for losses and loss adjustment expenses, at December 31	<u>\$ 69,518,313</u>	<u>\$ 65,679,414</u>

The liability for losses and LAE at December 31, 2021 and 2020 was \$69,518,313 and \$65,679,414, respectively. For the years ended December 31, 2021 and 2020, \$13,145,376 and \$13,626,003, respectively, has been paid for incurred claims attributable to insured events of prior years. Original estimates are increased or decreased, as additional information becomes known regarding individual claims. The Company recorded unfavorable development of \$2,462,148 on its prior reserves for the year ended December 31, 2021. The adverse development primarily reflected reserve strengthening in the 2019 and 2018 accident/report years. The Company recorded unfavorable development of \$597,385 on its prior period reserves for the year ended December 31, 2020. The adverse development primarily reflected reserve strengthening in the 2018 report/accident year for both claims-made and occurrence policies.

Incurred and Paid Loss Development Information

The following information is presented about incurred and paid loss development at December 31, 2021, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities, plus expected development on reported claims included within the net incurred claims amounts.

The information about incurred and paid claims development for the years ended December 31, 2012 to December 31, 2020 is presented as supplementary information and is unaudited.

Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance (in thousands)											December 31, 2021
(Unaudited)											
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total of Incurred- But-Not- Reported Liabilities Plus Expected Development on Reported Claims
2012	\$20,305	\$18,496	\$18,813	\$19,107	\$18,478	\$19,744	\$19,592	\$20,549	\$20,340	\$ 20,373	51
2013		17,753	16,879	15,219	13,224	11,447	12,022	11,874	11,795	12,250	26
2014			17,307	15,108	13,798	11,087	11,062	11,197	11,247	11,327	104
2015				19,999	17,785	16,494	16,373	15,317	15,231	15,081	58
2016					18,465	18,861	21,376	22,024	21,591	21,542	126
2017						16,588	19,143	17,863	17,865	18,033	215
2018							15,161	16,535	17,794	18,899	101
2019								14,995	15,247	17,766	3,616
2020									12,434	12,239	7,662
2021										14,145	9,050
										\$161,655	

Cumulative Losses and Loss Adjustment Expenses Paid, Net of Reinsurance (in thousands)											December 31, 2021 Cumulative Number of Reported Claims
(Unaudited)											
Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
2012	\$ 1,002	\$ 2,621	\$ 5,637	\$ 9,772	\$14,376	\$17,365	\$17,805	\$19,129	\$19,185	\$ 19,505	197
2013		526	1,896	4,249	6,942	7,625	9,470	10,522	10,865	10,969	158
2014			417	1,676	4,069	6,448	7,780	9,352	9,659	10,138	130
2015				523	2,476	5,186	7,446	11,328	12,418	13,407	137
2016					944	3,818	9,691	12,994	16,502	17,869	185
2017						728	5,057	8,180	10,102	13,432	163
2018							499	4,697	8,670	10,698	197
2019								1,239	3,216	6,251	181
2020									461	1,609	92
2021										406	74
										104,284	
All outstanding liabilities before 2012, net of reinsurance										1,048	
										\$ 58,419	

Reconciliation

The reconciliation for the net incurred and paid loss development tables to the liability for losses and LAE at December 31, 2021 in the accompanying balance sheet is as follows:

	2021
Net outstanding liabilities for losses and loss adjustment expenses:	
Medical professional	\$ 58,419,500
Liabilities for losses and loss adjustment expenses, net of Reinsurance	58,419,500
Reinsurance recoverable on unpaid claims:	
Medical professional	11,098,813
Total reinsurance recoverable on unpaid claims	11,098,813
Total gross liability for losses and loss adjustment expenses	<u>\$ 69,518,313</u>

Losses Duration Information

The following is supplemental information about average historical claims duration at December 31, 2021:

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance										
Accident Year	(Unaudited)									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Medical Professional	4.1%	13.7%	19.5%	16.4%	16.7%	11.4%	7.8%	4.5%	0.6%	1.6%

Positive Insurance Company uses a combination of the Actual versus Expected Method, Bornhuetter-Ferguson Method, Expected Loss Ratio Method, Frequency/Severity Method, and the Incurred Loss Development Method in order to estimate its liability for losses and LAE. There were no significant changes in the methodologies and assumptions used to develop the liabilities for losses and LAE during the year ended December 31, 2021.

Our loss reserve analysis for 2020 assumed that the Company would no longer utilize Andrews Outsource Solutions LLC (“AOS”) to provide claims processing and risk management services following 2020, a measure which was expected to reduce the amount of LAE incurred in subsequent periods. Effective July 1, 2020, the Company discontinued its LAE payments to AOS, which is a half-year sooner compared to our original assumptions for 2020. This change was reflected accordingly in the loss reserve analysis as of December 31, 2020. There were no other significant changes in the methodologies and assumptions used to develop the liabilities for losses and LAE during the year ended December 31, 2020.

10. Income Taxes

The components of the Company’s income tax provision for the years ended December 31, 2021 and 2020 are as follows:

	Year Ended December 31,	
	2021	2020
Current income tax expense (benefit)	\$ 939	\$ (1,111,662)
Deferred income tax expense (benefit)	(702,299)	37,250
Provision for income taxes	<u>\$ (701,360)</u>	<u>\$ (1,074,412)</u>

The Company's U.S. federal statutory income tax rate applicable to ordinary income was 21% for the years ended December 31, 2021 and 2020. The income tax provision differs from that computed by applying federal statutory rate to loss before income taxes for the years ended December 31, 2021 and 2020; those income tax rate differences are summarized as follows:

	Year Ended December 31,	
	2021	2020
Expected tax provision at federal statutory rate	\$ (676,544)	\$ (480,049)
Tax exempt interest income	(41,680)	(48,428)
Dividends received deduction	(635)	(20,490)
Foreign dividends disallowed	140	—
NOL carryback under CARES Act	12,002	(474,770)
Prior period adjustments	15,811	(62,820)
Other	(10,454)	12,145
Provision for income taxes	<u>\$ (701,360)</u>	<u>\$ (1,074,412)</u>

Deferred income taxes are provided for temporary differences between the consolidated financial statements and the tax basis of the Company's assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. At December 31, 2021 and 2020, the Company's deferred income taxes consisted of the following:

	December 31,	
	2021	2020
Deferred tax assets:		
Discount of unearned premiums	\$ 558,006	\$ 510,216
Discount of advance premiums	50,309	43,870
Discount of losses and loss adjustment expenses	1,024,204	981,076
Guaranty fund assessment	36,857	44,663
Net operating loss carryforward	917,451	326,217
Allowance for uncollectible premium	9,557	23,446
Intangible assets	10,961	—
Lease liability	139,959	—
Stock based compensation	46,147	24,893
Other	12,061	6,208
Total deferred tax assets	<u>2,805,512</u>	<u>1,960,589</u>
Deferred tax liabilities:		
Deferred acquisition costs	566,434	548,403
TCJA transitional adjustment	149,962	187,453
Unrealized gain on investments	248,454	911,522
Accrual of bond market discount	38,615	16,802
Right-of-use asset	139,343	—
Other	—	1,805
Total deferred tax liabilities	<u>1,142,808</u>	<u>1,665,985</u>
Deferred income taxes, net	<u>\$ 1,662,704</u>	<u>\$ 294,604</u>

At December 31, 2021 and 2020, the Company had unused net operating loss ("NOL") carryforwards of \$4,368,815 and \$1,553,414, respectively, which will begin to expire in 2038, if unused. The Company's remaining unused NOLs that were generated prior to the conversions and merger in 2019 are subject to limitations under Section 382 of the Internal Revenue Code and are limited in the amount that can be utilized in any one year. The Company's NOL balance at December 31, 2021 includes taxable losses that were generated by the holding company.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law. The CARES Act includes certain income tax-related law changes that have a material effect on the Company's deferred income taxes. The most significant effect on the Company's deferred income taxes is due to changes in the federal net operating loss carryback provisions which allow the Company to carryback NOLs originating in 2018 and 2019 to prior tax years with corporate income tax rates of 34% (as opposed to forward to future tax years with corporate income tax rates of 21%). As a result of this legislation, the Company reduced its NOL balance during 2020 by \$2,969,550, or \$623,606 tax-effected, and recorded additional federal income tax refunds of \$1,205,964, which resulted in an income tax benefit of \$582,358.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all the Company's deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), tax planning strategies, and projected future taxable income in making this assessment. At December 31, 2021 and 2020, management determined that it was more likely than not that all of the deferred tax assets will be realized by the Company in future years. Accordingly, the Company did not record a valuation allowance against its deferred tax assets at December 31, 2021 and 2020.

The Company has applied the provisions of ASC 740, *Income Taxes*, for the years ended December 31, 2021 and 2020. ASC 740 prescribes a recognition threshold and measurement attribute with respect to uncertainty in income tax positions. In applying ASC 740, the Company has evaluated its various tax positions taken during the years ended December 31, 2021 and 2020. The Company has determined that based solely on the technical merits, each tax position on a current and deferred basis has a more-likely-than-not probability that the tax position will be sustained by taxing authorities. The Company is not presently under audit by any taxing authority and there are no other uncertainties and events that are reasonably possible in the next year that would cause a significant change in the amount of unrecognized tax benefits.

At December 31, 2021 and 2020, the Company had no unrecognized tax benefits, nor did it recognize any interest and penalties in the accompanying consolidated statements of operations for the respective years then ended.

As part of the enactment of the Tax Cuts and Jobs Act ("TCJA") on December 22, 2017, property and casualty insurance companies are required to use Internal Revenue Service ("IRS") prescribed factors to determine the loss discount. From the date of the passage of the new law, the IRS is using a corporate bond yield curve to determine the discount factors and property and casualty insurance companies are no longer allowed to use their own historical payment patterns to determine their discount factors. Transition rules require that property and casualty insurance companies recalculate the 2017 reserve discount as if the 2018 tax reform rules had been in effect at the time of the passage of the new law, compare it to the actual 2017 reserve discount, and amortize the difference into taxable income over eight years beginning in 2018. At December 31, 2021 and 2020, the remaining deferred tax liability related to the TCJA transitional adjustment was \$149,962 and \$187,453, respectively, and is included as a component of deferred income taxes.

11. Lease Commitment

At December 31, 2021, the right-of-use lease asset and the lease liability was \$663,539 and \$666,469, respectively. The lease consists of a real estate operating lease of our home office that is amortized on a straight-line basis over the term of the lease, which expires in November 2025. At December 31, 2021, the remaining lease term and discount rate for the lease was 4.2 years and 1.75%, respectively. Rent expense for the year ended December 31, 2021 was \$58,973.

Future minimum lease payments under the operating lease are expected to be as follows at December 31, 2021:

Year Ending December 31,	Total
2022	\$ 171,288
2023	175,579
2024	179,985
2025	169,009
Total undiscounted lease payments	695,861
Less: present value adjustment	29,392
Net lease liability	\$ 666,469

12. Note Payable

On September 7, 2021, PPM and PPIA entered into a master credit agreement with Oak Street Funding, LLC ("Oak Street"). The amount of the loan with Oak Street is for \$2,750,000, with a 12- year term, payable in monthly installments at an interest rate based on the prime rate, adjusted for an applicable margin (1.75% interest rate at December 31, 2021). The loan matures on September 25, 2033. Outstanding borrowings under the agreement are secured by a collateral assignment of PPM, Gateway, PPIA, and SIA with 5% of the outstanding borrowings maintained as restricted cash. The balance of the loan at December 31, 2021 was \$2,750,000.

In connection with the execution of the note payable agreement, PPM and PPIA incurred debt issuance costs of \$46,051. The balance of the debt issuance costs at December 31, 2021 was \$44,772. The Company is amortizing the debt issuance costs on a straight-line basis over the term of the note payable agreement.

13. Agreements with Diversus

On September 7, 2021, Positive Insurance Company entered into a management agreement with PPM, whereby PPM provides management and administrative services to its insurance affiliate. Positive Insurance Company's agreement with PPM replaced the management agreement with Diversus Management effective September 7, 2021.

Positive Insurance Company had a management agreement with Diversus Management, whereby Diversus Management provides administrative services to Positive Insurance Company in exchange for fees based on a percentage of Positive Insurance Company's gross written premium, less return premium. Under the agreement, which became effective March 27, 2019, Positive Insurance Company incurred management fees at 11%. Positive Insurance Company might have also incurred quarterly performance management fees based on its combined ratio and net earned premiums. No quarterly performance fees were payable under the terms of the agreement at December 31, 2021 and 2020.

Management fees are recorded in other underwriting expenses in the consolidated statements of operations. The Company incurred management fees for the respective periods as follows:

	Year Ended December 31,	
	2021	2020
Management fees	\$ 2,910,275	\$ 4,404,764

In connection with the execution of the former management agreement with Diversus Management, the Company paid Diversus \$10,000,000 to execute the agreement. Such payment is presented as prepaid management fee in the accompanying consolidated balance sheet at December 31, 2020 and was being amortized on a straight-line basis over a period of seven years. With the asset purchase of the Diversus Companies on September 7, 2021, the prepaid management fee was effectively settled and eliminated upon consolidation in the accompanying consolidated financial statements. For the period from January 1, 2021 through September 7, 2021, the Company incurred amortization expense of \$952,381. For the year ended December 31, 2020, the Company incurred amortization expense of \$1,428,571. These amounts are recorded in other underwriting expenses in the consolidated statements of operations and included as part of both the current and prior year amounts disclosed in the table above.

Positive Insurance Company has contracts with Gateway and AOS, both of which were wholly owned subsidiaries of Diversus, under which those companies provide claims processing and risk management services. Effective July 1, 2020, the Company discontinued its payments to AOS. On September 7, 2021, the full membership assignments of Gateway were acquired by PPM. Fees incurred by Positive Insurance Company under these contracts, prior to September 7, 2021, are recorded as loss adjustment expenses in the consolidated statements of operations as follows:

	Year Ended December 31,	
	2021	2020
Claims processing and risk management services	\$ 205,000	\$ 949,200

Additionally, the former attorney-in-fact of PCA earned commissions related to our gross written premium and other accounts. Beginning March 27, 2019, these commissions were paid to SIA. On September 7, 2021, the full membership assignments of SIA were acquired by PPM. These commissions are recorded in other underwriting expenses in the consolidated statements of operations. Positive Insurance Company incurred related commission expenses for the respective periods as follows:

	Year Ended December 31,	
	2021	2020
Commissions	\$ 79,915	\$ 106,341

14. Common Stock

The Company is authorized to issue 10,000,000 shares of \$0.01 par value common stock. In connection with the completion of the initial public offering on March 27, 2019, 3,615,500 shares of the Company's common stock were issued. At December 31, 2021, 3,615,500 shares of common stock remain issued and outstanding.

On September 27, 2019, the Company granted its Chief Executive Officer options to purchase 216,930 shares of common stock at an exercise price of \$12.01 per share, which was the closing sale price of the Company's common stock on the date the options were granted. Of the total options, 108,465 shares will vest in equal monthly installments over a three-and-one-half year period following September 27, 2019, and the remaining 108,465 shares will vest upon the achievement by the Company of certain milestones. All vested option shares shall be exercisable for eight years from the date of vesting. The stock-based compensation expense recorded by the Company for 2021 and 2020 was \$94,828 and \$118,536, respectively.

On November 15, 2021, the Company granted its President options to purchase 108,465 shares of common stock at an exercise price of \$19.46 per share, which was the book value of the Company's equity at September 30, 2021. Of the total options, 54,233 shares will vest in equal quarterly installments over a 4-year period following November 15, 2021, and the remaining 54,232 shares will vest upon the achievement by the Company of certain milestones. All vested option shares shall be exercisable for eight years from the date of vesting. The stock-based compensation expense recorded by the Company for 2021 was \$6,385.

The holding company has cash and other liquid assets aggregating \$12,286,815 at December 31, 2021. The holding company's principal source of liquidity is tax share payments for which it received \$355,850 and \$361,673 from Positive Insurance Company in 2021 and 2020, respectively. Its future liquidity will also include dividend payments from Positive Insurance Company, which is restricted by the insurance laws and regulations of the Commonwealth of Pennsylvania as to the amount of dividends or other distributions it may pay to the Company. In connection with the asset purchase of the Diversus Companies, PPHI made a capital contribution of \$3,250,000 to PPM.

An order by the Pennsylvania Insurance Department approving the conversions of PPIX, PCA, and PIPE prohibits the declaration or payment of any dividend, return of capital, or other distribution by the Company to Insurance Capital Group, LLC and Enstar Holdings (US) LLC, the two principal stockholders of the Company, or any other shareholder without the prior approval of the Pennsylvania Insurance Department, for a period of three years following the effective date of the conversions. Additionally, by the order of the Pennsylvania Insurance Department, Positive Insurance Company cannot pay a dividend to the Company for a period of three years following the effective date of the conversions without the approval of the Pennsylvania Insurance Department.

Prior to its payment of any dividend, Positive Insurance Company will be required to provide notice of the dividend to the Pennsylvania Insurance Department. This notice must be provided to the Pennsylvania Insurance Department 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The Pennsylvania Insurance Department has the power to limit or prohibit dividends if Positive Insurance Company is in violation of any law or regulation.

15. Loss Per Share

The following table presents a reconciliation of the numerators and denominators that were used in the basic and diluted per share computations for the Company's common stock:

	Year Ended December 31,	
	2021	2020
Basic and diluted loss per common share:		
Numerator:		
Net loss	\$ (2,520,277)	\$ (1,211,535)
Denominator:		
Weighted average shares outstanding	3,615,500	3,615,500
Basic and diluted loss per common share	\$ (0.70)	\$ (0.34)

The effects of 69,728 and 38,738 stock options were excluded from the computations of diluted loss per common share for the years ended December 31, 2021 and 2020, respectively, because they were anti-dilutive.

16. Assessments

In the event a property and casualty insurer operating in a jurisdiction where Positive Insurance Company also operates becomes or is declared insolvent, state insurance regulations provide for the assessment of other insurers to fund any capital deficiency of the insolvent insurer. Generally, this assessment is based upon the ratio of an insurer's voluntary premiums written to the total premiums written for all insurers in that particular jurisdiction. The Company receives such assessments from the Pennsylvania Property and Casualty Insurance Guaranty Association for which it accrued liabilities of \$175,510 and \$212,680 at December 31,

2021 and 2020, respectively. These accruals are included in accounts payable, accrued expenses, and other liabilities in the accompanying consolidated balance sheets. Positive Insurance Company has not recorded applicable premium tax credits at December 31, 2021 and 2020 related to guaranty assessments. Total guaranty fund expense, net of prior years' refunds and premium tax credits, for the years ended December 31, 2021 and 2020 was \$(24,808) and \$27,551, respectively.

The Pennsylvania MCARE Fund is a special fund established by the Commonwealth of Pennsylvania to ensure reasonable compensation for persons injured due to medical negligence. Healthcare providers who render 50% or more of his or her healthcare business or practice within Pennsylvania are required to obtain statutory excess professional liability coverage with MCARE by paying a certain percentage (assessment) of the prevailing primary premium charged by the Pennsylvania Professional Liability Joint Underwriting Association to MCARE. Positive Insurance Company assesses its policyholders as required by MCARE in addition to collecting the premium assessed. The assessments collected from policyholders are included in accounts payable, accrued expenses, and other liabilities in the accompanying consolidated balance sheets, and no income is recognized by Positive Insurance Company. At December 31, 2021 and 2020, Positive Insurance Company had liabilities of \$244,282 and \$313,454, respectively, for amounts collected on behalf of MCARE.

The New Jersey Property-Liability Insurance Guaranty Association ("NJPIGA") was created by the State of New Jersey to provide a safety net for policyholders and claimants of insolvent property-casualty insurance companies. Positive Insurance Company assesses its policyholders as required by NJPIGA in addition to collecting the premium assessed. The assessments collected from policyholders are included in accounts payable, accrued expenses, and other liabilities in the accompanying consolidated balance sheets, and no income is recognized by Positive Insurance Company. At December 31, 2021 and 2020, Positive Insurance Company had liabilities of \$50,063 and \$45,593, respectively, for amounts collected on behalf of NJPIGA.

17. Statutory Information

Accounting principles used to prepare statutory financial statements differ from those used to prepare these consolidated financial statements under GAAP. Prescribed statutory accounting practices ("SAP") include state laws, regulations, and general administration rules, as well as a variety of publications from the National Association of Insurance Commissioners ("NAIC"). The statutory financial statements of Positive Insurance Company are prepared in accordance with SAP prescribed by the Pennsylvania Insurance Department.

Financial statements prepared under SAP focus on solvency of the insurer and generally provide a more conservative approach than under GAAP. These accounting practices differ significantly in the following respects from GAAP: (1) assets must be included in the statutory balance sheet at "admitted asset value," whereas GAAP requires historical cost or, in certain instances, fair value; (2) "non-admitted assets" must be excluded through a charge to surplus, while on a GAAP basis "non-admitted assets" are included in the balance sheet net of any valuation allowance; (3) acquisition costs, such as commissions, management fees, premium taxes, and other items, have been charged to operations when incurred, whereas GAAP requires capitalization of these expenses, which are amortized over the term of the policies; (4) the carrying value of fixed maturity securities are based on NAIC ratings, whereas GAAP requires fixed maturity securities to be valued based on whether management intends to hold the securities to maturity; (5) changes in deferred income taxes are reported directly to surplus, whereas changes to deferred income taxes are reflected in the statement of operations for GAAP; (6) deferred tax assets, net of any valuation allowance, are subject to an admissibility calculation, whereas under GAAP, no such calculation exists; and (7) ceded reinsurance amounts (unearned premiums and estimated unpaid loss recoverables) are shown net of the related liability, whereas they are presented on a gross basis and reflected as an asset for GAAP.

Statutory net income (loss) and surplus and other funds as determined in accordance with SAP prescribed or permitted by the Pennsylvania Insurance Department for the years ended December 31, 2021 and 2020 are as follows:

	December 31,	
	2021	2020
Statutory net income (loss)	\$ (1,542,452)	\$ 2,349,437
Statutory surplus and other funds	38,290,901	39,680,866

Positive Insurance Company is subject to minimum risk-based capital ("RBC") requirements that were developed by the NAIC. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances and various levels of risk activity. Regulatory compliance is determined by a ratio of Positive Insurance Company's total adjusted capital, as defined by the NAIC, to its authorized control level RBC. At December 31, 2021 and 2020, our RBC exceeded minimum RBC requirements.

18. Subsequent Events

Subsequent events have been evaluated through March 30, 2022, which is the date the consolidated financial statements were available to be issued.

F-5. Issuer's Certifications

I, Lewis S. Sharps, M.D., certify that:

1. I have reviewed this annual disclosure statement of Positive Physicians Holdings, Inc.;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 30, 2022

/s/ Lewis S. Sharps, M.D.
Lewis S. Sharps, M.D.
Chief Executive Officer

I, Mark J. Keyser, certify that:

1. I have reviewed this annual disclosure statement of Positive Physicians Holdings, Inc.;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: March 30, 2022

/s/ Mark J. Keyser
Mark J. Keyser
Interim Chief Financial Officer

ASSET PURCHASE AGREEMENT

This **ASSET PURCHASE AGREEMENT** (this “Agreement”), dated as of September 7, 2021, is made and entered into by and among **POSITIVE PROFESSIONALS MANAGEMENT LLC**, a Pennsylvania limited liability company (“HoldCo”), **POSITIVE PROFESSIONALS INSURANCE AGENCY LLC**, a Pennsylvania limited liability company (“Agency Buyer” and collectively with HoldCo, the “Buyers” or “Buyer”) and **DIVERSUS, INC.**, a Delaware corporation (the “Company”) and **DIVERSUS MANAGEMENT LLC**, a Pennsylvania limited liability company (“DM LLC” and collectively with the Company, the “Sellers” or “Seller”). Buyers and Sellers are each a “Party” and collectively the “Parties”.

BACKGROUND

WHEREAS, the Sellers desire to sell, transfer, convey, assign and deliver to Buyers, and Buyers desire to purchase and acquire from the Sellers, assets of the Sellers relating to the operation of the Sellers’ business on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the representations, warranties, covenants, and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to become legally bound, agree as follows:

ARTICLE 1.

SALE AND PURCHASE OF ASSETS

Section 1.1 *Assets*

(a) Assets Transferred. On the terms and subject to the conditions set forth in this Agreement, the Company shall transfer to Agency Buyer 100% of the outstanding membership interests (the “SIA Interests”) of Specialty Insurance Agency, LLC, a Pennsylvania limited liability company (“SIA”). On the terms and subject to the conditions set forth in this Agreement, the Company and DM LLC will sell, transfer, convey, assign and deliver to HoldCo, and Buyers will purchase and acquire, at the Closing, all of such Sellers’ right, title and interest in, to and under all of the Assets and Properties of the Sellers used or held for use in connection with the Business, except as otherwise provided in **Section 1.1(b)** or **Section 1.4**, as the same shall exist on the Closing Date (collectively, the “HoldCo Acquired Assets” and, together with the SIA Interests, the “Acquired Assets”), including the following Assets and Properties of the Sellers:

(i) Accounts Receivable. All trade accounts receivable and all notes, bonds and other evidences of indebtedness and rights to receive payments arising out of sales occurring in the conduct of the Business (subject to **Section 1.4**) (the “Accounts Receivable”);

(ii) Tangible Personal Property. All furniture, fixtures, equipment, machinery and other tangible personal property used or held for use in the conduct of the Business at the locations at which the Business is conducted or at customers’ premises on consignment, or otherwise used or held for use by such Seller in the conduct of the Business (including but not limited to the items listed in Schedule 1.1(a)(ii)), including any of the foregoing purchased subject to any conditional sales or title retention agreement in favor of any other Person (the “Tangible Personal Property”);

(iii) Personal Property Leases. Subject to **Section 1.4**, the leases of Tangible Personal Property described in Schedule 1.1(a)(iii) as to which such Seller is the lessee or sublessee, together with any options to purchase the underlying property (the “Personal Property Leases”);

(iv) Business Contracts. Subject to **Section 1.4**, all Contracts (other than the Personal Property Leases and the Accounts Receivable) to which such Seller is a party and which are utilized in the conduct of the Business, including without limitation, Contracts relating to suppliers, sales representatives, distributors, purchase orders, marketing arrangements and manufacturing arrangements but excluding any Excluded Contracts (the “Business Contracts”);

(v) Business Licenses. Subject to **Section 1.4**, and to the extent assignable, all insurance and other material licenses and sublicenses, permits and other authorizations and approvals issued by regulatory and other governmental agencies and instrumentalities that are used in the Business (the “Business Licenses”);

(vi) Prepaid Expenses. All prepaid expenses relating to the Business, including but not limited to the items listed in Schedule 1.1(a)(vi);

(vii) Intangible Personal Property. All Intellectual Property Assets used or held for use in the conduct of the Business (including such Seller’s goodwill therein) and all rights, privileges, claims, causes of action and options relating or pertaining to the Business or the Acquired Assets, including but not limited to the items listed in Schedule 1.1(a)(vii);

(viii) Books and Records. All Books and Records used or held for use in the conduct of the Business or otherwise relating to the Acquired Assets, other than the Excluded Books and Records;

(ix) Other Property Rights. All rights under or pursuant to all warranties, representations and guarantees made by suppliers, manufacturers, contractors or others in connection with the operation of the Business or affecting the Tangible Personal Property;

(x) Other Assets and Properties. All other Assets and Properties of such Seller used or held for use in connection with the Business other than the Excluded Assets;

(xi) Cash. All Cash (including checks received prior to the close of business on the Closing Date held by Such Seller, whether or not deposited or cleared prior to the close of business on the Closing Date), commercial paper, certificates of deposit and other bank deposits, treasury bills and other cash equivalents in an amount equal to the cash held by such Seller on the Closing Date, other than any amounts held in the Excluded Account;

(xii) Employee Plans. All assets owned or held by any Employee Plans;

(xiii) Gateway Risk Services. The membership interests of Gateway Risk Services, LLC (“Gateway”); and

(xiv) Office Leases. The Office Leases, as listed on Schedule 1.1(a)(xiv), and all rights under or pursuant thereto.

(b) Excluded Assets. Notwithstanding anything in this Agreement to the contrary, the following Assets and Properties of the Seller (the “Excluded Assets”) shall be excluded from and shall not constitute Acquired Assets:

(i) Excluded Books and Records. The minute books, stock transfer books, securities issued by, equity interests in and corporate seal of the Seller, and any other documents relating to the organization, maintenance and existence of the Seller entities, and any other Books and Records relating solely to the Excluded Assets or the Retained Liabilities (the “Excluded Books and Records”);

(ii) Tax Records. Any Tax Returns filed by the Seller and associated tax records and rights to refunds or claims to overpayments arising out of or relating to events prior to the Closing Date and any taxpayer and other identification numbers of Sellers;

(iii) Litigation Claims. Any rights (including indemnification) and claims and recoveries under litigation of the Seller against third parties arising out of or relating to events prior to the Closing Date;

(iv) [omitted]

(v) Excluded Obligations. The rights of the Seller in, to and under all Contracts of any nature, the obligations of the Seller under which expressly are not assumed by Purchaser pursuant to **Section 1.2(b)**;

(vi) Excluded Account. All amounts held in the Excluded Account, which amount shall not exceed \$499,320.00 plus any interest on such amount; and

(vii) Other Excluded Assets. The Assets and Properties listed in Schedule 1.1(b)(vii).

Section 1.2 Liabilities.

(a) Assumed Liabilities. In connection with the sale, transfer, conveyance, assignment and delivery of the Acquired Assets pursuant to this Agreement, on the terms and subject to the conditions set forth in this Agreement, at the Closing, Buyers will assume and agree to pay, perform and discharge when due all Liabilities of the Sellers arising in connection with the operation of the Business and the Acquired Assets existing as of the Closing Date, including the following Liabilities (the "Assumed Liabilities") other than the Retained Liabilities:

(i) Accounts Payable. All obligations of the Seller with respect to Accounts Payable reflected or reserved against in the balance sheet included in the Financial Statements or those arising in the Ordinary Course of Business since the Balance Sheet Date, which, with respect to any obligation in the amount of \$10,000 or greater, are listed in Schedule 1.2(a)(i);

(ii) Personal Property Lease Obligations. All obligations of the Seller under the Personal Property Leases arising and to be performed on or after the Closing Date, and excluding any such obligations arising or to be performed prior to the Closing Date;

(iii) Obligations under Contracts and Licenses. All obligations of the Seller under the Business Contracts and Business Licenses assigned pursuant to Section 1.1(a) arising and to be performed on or after the Closing Date arising in the ordinary course of Seller's business, which, with respect to any obligation in the amount of \$10,000 or greater, are listed in Schedule 1.2(a)(iii);

(iv) Accrued Expenses. All obligations of the Seller with respect to accrued expenses reflected or reserved against in the balance sheet included in the Financial Statements or those incurred in the Ordinary Course of Business since the Balance Sheet Date, including without limitation the items listed in Schedule 1.2(a)(iv);

(v) Employee-Related Liabilities. All Employee-Related Liabilities other than Excluded Employee-Related Liabilities;

(vi) Accrued Paid Time Off. All obligations of the Sellers with respect to accrued paid time off of each employee of the Business listed on Schedule 5.9(a) existing as of the Closing Date;

(vii) Office Leases. All Liabilities under or pursuant to the Office Leases; and

(viii) Business Contracts. All Liabilities arising under or pursuant to the Business Contracts, including those listed on Schedule 3.5(a).

(b) Retained Liabilities. Except for the Assumed Liabilities, Buyer shall not assume by virtue of this Agreement or the transactions contemplated hereby, and shall have no liability for, any Liabilities of the Sellers of any kind, character or description whatsoever not related to the Business or the Acquired Assets (the "Retained Liabilities"). For avoidance of doubt, the Assumed Liabilities shall not include any (i) liabilities related to any Excluded Employee -Related Liabilities, (ii) liabilities relating to any Excluded Contracts, (iii) liabilities relating to the PPP Loan or any other PPP loan made to any Seller, (iv) liabilities relating to payment of the premium for the D&O Insurance to be acquired by the Company pursuant to Section 5.4, (v) any liabilities arising

out of or relating to the suit filed by Barton Post against the Company, and (vi) liabilities arising from or relating to the Assets and Properties listed in Schedule 1.1(b)(vi).

Section 1.3 *Total Purchase Price.*

(a) The total consideration for the Acquired Assets and the covenants of the Sellers contained in **Section 5.7** will be a total amount (the “Total Purchase Price”) equal to:

(i) The payment by Buyers of an amount equal to Five Million, Five Hundred Thousand Dollars (\$5,500,000) (the “Oak Street Payment”);

(ii) The Buyers’ assumption of the Assumed Liabilities; and

(iii) The payment of all of Sellers’ reasonable expenses directly incurred in connection with the negotiation and execution of this Agreement and the Contemplated Transactions, out of the Cash of Sellers which is assigned to Buyers at Closing.

(b) At the Closing, HoldCo will pay the Oak Street Payment to Oak Street on behalf of the Seller.

Section 1.4 *Third-Party Consents.* To the extent that any Personal Property Lease, Business Contract or Business License is not assignable without the consent of another Person, this Agreement shall not constitute an assignment or an attempted assignment thereof if such assignment or attempted assignment would constitute a breach thereof or a default thereunder. The Sellers shall use its best efforts, at the expense of Buyers, to obtain the consent of such other Person who is party to the assignment of any such Personal Property Lease, Business Contract, Office Lease or Business License to Buyers in all cases in which such consent is or may be required for such assignment. If any such consent shall not be obtained, the Sellers shall cooperate with Buyers in any reasonable arrangement designed to provide for Buyer the benefits intended to be assigned to Buyers under the relevant Personal Property Lease, Business Contract or Business License, including enforcement at the cost and for the account of Buyer of any and all rights of the Sellers against the other party thereto arising out of the breach or cancellation thereof by such other party or otherwise. If and to the extent that such arrangement cannot be made, Buyers shall have no obligation pursuant to **Section 1.2** or otherwise with respect to any such Personal Property Lease, Business Contract, Office Lease or Business License.

ARTICLE 2

CLOSING, ITEMS TO BE DELIVERED, FURTHER ASSURANCES

Section 2.1 *Closing.* The purchase and sale (the “Closing”) provided for in this Agreement will take place via an electronic or virtual closing on the date hereof or at such other place, date and time, or in such manner as Buyers and Sellers may otherwise agree (as applicable, the “Closing Date”). The Closing will be effective as of the Closing Date for tax and accounting purposes.

Section 2.2 *Conveyance and Delivery by the Sellers.* On the Closing Date, each Seller shall assign and transfer to Buyer all of such Seller’s right, title and interest in and to the Acquired Assets free and clear of any Encumbrances other than the Permitted Encumbrances. Without limiting the generality of the foregoing, at the Closing, the Sellers will deliver to Buyer:

(a) A General Assignment and Bill of Sale substantially in the form of Exhibit A hereto, executed by each Seller;

(b) a membership interests assignment with respect to the equity interests of Gateway substantially in the form of Exhibit B-1 hereto (the “Gateway Assignment”), executed by the Company;

(c) Such other good and sufficient instruments of conveyance, assignment and transfer, in form and substance reasonably acceptable to Buyer, as shall be effective to vest in Buyer good title to the Acquired Assets;

(d) Consents (i) to the assignment of any applicable Business Contract from those Third Parties set forth in Schedule 2.2(d), (ii) to the assignment of the Office Lease, and (iii) from Oak Street to the completion of the Contemplated Transactions (the “Required Consents”), in form reasonably acceptable to Buyers;

(e) A copy of the Company Board Resolutions, the Company Shareholder Resolutions and of any Excluded Books and Records, certified by the Company’s secretary (or an individual serving in a substantially similar capacity);

(f) The Indemnification Agreement (as the term is defined below), executed by the Company;

(g) A mutual release of all claims (other than claims that may arise in connection with this Agreement or any of the Transaction Documents) between each of the Buyers, their respective Affiliates, and Gateway, on the one hand, and each of the Sellers and their respective Affiliates, on the other hand (the “Mutual Release”), executed by each of the Sellers;

(h) [omitted];

(i) An estimated closing balance sheet of the Sellers and Gateway, prepared in good faith by the Sellers, indicating the Acquired Assets (including Cash) and the Assumed Liabilities (the “Estimated Balance Sheet”); provided that Sellers will provide to Buyers a final closing balance sheet of the Sellers and Gateway, prepared in good faith by the Sellers, no more than 30 days after the Closing Date;

(j) a membership interests assignment with respect to the SIA Interests substantially in the form of Exhibit B-2 hereto (the “SIA Assignment”), executed by the Company; and

(k) Such other certificates, documents and agreements as Buyer may reasonably request.

Section 2.3 *Delivery by Buyer.* On the Closing Date, Buyers will deliver to the Sellers:

(a) A wire transfer of immediately available funds to one or more accounts designated by Oak Street for the Oak Street Payment;

(b) An Assumption Agreement with respect to the Assumed Liabilities, substantially in the form of Exhibit C hereto, executed by Buyers;

(c) The Gateway Assignment, executed by HoldCo;

(d) The assumption or other settlement by HoldCo of the Company’s obligation to pay the note payable to Kurt Gingrich (the “Gingrich Note”) in the principal amount of \$270,675, plus any interest accrued thereon;

(e) A release from Kurt Gingrich, in form and substance satisfactory to the Sellers, of any and all claims against any Seller with respect to the Gingrich Note or the employment of Gingrich by any of the Sellers, including any claims under the Gingrich Employment Agreement;

(f) (i) the general release of any claims that Dr. Lewis Sharps has or may in the future have against the Company, any other Seller or any of their respective past, current or future directors, officers or employees (collectively, the “Released Claims”), on terms and conditions satisfactory to the Company; (ii) a dismissal with prejudice of the matter captioned No. 2021-03305 in the Court of Common Pleas of Montgomery County, PA (the “Pennsylvania Lawsuit”); and (iii) an indemnification agreement pursuant to which Buyers

indemnify the Company, any other Seller or any of their respective past, current or future directors, officers or employees (collectively, the “Indemnified Parties”) for any claims brought or which may be brought against any of the Indemnified Parties that relates in any way to the Released Claims or the Pennsylvania Lawsuit (the “Indemnification Agreement”), duly executed by each of the Buyers;

(g) The Mutual Release, executed by each of the Buyers, their respective Affiliates, and Gateway;

(h) Such other certificates, documents and agreements as the Sellers may reasonably request.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF EACH SELLER

Each Seller represents and warrants to Buyers, severally and not jointly and only with respect to the portion of the Business conducted by such Seller or of the Acquired Assets owned or held by such Seller, as follows:

Section 3.1 *Organization.*

(a) The Company is a corporation duly organized, validly existing, and in good standing under the Law of the State of Delaware and its status is active. The Company has all requisite corporate power and authority and all necessary Governmental Authorizations to own, lease, and operate its properties, to carry on its business as now being conducted and to perform all its obligations under its Business Contracts. Except as set forth in Schedule 3.1(a), the Company is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the conduct of its business requires it to be so qualified, except where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect on the Company.

(b) SIA is a limited liability company duly organized, validly existing, and in good standing under the Law of the Commonwealth of Pennsylvania and its status is active. SIA has all requisite corporate power and authority and all necessary Governmental Authorizations to own, lease, and operate its properties, to carry on its business as now being conducted and to perform all its obligations under its Business Contracts. Except as set forth in Schedule 3.1(b), SIA is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the conduct of its business requires it to be so qualified, except where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect on SIA.

(c) DM LLC is a limited liability company duly organized, validly existing, and in good standing under the Law of the Commonwealth of Pennsylvania and its status is active. DM LLC has all requisite limited liability company power and authority and all necessary Governmental Authorizations to own, lease, and operate its properties, to carry on its business as now being conducted and to perform all its obligations under its Business Contracts. Except as set forth in Schedule 3.1(c), DM LLC is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the conduct of its business requires it to be so qualified, except where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect on DM LLC.

(d) Gateway is a limited liability company duly organized, validly existing, and in good standing under the Law of the Commonwealth of Pennsylvania and its status is active. Gateway has all requisite limited liability company power and authority and all necessary Governmental Authorizations to own, lease, and operate its properties, to carry on its business as now being conducted and to perform all its obligations under its Business Contracts. Except as set forth in Schedule 3.1(d), Gateway is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the conduct of its business requires it to be so qualified, except where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect on Gateway.

Section 3.2 *No Conflicts.*

(a) Except as set forth in Schedule 3.2(a), the execution and delivery of this Agreement, the other documents and agreements to be executed by each Seller as contemplated hereunder, the consummation of the transactions contemplated hereby and thereby, and the compliance with the terms and conditions hereof or thereof will not (i) contravene any provision of any material Law or Order binding upon such Seller, or contravene any order or permit applicable to such Seller, (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of any obligation under, create in any party the right to accelerate, terminate, modify or cancel, or require any notice under, any agreement, contract, lease, license, instrument, or other arrangement to which such Seller is or will be a party, or by which such Seller is or will be bound, or to which such Seller's assets (including, without limitation, the Acquired Assets) are or will be subject and which would reasonably be expected to have a Material Adverse Effect, or (iii) result in the attachment, creation or imposition of any Encumbrance upon or with respect to the Acquired Assets held by such Seller other than any Permitted Encumbrances. Such Seller does not, and will not, need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Body in order for the Parties to consummate the Contemplated Transactions.

(b) Except as set forth in Schedule 3.2(b), no Seller is or will be required to give any notice to or obtain the Consent of any Third Party regarding such Seller's execution and delivery of this Agreement or any of the other Transaction Documents or the performance of such Seller's obligations hereunder, or the Contemplated Transactions, where the failure to give such notice or to obtain such Consent would reasonably be expected to have a Material Adverse Effect.

Section 3.3 *Assets.* Each Seller has good and marketable title to, or a valid leasehold interest in, the properties and assets used by such Seller or shown on the Financial Statements or acquired after the date thereof, free and clear of all Encumbrances other than Permitted Encumbrances, except for Assets and Properties disposed of in the Ordinary Course of Business since the Balance Sheet Date. Such assets comprise the Acquired Assets and are all assets necessary to conduct the Business.

Section 3.4 *Contracts.* Schedule 3.4 contains a true and complete list, and the Seller Group has previously delivered or made available through an electronic "Drop-Box" to Buyer true and complete copies, of the Business Contracts, Personal Property Leases and Office Leases.

Section 3.5 *Employees and Independent Contractors.* Except as set forth in Schedule 3.5, there are no: (a) employment agreements, producer agreements, agent representation agreements, non-competition agreements, non-solicitation agreements, non-disclosure agreements, confidentiality agreements, or similar Contracts with any employees of the Seller Group; (b) severance agreements with any former employees of the Seller Group pursuant to which the Seller Group has any remaining payment obligation as of the date hereof; or (c) independent contractor agreements with any independent contractors of the Seller Group.

Section 3.6 *Employee Benefits.* Schedule 3.6 lists each Employee Benefit Plan, all specified fringe benefit plans as defined in Section 6039D of the Code, and all other bonus, incentive-compensation, deferred-compensation, profit-sharing, stock-option, stock-appreciation-right, stock-bonus, stock-purchase, employee-stock-ownership, savings, severance, change-in-control, supplemental-unemployment, layoff, salary-continuation, retirement, pension, health, life-insurance, disability, accident, group-insurance, vacation, holiday, sick-leave, fringe-benefit, or welfare plan, and any other employee compensation or benefit plan, policy, practice, or Contract (whether qualified or nonqualified, effective or terminated, written or unwritten) and any trust, escrow, or other Contract related thereto that (i) is maintained or contributed to by the Seller Group and (ii) provides benefits to, or describes policies or procedures applicable to, any current or former director, officer, employee, or service provider of the Seller Group, or the dependents of any thereof, regardless of how (or whether) liabilities for the provision of benefits are accrued or assets are acquired or dedicated with respect to the funding thereof (each, an "Employee Plan").

Section 3.7 *Intellectual Property.*

(a) Schedule 3.7(a) sets forth each internet website, trade name, service mark, trademark, and patent, whether registered or unregistered, any Intellectual Property Assets in which the Seller Group may assert copyright protection, and any pending registration applications for any internet website, trade name, service mark, trademark, patent, and copyright, in each case owned or used by the Seller Group in the operation of the Business.

(b) The current Software applications used by the Seller Group in the operation of the Business, other than commercially available “off the shelf” Software applications, are set forth and described on Schedule 3.7(b) hereto.

Section 3.8 *Leased Real Property.* The Seller Group does not own or lease any real property for use in connection with the Business other than the properties that are the subject of the Office Leases.

Section 3.9 *Broker’s or Finder’s Fees.* None of the Seller Group, or any of their respective Representatives or Affiliates, has incurred any obligation or liability, contingent or otherwise, for any brokerage or finder’s fee or agent’s commission or other similar payment in connection with this Agreement or the Contemplated Transactions.

Section 3.10 *Litigation and Claims.* Schedule 3.10 sets forth each instance in which the Seller Group (a) is subject to any outstanding Order, (b) is a party or, to the Knowledge of the Sellers, as of the date hereof is threatened to be made a party to any Proceeding in or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator, or (c) to the actual knowledge of Sellers, during the three (3)-year period before the date of this Agreement, has settled, had decided or dismissed, or otherwise resolved or had resolved any material action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator. None of the Proceedings set forth in Schedule 3.10 would reasonably be expected to have a Material Adverse Effect on the Seller Group, the Acquired Assets or the Business, taken as a whole, or to prevent the Sellers from consummating the Contemplated Transactions.

Section 3.11 *Business Licenses.* The Business Licenses comprise all material insurance and other licenses and sublicenses, permits and other authorizations and approvals issued by Governmental Bodies that are necessary for each Seller to conduct its business as presently conducted, except where the failure to have such licenses would not reasonably be expected to have a Material Adverse Effect on the Seller Group, the Acquired Assets or the Business, taken as a whole. Each Business License is listed on Schedule 3.11 and, if applicable, sets forth the individual designated as the licensed producer responsible for compliance with Law by the applicable Seller or any Affiliates of such Seller and the name under which such Business License is issued if different than the name of such Seller under its charter. Each Business License issued to each Seller is valid, binding and in full force and effect and such Seller has complied with all material requirements of and is not in default under any such Business License, and has not, during the three (3)-year period before the date of this Agreement, or, to the Knowledge of Seller, at any other time, received written notice that any of them is in violation of any of the terms or conditions of such Business License.

Section 3.12 *Estimated Balance Sheet.* The Estimated Balance Sheet has been prepared by the Sellers in good faith and consistent with past practice, based upon all information available to Sellers as of the date they were prepared and, to the Knowledge of Seller there are no material misstatements in such Estimated Balance Sheet.

Section 3.13 *Capitalization.* The equity interests of Gateway and the SIA Interests (the “Target Interests”) constitute all of the issued and outstanding equity interests of Gateway and SIA, respectively. All of the Target Interests have been duly issued and are fully paid and nonassessable. All of the Target Interests are owned and held by the Company, free and clear of all Encumbrances whatsoever. No Seller is a party to, or bound by, any other agreement, instrument, or understanding restricting the transfer of the Target Interests. There are no existing agreements, options, commitments, rights, or privileges, whether preemptive or contractual, of any Person to acquire equity securities or other securities of Gateway or SIA, or any of Gateway’s or SIA’s assets, properties or rights, or any interest therein.

Section 3.14 No Other Representation or Warranty. Except for the representations and warranties contained in this **Article 3**: (i) each Seller makes no other express or implied representation or warranty with respect to the Company, DM LLC, SIA, Gateway, the Business, the Acquired Assets, the Assumed Liabilities or the Contemplated Transactions, and each Seller disclaims any other representations or warranties, whether made by any Seller, any Affiliate of Sellers or any of their respective officers, directors, employees, agents or Representatives; each Seller (a) expressly disclaims and negates any representation or warranty, expressed or implied, at common law, by statute, or otherwise, relating to the condition of the Acquired Assets (including any implied or expressed warranty of merchantability or fitness for a particular purpose) and (b) makes no representations or warranties whatsoever to Buyers and hereby disclaims all liability and responsibility for any representation, warranty, projection, forecast, statement, or information made, communicated, or furnished (orally or in writing) to Buyers or their Affiliates or Representatives (including any opinion, information, projection, or advice that may have been or may be provided to Buyer by any director, officer, employee, agent, consultant, or Representative of any Seller or any Affiliate of such Seller). Each Seller makes no representations or warranties to Buyer regarding financial projections or forecasts with respect to the Business, or the probable success or profitability of the Business.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF BUYERS

Buyers represent and warrant to the Sellers as follows:

Section 4.1 Organization. HoldCo is a limited liability company duly organized, validly existing, and in good standing under the Law of the State of Pennsylvania and its status is active. HoldCo has all requisite power and authority and all necessary Governmental Authorizations to own, lease and operate its properties and to carry on its business as now being conducted. Agency Buyer is a limited liability company duly organized, validly existing, and in good standing under the Law of the State of Pennsylvania and its status is active. Agency Buyer has all requisite power and authority and all necessary Governmental Authorizations to own, lease and operate its properties and to carry on its business as now being conducted.

Section 4.2 Authorization of Transaction. Each Buyer has full power and authority (including full limited liability company power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of each Buyer, enforceable in accordance with its terms and conditions, except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization or similar Laws now or hereafter in effect relating to or affecting creditors' rights generally or by general principles of equity. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by all necessary action on the part of each Buyer.

Section 4.3 Non-Contravention. Neither the execution and delivery of this Agreement, nor the consummation of the Contemplated Transactions (including the assignments and assumptions referred to in **Article 2** above), will (a) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any Governmental Body, or court to which any Buyer is subject or any provision of its certificate of formation, limited liability company operating agreement, or other Governing Documents or (b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets are subject. Neither Buyer needs to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Body in order for the Parties to consummate the Contemplated Transactions (including the assignments and assumptions referred to in **Article 2** above).

Section 4.4 Funds. Each Buyer has the immediately available funds necessary to consummate the Contemplated Transactions and represents that such Buyer's obligations under this Agreement are not subject to any financing contingency.

Section 4.5 *Broker's or Finder's Fees.* Neither Buyer nor any of any Buyer's Representatives has incurred any obligation or liability, contingent or otherwise, for any brokerage or finder's fee or agent's commission or other similar payment in connection with this Agreement or the Contemplated Transactions.

Section 4.6 *Independent Investigation; Non-Reliance on Extra-Contractual Representations, Warranties, Assurances, Inducements or Other Actions or Omissions.*

(a) Each Buyer acknowledges and agrees that (i) it is relying solely on the express representations and warranties of Sellers contained in **Article 3**, and (ii) any and all prior representations and warranties made by any of the Sellers or their respective Representatives, whether verbally or in writing, are merged into this Agreement, it being intended that no such prior representations or warranties shall survive the execution and delivery of this Agreement.

(b) Each Buyer further acknowledges and agrees that, except as expressly set forth in this Agreement or the other Transaction Documents, none of the Seller Group makes any express or implied warranty of any kind whatsoever, including in respect of any members of the Seller Group or any of their respective businesses, assets, liabilities, operations, prospects or condition (financial or otherwise), including with respect to merchantability or fitness for any particular purpose or the physical condition or value of any assets. Each Buyer agrees and acknowledges that any estimates, forecasts or projections furnished or made available to it concerning the Seller Group or the Business reflect numerous assumptions and are subject to material risks and uncertainties and that actual results may vary, perhaps materially.

(c) Each Buyer further acknowledges and agrees that (i) it is not relying on any extra-contractual representations, warranties, assurances or other acts or omissions by the Seller Group or any of their respective Affiliates or Representatives (including for the sake of clarity, their respective officers, directors, employees or agents) in entering into this Agreement, (ii) no employee, officer, director, manager, stockholder, agent, advisor, other representative or Affiliate of any member of the Seller Group or of any of their respective Affiliates or Representatives has any authority, express or implied, to make any representations, warranties, or agreements not specifically set forth in this Agreement and subject to the limited remedies herein provided, and (iii) Dr. Lewis Sharps Donovan Augustin and Kimberly Casteel may have actual knowledge regarding the representations and warranties set forth in **Article 3**, and that Buyer is not relying on any such representations or warranties to the extent Dr. Sharps, Mr. Augustin or Ms. Casteel has actual knowledge that such representations or warranties are not true and correct.

ARTICLE 5

ADDITIONAL AGREEMENTS

Section 5.1 *Further Assurances; Cooperation in Transition.* The Parties agree to furnish upon request to each other such further information; to execute and deliver to each other such other documents; to do such other acts and things, all as any other Party may reasonably request, for the purpose of carrying out the intent of this Agreement. Without limiting the generality of the foregoing:

(a) After the Closing, the Sellers will cooperate with and use commercially reasonable efforts to assist Buyers in any manner reasonably requested by Buyers to put Buyers in possession and control of the Acquired Assets and permit Buyers to operate the Business following the Closing. After the Closing, the Buyers will cooperate with and use commercially reasonable efforts to assist Sellers in any manner reasonably requested by Sellers for Buyers to assume all of the Assumed Liabilities, to consummate the Contemplated Transactions and to assist Sellers in connection with any of its covenants or agreements, including access to the Transferred Employees.

(b) If and for so long as any Party actively is contesting or defending against any Proceeding in connection with (i) any of the Contemplated Transactions or (ii) any fact, situation, circumstance, status,

condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or before the Closing Date involving the Sellers, the Acquired Assets or the Business, the other Party will reasonably cooperate with the contesting or defending Party and its counsel in the contest or defense, reasonably make available its personnel, and provide such testimony and access to its Books and Records as will be necessary in connection with the contest or defense, to the extent that doing so would not violate any contractual obligation of such Party or applicable Law, or would reasonably be expected to jeopardize any attorney-client or other legal privilege, all at the sole cost and expense of the contesting or defending Party.

Section 5.2 Tax Matters. Any transfer, documentary, sales, use, stamp, registration and other such similar Taxes and fees incurred in connection with the Contemplated Transactions ("Transfer Taxes") shall be paid by the Sellers out of the cash held by Sellers as of the Closing Date.

Section 5.3 Expenses. Except as otherwise expressly set forth in this Agreement, whether or not the Contemplated Transactions are consummated, all costs and expenses incurred in connection with this Agreement and the Contemplated Transactions will be the responsibility of, and paid by, the Buyers.

Section 5.4 Directors and Officers, Errors and Omissions and Employment Practices Liability Extended Reporting ("Tail") Coverage. On or before the Closing Date, Sellers shall provide such reasonable assistance as the Buyers may request to permit the Buyers, at the Buyers' expense, to purchase extended reporting period ("tail") coverage extensions for the Company's E&O insurance policy. On or before the Closing, Sellers shall purchase or maintain director and officer tail liability insurance (the "D&O Insurance") providing coverage after the Closing for the individuals who were directors and officers of the Seller Group prior to the Closing, and which insurance shall be on terms not less favorable than the coverage provided by the policy or policies maintained by the Seller Group immediately prior to the Closing for the benefit of such directors and officers. The premium for the D&O Insurance will be paid from the Excluded Account.

Section 5.5 Press Releases and Public Announcements. No Party will issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of the other Party; *provided, however*, that any Party may make any public disclosure it believes in good faith is required by applicable Law (in which case the disclosing Party will advise the other Party before making the disclosure and confer with such other Party regarding the text of any such disclosure).

Section 5.6 Agreement is Confidential. Except as required by applicable Law, or legal or administrative process, each of the Parties will maintain the terms of this Agreement, including the consideration payable by Buyer, in strict confidence and will not disclose such terms to any Third Party (except such Party's attorneys, accountants, and other professional advisors, a Governmental Body (such as the IRS and the applicable state department of revenue), and otherwise in connection with the enforcement of the Parties' rights against any other Party, and to its Affiliates and its Affiliates' Representatives) without the prior written Consent of all Parties to this Agreement. If any Party or any of its Representatives is requested pursuant to, or required by, applicable Law, or legal or administrative process to disclose the terms of this Agreement, such Party will, unless prohibited from doing so by Law or legal process, notify the other Party promptly in writing of such request or requirement and the reason for such request or requirement, so that the other Party may seek a protective Order or other appropriate remedy or, in its sole discretion, waive compliance with the terms of **Section 5.6**. If no such protective Order or other remedy is obtained, or that the other Party does not waive compliance with **Section 5.6**, such Party will furnish only that portion of this Agreement that it is reasonably advised by its counsel is legally required and will exercise all reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the disclosed portions of this Agreement to the extent possible.

Section 5.7 Sellers' Restrictive Covenants.

(a) **Non-Competition Covenant.** Each Seller agrees that, for a period of 2 years following the Closing Date (the "Restricted Period"), no Seller will directly or indirectly engage in, or be or become the owner of an equity interest in, or otherwise consult with, manage, be employed by, or participate in any business competitive with the Business within the jurisdictions where the Business conducted its activities (the "Restricted

Area"); *provided, however*, that ownership of less than two percent (2%) of the outstanding stock of any publicly traded corporation will not be deemed a violation of this **Section 5.7(a)**.

(b) ***Non-Solicitation/Non-Interference Covenants.*** Without limiting anything set forth in **Section 5.7(a)**, during the Restricted Period:

(i) neither Seller will, on behalf of itself or any other Person, directly or indirectly (A) solicit, hire, or engage any Transferred Employee or (B) seek to induce any Transferred Employee to terminate his or her employment (whether direct or indirect through a professional employer organization) with Buyer or any Affiliate thereof for any reason, including, without limitation, to work for any Seller or any Affiliate of any Seller; and

(ii) neither Seller will solicit, call on or transact or engage in any direct or indirect business activity with any of the brokers listed on Exhibit E hereto.

(c) ***Confidentiality.*** Each Seller acknowledges the confidential and proprietary nature of the Confidential Information and agrees that each Seller will from and after the Closing: (i) keep the Confidential Information confidential and deliver promptly to Buyer, or immediately destroy at Seller's option, all embodiments and copies of the Confidential Information that are in such Seller's possession; (ii) not use the Confidential Information for any reason or purpose; and (iii) without limiting the foregoing, not disclose the Confidential Information to any Person, except with Buyer's prior written consent. If a Seller becomes compelled in any Proceeding to make any disclosure that is prohibited by this **Section 5.7(c)**, such Seller shall, to the extent legally permissible, provide Buyer with prompt notice of such compulsion so that Buyer may seek an appropriate protective order or other appropriate remedy. In the absence of a protective order or other remedy, such Seller may disclose that portion (and only that portion) of the Confidential Information that, based upon the opinion of the Sellers' counsel, such Seller is legally compelled to disclose; provided, however, that such Seller will use its commercially reasonable efforts at Buyers' expense to obtain written assurance that any Person to whom any Confidential Information is so disclosed shall accord confidential treatment to such Confidential Information.

(d) ***Use of Name.*** Neither Seller shall, without the express written consent of the Buyers, use the name "Positive Physicians" "PPHI" or "PPIC" in any marketing materials or other communications with the public, with the Sellers' clients or potential clients or with any other Person.

(e) ***Non-Disparagement.*** Neither Sellers nor Buyers shall make or publish any statements (whether written or oral) that are intended to or would reasonably be expected to materially disparage, materially denigrate or otherwise result in material reputational harm to the other Party or any of such Party's Affiliates, shareholders or equity holders, members, directors, or officers.

(f) ***Scope of Covenants.*** Each of Sellers and Buyers acknowledges and agrees that: (i) the covenants set forth in this **Section 5.7** are being entered into (A) in connection with, and as a material inducement for Buyers and Sellers to enter into, the Contemplated Transactions and (B) voluntarily and for adequate consideration; and (ii) given the nature and national geographic scope of the Business, the Restricted Period and the Restricted Area are reasonable in time and geographic area.

(g) ***Remedies.***

(i) In the event of a breach or threatened breach of the provisions of this **Section 5.7**, Buyers or their Affiliates or Sellers or their Affiliates, as applicable, will be entitled to injunctive relief as well as any other applicable remedies at law or in equity. Should a court of competent jurisdiction declare any of the covenants set forth in this Agreement unenforceable due to an unreasonable restriction, duration, geographical area or otherwise, the Parties agree that such court will be empowered and will grant Buyers or their Affiliates or Sellers or their Affiliates, as applicable, injunctive relief to the extent reasonably necessary to protect their respective interests. Each of Sellers and Buyers acknowledges that the covenants set forth in this Agreement represent an important element of the value of the Business and its goodwill and are a material inducement for Buyers and Sellers to enter into this

Agreement. Each Seller further acknowledges that without such protection, Buyer's and potentially its Affiliates' business would be irreparably harmed, and that the remedy of monetary damages alone would be inadequate.

(ii) If any Seller or Buyer will violate the restrictions contained in this **Section 5.7**, and if any court action is instituted by Buyers or any of their Affiliates or Sellers or their Affiliates, as applicable, to prevent or enjoin such violation, then the period of time during which each Seller's or Buyer's business activities will be restricted as provided in this Agreement will be tolled during any period of non-compliance by the Sellers or Buyers with the restrictions contained in this **Section 5.7**.

(iii) Each provision of this **Section 5.7** will be independent of any and all other provisions of this Agreement, the other Transaction Documents, and any other agreement entered into between the Parties.

(iv) If any of the provisions of this **Section 5.7** will otherwise contravene or be determined to be invalid or unenforceable under the Laws of any state, country, or other jurisdiction in which this Agreement may be applicable, valid, and enforceable but for such contravention or invalidity or unenforceability, then (A) such contravention or invalidity or unenforceability will not invalidate or otherwise affect the enforceability of all of the provisions of this **Section 5.7**, but rather (B) this **Section 5.7** (or the remaining provisions hereof, as applicable) will be construed, insofar as the Laws of that state or other jurisdiction are concerned, as not containing the provision or provisions contravening or invalid under the Laws of that state or jurisdiction, and (C) the rights and obligations created hereby will be construed and enforced to the maximum extent permitted under applicable Law.

Section 5.8 Required Approvals. Sellers shall cooperate with Buyers and their Representatives with respect to all filings that Buyers elect to make or, pursuant to Law, will be required to make in connection with the Contemplated Transactions. The Sellers will also use commercially reasonable efforts to obtain all Required Consents that have not been obtained prior to Closing.

Section 5.9 Business Employees.

(a) Buyers intend to, or intend to cause one of their respective Affiliates to, make offers of employment, to be effective as of the day following the Closing (the "Employment Transition Date"), and on the same terms and conditions as are currently in effect with respect to each employee of the Business listed on Schedule 5.9(a), including, without limitation, a commitment to provide severance pay and benefits for the one year period after Closing at least equal to the severance pay and benefits available to each such employee as of immediately prior to Closing. Each employee of the Business who accepts such offer of employment from Buyers or any of their respective Affiliates and commences employment with Buyers or any of their respective Affiliates is referred to herein as a "Transferred Employee." If, as the result of the Buyer's failure to make offers of employment in accordance with this **Section 5.9(a)**, or as the result of the change in the employment terms of any Transferred Employee following the Closing made by Buyers or their Affiliates (including any change to any benefit plan offered to any Transferred Employee), the Buyers agree, as between Sellers and Buyers, to be solely liable for any Proceedings brought by any such Transferred Employee as the result of such failure or change. In addition, with respect to (i) any employee of the Business not hired by Buyers or any of their respective Affiliates, or (ii) any Transferred Employee whose employment with Buyers or any of their respective Affiliates ends within the one year period after Closing, Buyers or their Affiliates shall provide each such employee severance pay and benefits at least equal to the severance pay and benefits available to each such employee as of immediately prior to Closing, and Buyers agree, as between Sellers and Buyers, to be solely liable for any Proceedings brought by any such employee as the result of Buyers' or any of their respective Affiliates' failure to provide such severance pay and benefits.

(b) The provisions of this **Section 5.9** are solely for the benefit of the Parties to this Agreement, and no current or former employee, director or independent contractor or any other individual associated therewith shall be regarded for any purpose as a third-party beneficiary of the Agreement, and nothing herein shall be construed as an amendment to any employee benefit plan for any purpose. Nothing in this **Section 5.9** shall be construed to (i) limit the right of Buyers or any of their Affiliates to amend or terminate any employee benefit plan, to the extent such amendment or termination is permitted by the terms of the applicable plan, or (ii)

require Buyer or any of their Affiliates to retain the employment of any particular employee for any fixed period of time following the Closing Date.

ARTICLE 6
NO SURVIVAL OR INDEMNIFICATION

Section 6.1 *No Survival; No Indemnification.* None of the (a) representations and warranties or (b) covenants or agreements which require performance at or prior to the Closing, in each case contained in this Agreement, any other Transaction Document or in any certificate or schedule delivered pursuant hereto or thereto, shall survive the Closing. In furtherance, not limitation, of the foregoing, the Parties, intending to contractually shorten any otherwise applicable statute of limitations, hereby agree that: (i) the representations and warranties herein are intended solely to facilitate disclosure, and (ii) from and after the Closing, no Person will have any entitlement, remedy or recourse, whether in contract, tort or otherwise, with respect to this Agreement, any other Transaction Document or any certificate or schedule delivered pursuant hereto or thereto, or the transactions contemplated hereby or thereby, it being agreed that all such remedies, entitlements and recourse are expressly waived and released to the fullest extent permitted by Law, except for any Action seeking to (A) specifically enforce, or to recover any damages with respect to the breach of, any covenant or agreement solely to the extent such covenant or agreement is to be performed or complied with after the Closing or (B) compel Sellers to deliver to Buyers any Acquired Asset or compel Buyers to assume any Assumed Liability as required by this Agreement and, in each case, recover any damages related thereto. Nothing contained in this Agreement shall limit the common law liability for any Fraud claims.

Section 6.2 *Non-Recourse.* This Agreement may only be enforced against, and any claim or cause of action based upon, arising out of or related to this Agreement may only be brought against the Persons that are expressly named as Parties. Except to the extent named as a Party, and then only to the extent of the specific obligations of such Parties and taking into account any limitations on recovery set forth in this Agreement, no past, present or future equity holder, stockholder, member, partner, manager, director, officer, employee, Affiliate, agent or representative of any Party will have any liability (whether in contract, tort, equity or otherwise) for any of the representations, warranties, covenants, agreements or other obligations or liabilities of any of the Parties or for any claim based upon, arising out of or related to this Agreement. Without limiting the foregoing, no claim will be brought or maintained by Buyers or any of their respective successors or permitted assigns against any present or future equity holder, stockholder, member, partner, manager, director, officer, employee (present or former), Affiliate, agent or representative of any party which is not otherwise expressly identified as Party to this Agreement, and no recourse will be brought or granted against any of them, by virtue of or based upon any alleged misrepresentation or inaccuracy in or breach or nonperformance of any of the representations, warranties, covenants or agreements of any Party set forth or contained in this Agreement or any exhibit or schedule hereto or any certificate delivered hereunder.

ARTICLE 7
MISCELLANEOUS

Section 7.1 *Notices.* All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder will be deemed duly given (a) when delivered personally to the recipient; (b) one Business Day after being sent to the recipient by reputable overnight courier service (charges prepaid); (c) one Business Day after being sent to the recipient by electronic mail; or (d) four Business Days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

Buyers:	c/o Positive Physicians Holdings, Inc. Attention: Telephone No.: E-mail Address:
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Sellers:	Diversus, Inc. c/o David Rocke 196 W. Moorestown Rd. Wind Gap, PA 18091 Telephone No.: (441) 505 5323 E-mail Address: thedavidrock@gmail.com
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Section 7.2 Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original agreement, but all of which together will constitute one and the same instrument. Execution and delivery of this Agreement by facsimile transmission (including the delivery of documents in Adobe PDF format) or by electronic signature will constitute execution and delivery of this Agreement for all purposes, with the same force and effect as execution and delivery of an original manually signed copy hereof.

Section 7.3 Entire Agreement. This Agreement supersedes all prior agreements, whether written or oral, between the Parties with respect to its subject matter (including any term sheet, letter of intent, and any confidentiality or non-disclosure agreement between Buyers and the Sellers) and constitutes (along with the Schedules, Exhibits, and other Transaction Documents) a complete and exclusive statement of the terms of the agreement between the Parties with respect to its subject matter.

Section 7.4 Governing Law; Waiver of Jury Trial; Jurisdiction.

(a) All matters arising under or relating to this Agreement, the other Transaction Documents (except as otherwise set forth therein), and the Contemplated Transactions will be governed by and construed and enforced in accordance with the Law of the State of New York, without giving effect to its conflicts of law principles. **EACH PARTY, TO THE EXTENT PERMITTED BY APPLICABLE LAW, KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVES ITS RIGHT TO A TRIAL BY JURY IN ANY PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREIN. THIS WAIVER APPLIES TO ANY PROCEEDING, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE.**

(b) Each Party to this Agreement, by its execution hereof, hereby (i) irrevocably submits to the exclusive jurisdiction of the federal and state courts of New York county, New York for the purpose of any and all actions, suits or proceedings arising in whole or in part out of, related to, based upon or in connection with this Agreement or the subject matter hereof; (ii) waives to the extent not prohibited by applicable Law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that any such action brought in one of the above-named courts should be dismissed on grounds of forum non conveniens, should be transferred to any court other than one of the above-named courts, or should be stayed by reason of the pendency of some other proceeding in any other court other than one of the above-named courts, or that this Agreement or the subject matter hereof may not be enforced in or by such court; and (iii) agrees not to commence any such action other than before one of the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such action to any court other than one of the above-named courts whether on the grounds of inconvenient forum or otherwise. Each Party hereby (A) consents to service of process in any such action in any manner permitted by New York Law; (B) agrees that service of process made in accordance with clause (A) or made by registered or certified mail, return receipt requested, at its address specified pursuant to **Section 7.1** hereof, will constitute good and valid service of process in any such action; and (C) waives and agrees not to assert (by way of motion, as a defense, or otherwise) in any such action any claim that service of process made in accordance with (A) or (B) does not constitute good and valid service of process.

Section 7.5 Assignment and Successors; No Third Party Rights. Unless otherwise set forth in a Transaction Document, no Party may assign any of its rights or delegate any of its obligations under such Transaction

Document without the prior written consent of the other Parties, except that Buyers may assign all or any of its rights (but not delegate any of its obligations) under any Transaction Document to any Affiliate of any Buyer and may collaterally assign its rights hereunder to any financial institution providing financing in connection with the Contemplated Transactions. Subject to the preceding sentence, the Transaction Documents will apply to, be binding in all respects upon, and inure to the benefit of, the successors and permitted assigns of the Parties. Nothing expressed or referred to in the Transaction Documents will be construed to give any Person other than the parties to a Transaction Document any legal or equitable right, remedy, or claim under or with respect to such Transaction Document or any provision of such Transaction Document, except such rights as will inure to a successor or permitted assignee pursuant to this **Section 7.5**.

Section 7.6 **Headings.** All paragraph headings herein are inserted for convenience of reference only and will not modify or affect the construction or interpretation of any provision of this Agreement.

Section 7.7 **Severability.** Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction will not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

Section 7.8 **Attorneys' Fees and Costs.** The prevailing Party in any Proceeding brought to enforce the terms of this Agreement will be entitled to an award of reasonable costs and expenses, including reasonable attorneys' fees and costs, incurred in investigating and pursuing such action, both at the trial and appellate levels.

Section 7.9 **Amendment; Waiver.** No amendment of any provision of this Agreement will be valid unless the same will be in writing and signed by Buyer and the Seller. No waiver by any Party of any provision of this Agreement or any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, will be valid unless the same will be in writing and signed by the Party making such waiver nor will such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such default, misrepresentation, or breach of warranty or covenant.

Section 7.10 **Construction.**

(a) The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the Parties and no presumption or burden of proof will arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or Law will be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" will mean including without limitation. Without limiting the generality of the foregoing, the mere listing (or inclusion of a copy) of a document or other item will not be deemed adequate to disclose an exception to a representation or warranty made herein (unless the representation or warranty has to do with the existence of the document or other item itself). The Parties intend that each representation, warranty, and covenant contained herein will have independent significance.

(b) In this Agreement, unless a clear contrary intention appears: (i) the singular number includes the plural number and vice versa; (ii) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are not prohibited by this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually; (iii) reference to any gender includes either gender; (iv) reference to any agreement, document, or instrument means such agreement, document, or instrument as amended or modified and in effect from time to time in accordance with the terms thereof; (v) reference to any Law means such Law as amended, modified, codified, replaced, or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder, and reference to any section or other provision of any Law means that provision of such Law from time to time in effect and constituting the substantive amendment, modification, codification, replacement, or reenactment of such section or other provision; (vi) "hereunder," "hereof," "hereto," and words of similar import will be deemed references to this Agreement as a whole and not to any particular Article, Section, or other

provision hereof; (vii) “including” (and with correlative meaning “include”) means including without limiting the generality of any description preceding such term; (viii) with respect to the determination of any period of time, “from” means “from and including” and “to” means “to but excluding”; and (ix) references to documents, instruments or agreements will be deemed to refer as well to all addenda, exhibits, schedules, or amendments thereto.

(c) Unless otherwise specified herein, all accounting terms used herein will be interpreted and all accounting determinations hereunder will be made in accordance with GAAP.

Section 7.11 *Incorporation of Background Paragraph, Exhibits and Schedules.* The Background Paragraph, Exhibits and Schedules to this Agreement are incorporated herein by reference and made a part hereof.

Section 7.12 *Specific Performance.* Each Party acknowledges and agrees that the other Party would be damaged irreparably in the event any provision of this Agreement is not performed in accordance with its specific terms or otherwise is breached, so that a Party will be entitled to injunctive relief to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in addition to any other remedy to which such Party may be entitled, at law or in equity. In particular, the Parties acknowledge that the Company’s business is unique and recognize and affirm that in the event the Seller breaches this Agreement, money damages would be inadequate and Buyer would have no adequate remedy at law, so that Buyer will have the right, in addition to any other rights and remedies existing in its favor, to enforce its rights and the other Parties’ obligations hereunder not only by action for damages but also by action for specific performance, injunctive, and/or other equitable relief.

ARTICLE 8 DEFINITIONS AND USAGE

Section 8.1 *Definitions.*

(a) For purposes of this Agreement, the following terms and variations thereof have the following meanings:

“Accounts Payable”—all short-term payment obligations owed to any vendors or other Third Parties for provided goods or services or otherwise pursuant to the terms of any applicable Business Contracts.

“Affiliate”—with respect to a particular Person, any other Person that, directly or indirectly through one (1) or more intermediaries, controls, or is controlled by, or is under common control with, such particular Person, including, in the case of a natural Person, such Person’s heirs, estates, executors, and administrators.

“Assets and Properties”—for any Person means all assets and properties of every kind, nature, character and description (whether real, personal or mixed, whether tangible or intangible, whether absolute, accrued, contingent, fixed or otherwise and wherever situated), including the goodwill related thereto, operated, owned or leased by such Person, including without limitation cash, cash equivalents, accounts and notes receivable, chattel paper, documents, instruments, general intangibles, real estate, equipment, inventory, goods and Intellectual Property.

“Balance Sheet Date”—August 31, 2021.

“Books and Records”—for any Person means all files, documents, instruments, papers, books and records relating to the business, operations, condition of (financial or other), results of operations and Assets and Properties of such Person, including without limitation financial statements, Tax Returns and related work papers and letters from accountants, budgets, pricing guidelines, ledgers, journals, deeds, title policies, minute books, stock certificates and books, stock transfer ledgers, contracts, licenses, customer lists, computer files and programs, retrieval programs, operating data and plans and environmental studies and plans.

“Business”—the insurance servicing and related business conducted by the Sellers other than the business conducted with the Excluded Assets.

“Business Day”—any day other than (a) Saturday or Sunday or (b) any other day on which banks in the State of New York are permitted or required to be closed.

“CARES Act”—means the Coronavirus Aid, Relief, and Economic Security Act (P.L. 116-136).

“Cash”—cash and cash equivalents (including marketable securities and short-term investments).

“Code”—the Internal Revenue Code of 1986, as amended, or any successor statute, and any rules or regulations promulgated thereunder.

“Company Board Resolutions”—a certified copy of duly adopted resolutions of the Company’s Board of Directors satisfactory to HoldCo in its commercially reasonable discretion approving the execution and delivery of this Agreement and the completion of the Contemplated Transactions by the Sellers.

“Company Shareholder Resolutions”—a certified copy of duly adopted resolutions of the Company’s shareholders satisfactory to HoldCo in its commercially reasonable discretion approving the execution and delivery of this Agreement and the completion of the Contemplated Transactions by the Sellers.

“Confidential Information”—any non-public information concerning financial data, strategic business plans, customer lists, customer account information, information relating to governmental relations, discoveries, practices, processes, methods, marketing plans and other material non-public, confidential information of the Sellers that, in any case, is not otherwise generally available to the public and has not been disclosed by the Sellers to a Third Party under no duty of secrecy or confidentiality to any Person. Notwithstanding anything to the contrary, “Confidential Information” does not include information that (a) is or becomes generally available to the public, (b) was available to the recipient on a non-confidential basis prior to its disclosure by the disclosing party, (c) becomes available to the recipient on a non-confidential basis from another source, provided that such disclosure is not known by the recipient to breach, directly or indirectly, a confidentiality agreement binding upon such other source, or (d) that is independently developed without use of the Confidential Information.

“Consent”—any approval, consent, ratification, waiver, or other authorization.

“Contemplated Transactions”—all of the transactions contemplated in this Agreement and in the other Transaction Documents, including with respect to the PPP Loan.

“Contract”—any agreement, contract, lease, consensual obligation, promise, or undertaking (whether written or oral and whether express or implied).

“Employee Benefit Plan”—any (a) nonqualified deferred compensation or retirement plan or arrangement that is an Employee Pension Benefit Plan, (b) retirement plan or arrangement that is an Employee Pension Benefit Plan, (c) retirement plan or arrangement that is an Employee Pension Benefit Plan (including any Multiemployer Plan), or (d) Employee Welfare Benefit Plan or material fringe benefit plan or program.

“Employee Pension Benefit Plan”—as defined in ERISA Section 3(2).

“Employee Welfare Benefit Plan”—as defined in ERISA Section 3(1).

“Employee-Related Liabilities”—(a) any Liability under the Employee Plans arising before or after the Closing, or relating to employment, compensation, payroll, vacation, sick leave, workers’ compensation, unemployment benefits, pension benefits, employee stock option or profit-sharing plans, deferred compensation plans, health care plans or benefits, or any other employee plans or benefits of any kind for Sellers’ employees or former employees or both (including, without limitation, any Liabilities arising under ERISA, the Code or the FLSA); (b) any Liability arising before or after the Closing under any employment, severance, retention, or termination agreement, including the

agreement set forth on Schedule 3.5, with any employee of the Company or any of its Affiliates (including with respect to any employee of the Business listed on Schedule 5.9(a) who does or does not become a Transferred Employee); (c) any Liability arising before or after the Closing out of or relating to any employee grievance arising with respect to (i) the Sellers or (ii) the termination of any employee's employment with any Seller in connection with the Contemplated Transactions, including, without limitation, in respect of any purported violation of any federal, state, or local labor or employment Law, whether or not the affected employees are hired by any Buyer, or any failure-to-hire or similar claim against any Buyer by any of the Sellers' employees not retained as a result of the Contemplated Transactions; (d) any liability under the WARN Act or any similar state or local Law that may result from an "Employment Loss", as defined in 29 U.S.C. § 2101(a)(6), caused by any action of any Seller before the Closing or by Buyer's decision not to retain any employees of the Sellers; (d) any Liability of the Company to the any shareholder of the Company or any Affiliate or family member of any such shareholder; (e) any Liability to indemnify, reimburse, or advance amounts to any officer, director, employee, or agent of Sellers; (f) any Liability to distribute to the Seller or otherwise apply all or any part of the consideration received hereunder; and (g) any Liability or Losses arising, under, or resulting from, any dissenter's rights exercised by any shareholder or member of the Sellers.

"Encumbrance"—any charge, claim, community or other marital property interest, condition, equitable interest, lien, option, pledge, security interest, mortgage, right of way, easement, encroachment, servitude, right of first option, right of first refusal or similar restriction.

"E&O"—will refer to Errors and Omissions policies.

"ERISA"—the Employee Retirement Income Security Act of 1974, as amended, or any successor statute, and any rules or regulations promulgated thereunder.

"Excluded Account"— Account 9107487913 at Bryn Mawr Trust, 801 Lancaster Avenue, Bryn Mawr PA 19010.

"Excluded Employee-Related Liabilities"—any Employee-Related Liabilities (other than any Liabilities associated with the Seller's Employee Benefit Plans) relating to Michael Gabriele, Rose Mary Ciraulo or Jason Leander after the date hereof.

"Excluded Contracts"—collectively, (a) all contracts or other agreements representing any indebtedness for borrowed money, (b) any loan agreement or similar contract between any Seller or Affiliate thereof and Oak Street, (c) the contract between the Company and CDV Associates LLC, and (d) any contracts between any Seller or Affiliate thereof in respect of payment obligations owed to Alan Mooney.

"Financial Statements"—Sellers' unaudited balance sheet as of the Balance Sheet Date and unaudited statement of income for the period ended as of the Balance Sheet Date.

"FLSA"—collectively, (a) the federal Fair Labor Standards Act, as amended, or any successor statute, (b) any equivalent state or local Law, and (c) and any rules or regulations promulgated thereunder.

"Fraud"—with respect to (i) any Seller, fraud in the making of any representation or warranty made by such Seller as set forth in **Article 3** or in any certificate delivered pursuant to this Agreement; or (ii) any Buyer, fraud in the making of any representation or warranty made by such Buyer as set forth in **Article 4** or in any certificate delivered pursuant to this Agreement; with respect to the foregoing clauses (i) and (ii), such fraud requires (a) actual knowledge (as opposed to imputed or constructive knowledge) of the applicable Seller or Buyer that such representation or warranty is false, (b) that such false representation or warranty was made for the purpose of inducing any other Party to act, and (c) that such other Party justifiably relied on such false representation or warranty and suffered Losses.

"GAAP"—generally accepted accounting principles for financial reporting in the United States of America, applied on a consistent basis.

"Gingrich Employment Agreement"—that certain employment agreement, dated November 1, 2016, by and between Kurt R. Gingrich and Gateway.

“Governing Documents”—with respect to any particular entity, (a) if a corporation, the articles or certificate of incorporation and the bylaws; (b) if a general partnership, the partnership agreement and any statement of partnership; (c) if a limited partnership, the limited partnership agreement and the certificate of limited partnership; (d) if a limited liability company, the articles of organization and operating agreement; (e) if another type of Person, any other charter or similar document adopted or filed in connection with the creation, formation, or organization of the Person; (f) all equity holders’ agreements, voting agreements, voting trust agreements, joint venture agreements, registration rights agreements, or other agreements or documents relating to the organization, management, or operation of any Person or relating to the rights, duties, and obligations of the equity holders of any Person; and (g) any amendment or supplement to any of the foregoing.

“Governmental Authorization”—any Consent, license, registration, permit, variance, exemption, order, or approval issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Law.

“Governmental Body”—any: (a) nation, state, county, city, town, borough, village, district, or other jurisdiction; (b) federal, state, local, municipal, foreign, or other government; (c) governmental or quasi-governmental authority of any nature (including any agency, branch, department, board, commission, court, tribunal, or other entity exercising governmental or quasi-governmental powers); (d) multinational organization or body; (e) body exercising, or entitled or purporting to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power; or (f) official of any of the foregoing.

“Intellectual Property” and “Intellectual Property Assets”—(a) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all domestic, foreign and international patents, patent applications, and patent disclosures, together with all reissues, continuations, continuations-in-part, divisions, revisions, extensions, and reexaminations thereof; (b) all domestic, foreign and international rights in the Sellers’ corporate names and all fictitious trade names, trademarks, service marks, trade dress, logos, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith; (c) all domestic, foreign and international rights in copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith; (d) all domestic, foreign and international rights in mask works and all applications, registrations, and renewals in connection therewith; (e) all Trade Secrets and Confidential Information, including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer account and supplier lists, broker lists, pricing and cost information, and business and marketing plans and proposals; (f) all computer software (including data and related documentation); (g) all registered domain names, website content, website related software, and all other Internet related tools and applications; (h) all other proprietary rights in any and all jurisdictions throughout the world; and (i) all copies and tangible embodiments thereof (in whatever form or medium).

“IRS”—the United States Internal Revenue Service and, to the extent relevant, the United States Department of the Treasury, or any successor thereto.

“Knowledge of the Sellers”—the actual knowledge of David Rocke and Daniel Payne, after reasonable inquiry.

“Law”—any federal, state, local, municipal, foreign, international, multinational or other constitution, law, ordinance, principle of common law, code, rule, regulation, statute, or treaty.

“Liability”—with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown; absolute or contingent; accrued or unaccrued; disputed or undisputed; liquidated or unliquidated; secured or unsecured; joint or several; due or to become due; vested or unvested; executory; determined; determinable; or otherwise; and whether or not the same is required to be accrued on the financial statements of such Person.

“Losses”—all charges, complaints, actions, suits, proceedings, hearings, investigations, claims, demands, judgments, orders, deficiencies, interest, causes of action, choses in action, decrees, stipulations, injunctions, damages, dues,

penalties, fines, costs, amounts paid in settlement, Liabilities, obligations, Taxes, Encumbrances, losses, expenses, and fees, including all reasonable attorneys' fees and court costs.

"Material Adverse Effect"—any event, occurrence, fact, condition or change that is, or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Business, results of operations or financial condition of the Sellers or of the Acquired Assets, taken as a whole; *provided, however*, that none of the following shall be deemed to constitute or be taken into account in determining whether there has been a Material Adverse Effect: (i) any change generally affecting United States or global political, economic, regulatory or business conditions, (ii) any change generally affecting United States or global financial, credit or capital market conditions, including interest rates or exchange rates, currency deflation, consumer price or cost of living index inflation or any changes therein, (iii) any changes or events affecting any industry, sector or business segment in which the Sellers operate, except to the extent such changes or events affect the Sellers or the Business in a materially disproportionate manner relative to other similarly situated participants in the industries, sectors or business segments in which they operate, (iv) whether or not existing on the date hereof and irrespective of any material worsening from and after the date hereof, any military action, war, civil insurrection or any act of terrorism, or any escalation thereof (whether or not involving armed hostilities), (v) any facts, conditions, events or circumstances relating to Buyers or any of their Affiliates, (vi) any event, change, circumstance, effect or state of facts arising directly as a result of compliance with the express terms of, the taking of any action expressly contemplated or required by, or the failure to take any action expressly prohibited by, this Agreement or the taking of any action requested by Buyer, (vii) earthquakes, hurricanes, floods, tsunamis, tornados or other acts of God, natural disasters or calamities, (viii) any violations or other matters arising from changes in Law, GAAP or, in each case, any interpretation thereof, or (ix) any epidemic, pandemic or disease outbreak (including COVID-19) or any Law, directive, pronouncement or guideline issued by a Governmental Body, the Centers for Disease Control and Prevention, the World Health Organization, or industry group providing for business closures, sheltering in place, curfew or other restrictions that relates to, or arises out of, an epidemic, pandemic or disease outbreak (including COVID-19), or any change in such Law (including COVID-19 measures), directive, pronouncement or guideline or interpretation thereof, or any material worsening of such conditions.

"Multiemployer Plan"—as defined in ERISA Section 3(37).

"Oak Street"—Oak Street Funding, LLC.

"Office Leases"— the leases and license agreements listed on Schedule 1.1(a)(xiv).

"Order"—any order, injunction, judgment, decree, ruling, assessment, or arbitration award of any Governmental Body or arbitrator.

"Ordinary Course of Business"—(a) any action or inaction that is consistent in nature, scope, and magnitude with the past practices of such Person and is taken or not taken in the ordinary course of the normal, day-to-day operations of such Person with respect to any Person, and (b) any other action taken or not taken by such Person in response to the actual or anticipated effect on such Person's business of COVID-19 or any quarantine, shelter in place, stay at home, workforce reduction, social distancing, shut down, closure, sequester or any other Law, Order, directive, guideline or recommendation by any Governmental Body, in each case with respect to this clause (b) in connection with or in response to COVID-19.

"Paycheck Protection Program"—the Paycheck Protection Program under the CARES Act.

"Permitted Encumbrances"—(a) Encumbrances for current Taxes not yet due or being contested in good faith; (b) minor imperfections of title and encumbrances that do not impair the value or interfere with the present or continued use of such property or asset; (c) Liens created by the express terms of any Business Contract, Personal Property Lease or Office Lease; and (d) Liens arising under any original purchase price conditional sales contract or equipment lease.

“Person”—an individual, partnership, corporation, business trust, limited liability company, limited liability partnership, joint stock company, trust, unincorporated association, joint venture, or other entity, or a Governmental Body.

“PPP Lender”—Northeast Bank, a banking corporation organized under the laws of the State of Maine, and its successors and assigns.

“PPP Loan”—the loan incurred by Company under the Paycheck Protection Program dated February 8, 2021 in the principal amount of \$499,320 and payable to the PPP Lender.

“Proceeding”—any action, arbitration, audit, charge, hearing, litigation, or suit (whether civil, criminal, administrative, judicial, or investigative, whether formal or informal, whether public or private) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

“Record”—information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

“Representative”—with respect to a particular Person, any director, officer, manager, employee, agent, consultant, advisor, accountant, financial advisor, attorney, or other representative of that Person.

“Seller Group”—Sellers, Gateway and SIA.

“Software”—all computer software and subsequent versions thereof, including source code, object, executable or binary code, build environment, objects, comments, screens, graphic representations, user interfaces, report formats, templates, menus, buttons and icons and all files, data, materials, manuals, design notes and other items and documentation related thereto or associated therewith and any related supplemental materials.

“Straddle Period”—all Tax periods beginning on or before and ending after the Closing Date.

“Tax”—collectively, (a) any income; gross receipts; license; payroll; employment; excise; severance; stamp; occupation; premium; property; environmental; windfall profit; customs; vehicle; airplane, boat, vessel or other title or registration; capital stock; franchise; employees’ income withholding; foreign or domestic withholding; social security; unemployment; disability; real property; personal property; sales; use; transfer; value added; alternative; add-on minimum; and other tax, fee, assessment, levy, tariff, charge or duty of any kind whatsoever; and (b) any interest, penalty, addition or additional amount thereon imposed, assessed, or collected, by or under the authority of, any Governmental Body or payable under any tax-sharing agreement or any other Contract.

“Tax Return”—any return (including any information return), report, statement, schedule, notice, form, declaration, claim for refund, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Law relating to any Tax.

“Third Party”—a Person that is not a Party to this Agreement.

“Trade Secrets”—all know-how, trade secrets, confidential or proprietary information, customer lists, technical information, data, process technology, plans, drawings, inventions, and discoveries, whether or not patentable.

“Transaction Documents”—this Agreement and all documents, agreements, and instruments, as amended, supplemented, or otherwise modified from time to time, executed in connection with this Agreement or the Contemplated Transactions, including the PPP Loan Escrow Agreement, other than the Office Leases.

“WARN Act”—the Worker Adjustment and Retraining Notification Act, as amended, or any successor statute, and any rules or regulations promulgated thereunder.

* * * * *

[Remainder of Page Intentionally Left Blank – Signature Page Follows]

IN WITNESS WHEREOF, the Parties have signed or caused this Asset Purchase Agreement to be signed by their duly authorized respective officers as of the date first written above.

BUYERS:

POSITIVE PROFESSIONALS MANAGEMENT LLC

By: /s/ Lewis S. Sharps, MD
Name: Lewis S. Sharps, M.D.
Title: CEO

POSITIVE PROFESSIONALS INSURANCE AGENCY LLC

By: /s/ Lewis S. Sharps, MD
Name: Lewis S. Sharps, M.D.
Title: CEO

COMPANY:

DIVERSUS, INC.

By: /s/ David Roche
Name: David Roche
Title: Director

DIVERSUS MANAGEMENT LLC

By: /s/ David Roche
Name: David Roche
Title: President