United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2004 or
☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____________to ___________.

Commission file number 1-11983

FPIC

FPIC Insurance Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

Florida	59-3359111
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
225 Water Street, Suite 1400, Jacksonville, FL	32202
(Address of Principal Executive Offices)	(Zip Code)

(904) 354-2482
(Registrant's Telephone Number, Including Area Code)

www.fpic.com
(Registrant's Internet Address)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.10 par value

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

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

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

The aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2004 was $243,382,761.

As of March 3, 2005, there were 10,132,378 shares of the Registrant's Common Stock, $.10 Par Value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Incorporated In
Proxy Statement for Registrant's Annual Shareholders' Meeting to be held on June 1, 2005	Part III

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Part I

Item 1. Business

Overview

FPIC Insurance Group, Inc. ("FPIC") was formed in 1996 in a reorganization of First Professionals Insurance Company, Inc. ("First Professionals," formerly named Florida Physicians Insurance Company, Inc.) and McCreary Corporation ("McCreary"). Under the reorganization plan, First Professionals' shareholders became the shareholders of FPIC. They received five shares of FPIC common stock for each share of their First Professionals' common stock. McCreary also became a subsidiary of FPIC. Effective January 1, 2002, McCreary was merged into its subsidiary, Employers Mutual, Inc. ("EMI"), with EMI continuing as the surviving entity.

FPIC is a provider of specialty property and casualty insurance and insurance management services focused on medical professional liability ("MPL") insurance. Our primary products provide protection for physicians, dentists and other healthcare providers as individual practitioners or as members of practice groups. Our insurance protects policyholders against losses arising from professional liability claims and the related defense costs for injuries in which the patient alleges that medical error or malpractice has occurred. Optional coverage is available for the professional corporations under which physicians or dentists practice. We are the fifth largest provider of medical professional liability insurance in the United States, with $498 million of direct premiums written or under management for the year ended December 31, 2003, based on data published by A.M. Best Company ("A.M. Best").

We have chosen to focus on selected markets where we believe we have advantages in terms of our market knowledge, well established reputation, significant market presence and resources. Through our insurance subsidiaries, we are the largest provider of MPL insurance in Florida, and an insurance company we manage is the second largest provider of MPL insurance in New York. New York is the largest market for MPL insurance in the United States based on premium volume, and Florida is the third largest market.

We conduct our business through three segments:

Our *insurance segment* provides MPL insurance products and related risk management services for physicians, dentists, and other healthcare providers in Florida and selected other states through our insurance subsidiaries. These subsidiaries issue policies, bear the associated risks and earn income on the related investment assets. Through this segment, FPIC is the leading carrier for MPL insurance in Florida. The following subsidiaries are included in the insurance segment:

- FPIC subsidiaries (The holding company is also grouped within the insurance segment):
  - First Professionals, a wholly owned subsidiary of FPIC
    - The Tenere Group, Inc. ("Tenere"), a wholly owned subsidiary of First Professionals
      - Intermed Insurance Company ("Intermed"), a wholly owned subsidiary of Tenere
        - Interlex Insurance Company ("Interlex"), a wholly owned subsidiary of Intermed
        - Insurance Services, Inc., a wholly owned subsidiary of Intermed
        - Trout Insurance Services, Inc., a wholly owned subsidiary of Intermed
  - Anesthesiologists Professional Assurance Company ("APAC"), a wholly owned subsidiary of FPIC
  - FPIC Insurance Agency, Inc. ("FPIC Agency"), a wholly owned subsidiary of FPIC

Our *insurance management segment* provides comprehensive management services to two insurance carriers, the largest being Physicians' Reciprocal Insurers ("PRI"). We do not own PRI; rather, it is owned by and operated for the benefit of its policyholders. PRI provides MPL insurance in New York. PRI has no employees and has been under the management of our insurance management segment since its formation. Pursuant to our management agreement with PRI, we receive fees and expense reimbursements, but we do not bear the associated insurance risks. Effective July 1, 2004, our insurance management segment began serving as the administrator of Pennsylvania Physicians Reciprocal Insurers ("PaPRI") a newly formed insurance exchange that cedes 100% of its business to PRI in the form of reinsurance. The following subsidiaries are included in the insurance management segment:

- FPIC subsidiaries:
  - Administrators For The Professions, Inc. ("AFP"), a wholly owned subsidiary of FPIC
    - FPIC Intermediaries, Inc. ("FPIC Intermediaries"), a wholly owned subsidiary of AFP
    - Group Data Corporation, a wholly owned subsidiary of AFP
    - Physicians Reciprocal Managers, a wholly owned subsidiary of AFP
  - Professional Medical Administrators, LLC ("PMA") (80% owned by FPIC)

Our *third party administration ("TPA") segment* provides administrative and claims management services to municipalities and other employers primarily in Florida that maintain group accident and health, workers' compensation, liability and property self insurance plans. The following subsidiaries are included in the TPA segment:

- FPIC subsidiaries:
  - EMI, a wholly owned subsidiary of FPIC
    - Professional Strategy Options, Inc., a wholly owned subsidiary of EMI
    - FPIC Services, Inc., a wholly owned subsidiary of EMI

Through our insurance and insurance management segments, we operate in the MPL insurance line as both an insurance carrier, which bears underwriting risks, and as an insurance management company, which earns fees for services. Operating under these two separate and distinct business models allows us to selectively participate in diverse opportunities in the complex MPL insurance line. We believe that this approach is well suited to meet our financial objectives.

Our Business Strategy

Our business strategy is designed to provide long-term value for our shareholders, while providing our clients with competitive products and responsive service. Over the 10 years ended December 31, 2004, we, and our predecessor company, achieved an average return on equity (excluding the cumulative effects of changes in accounting principles) of 11%, with a high of 16% in 1995 and a low of 0% in 2000. For the year ended December 31, 2004, our return on average equity was 14%. Our primary objective is to maintain a financially strong, stable and consistently profitable organization by adhering to the following principles:

Focus on selected markets where we have extensive knowledge and expertise. We target selected market areas within our insurance and insurance management segments where we can establish a significant presence and leverage local market knowledge and experience. MPL insurance markets vary substantially on a state-by-state basis, with each state having its own unique regulatory, legislative, judicial and competitive environment. We believe our understanding of our target markets provides us with significant competitive advantages in terms of underwriting, pricing, claims management and policyholder service. In addition, our focus on selected markets has allowed us to achieve leading positions in those markets, providing benefits in terms of brand recognition, resources and efficiencies. We believe that the ability to effectively manage our business and compete within the unique environment of each state is critical to our success.

Maintain disciplined underwriting and pricing. In our insurance segment, we maintain a disciplined focus on selecting appropriate risks and pricing those risks in order to achieve our financial objectives. We believe that our extensive market knowledge provides us with a competitive advantage in establishing appropriate pricing and risk selection. We individually underwrite all of our insureds. We underwrite and price risks based on a wide range of factors, with a particular focus on the professional's training, medical specialty, claims history and county or other geographic region of practice. Within our chosen markets, we do not manage our business to achieve specified market share goals. Rather, we seek to maximize our profitability by competing for quality business based on factors other than price alone.

Aggressively manage loss costs through effective claims handling and risk management programs. In addition to prudent risk selection, we manage our loss costs through effective claims handling. We seek to minimize our incidence of claims by offering our insureds risk management programs that are designed to assist them in successfully managing their individual risk factors. Once claims are made, we seek to aggressively defend non-meritorious claims and expeditiously settle meritorious claims in order to lower our overall loss costs. Over the past four years, we have increased our emphasis on reducing the number of claims settled with an indemnity payment in Florida. Accordingly, we initiated a new claims handling philosophy, added management with significant Florida MPL claims experience, increased the number of claims personnel and their training, restructured the claims department and enhanced claims data and reporting. We have also upgraded our network of defense attorneys. As a result of these initiatives, we have tried more cases, while improving our ratio of trial wins to losses. Our ratio of claims and incidents resulting in a loss payment to all closed claims and incidents declined from 18% in 2001 to 14% in 2004.

Recruit and retain experienced management. Over the past six years, we have assembled an experienced management team with diverse expertise in insurance, accounting, finance and legal disciplines. Our management includes nine executives with an average of more than 20 years of experience in the insurance industry and professions serving the insurance industry.

Maintain our financial strength. We are committed to maintaining the strength and liquidity of our balance sheet by prudently managing our financial and operating leverage, conservatively investing our assets, stringently maintaining adequate reserves and capital and opportunistically pursuing disciplined growth. For example, we have implemented enhanced financial and actuarial systems and processes for the purpose of accurately measuring and controlling our business, including quarterly analytical procedures to test and monitor our loss reserves. In addition, in 2003 we fully retired our short term bank debt and replaced it with long term debt that is not due until 2033, thereby improving our liquidity and giving us greater operating flexibility.

Pursue disciplined growth. We believe that pursuing disciplined growth and cautious expansion into new markets will result in more sustainable profitability. We view the conditions and opportunities within our core Florida market as highly favorable and believe that we can grow by continuing to effectively compete for new and renewal business. Accordingly, our near term focus in our insurance segment will be on disciplined growth within our existing markets.

Industry Overview

The medical malpractice insurance market in the United States totaled $10.1 billion in direct premiums written for the year ended December 31, 2003. This represents an increase of 14% over the prior year according to the most recent data published by A.M. Best.

The financial performance of the property and casualty insurance industry, and of the MPL insurance sector, has tended to fluctuate in cyclical patterns characterized by periods of greater competition in underwriting terms and conditions, pricing and commissions (a soft insurance market) followed by periods of capacity shortage and lesser competition (a hard insurance market).

We operated under soft market conditions during the latter part of the 1990s. Beginning in 2000, the MPL insurance sector began reporting higher loss costs on coverage written in prior years than had initially been established in loss reserves. These increased loss costs, in certain cases, led to reduced capital to support current and future business and downgrades in financial strength ratings of a number of companies in the industry. As a result, the market has seen significant withdrawal of capacity, including the departure of a number of firms that were market leaders at the time of their withdrawal. Many of the firms remaining in the market have responded by significantly raising premium rates, reducing or eliminating discounts and tightening underwriting terms and conditions.

Prices for MPL insurance across the country have increased significantly since the onset of the hardening market. Medical professionals have responded to the hard market conditions, in some cases, by practicing without coverage, seeking to join with other practitioners to form self-insured groups or purchasing lower limits of coverage. For 2004, we believe rate increases have moderated in the markets for our insurance products.

Insurance Ratings

Insurance specific ratings represent the opinion of rating agencies on the financial strength of a company and its capacity to meet its insurance obligations. These ratings are based on factors most relevant to policyholders, agents and intermediaries and are not specifically directed toward the protection of investors. They are not recommendations to buy, sell or hold a company’s securities. The significance of individual agencies and their ratings vary among different users. They can be significant to investors and lenders, among other factors, as an indication of a company’s suitability for investment or creditworthiness. A.M. Best is the primary rating organization for FPIC and is the only insurance rating agency FPIC has engaged to provide a rating on an interactive basis. Other organizations that rate FPIC develop their ratings independently using publicly available data and without consulting with us. These ratings are generally consumer oriented and involuntary on the part of the company being rated.

An insurance company’s rating, and particularly its A.M. Best rating, is a potential source of competitive advantage or disadvantage in the marketplace. In addition, some of the independent agents and brokers who place MPL insurance have a minimum A.M. Best rating standard of A-. The significance of the A.M. Best rating varies depending upon the products involved, the customers and agents and the competition and market conditions. Our insurance subsidiaries have a group rating from A.M. Best of “B++” (Very Good) with a stable outlook, which is within the secure range and the fifth highest of 16 rating levels.

Insurance Regulation

Our insurance subsidiaries are regulated at the state level. The state insurance departments of Florida and Missouri, where our insurance companies are domiciled, are the primary regulators. Our insurance companies are also subject to regulations in other states where they do business. State insurance laws also regulate FPIC as an insurance holding company. FPIC and all its insurance subsidiaries are required to register and furnish information about our operations, management and financial condition to the Florida, Missouri and other insurance departments. The insurance departments perform financial and market conduct examinations of our insurance companies periodically and also require disclosure or approval of material transactions, such as dividends from our insurance subsidiaries to FPIC above certain levels. All transactions within the holding company structure involving our insurance companies must also be fair and reasonable.

Except as described below, Florida insurance laws do not allow any person to acquire, directly or indirectly, five percent or more of the voting securities of an insurance company without the prior written approval of the Florida insurance department. Any purchaser of five percent or more of FPIC common stock is presumed to have acquired a similar level of control of our insurance subsidiaries. Instead of obtaining prior approval, a purchaser of more than five percent, but not more than ten percent, of an insurance company may file a disclaimer of affiliation and control with the Florida insurance department. Similar laws exist in Missouri, except that the approval threshold is ten percent or more of a company's voting securities.

The primary purpose or mission of insurance regulation is the protection of policyholders. State insurance laws generally delegate broad regulatory powers to insurance departments, including granting and revoking licenses, approving policy forms and premium rates, regulating trade practices, establishing minimum capital and surplus levels for companies, prescribing or permitting required statutory accounting and financial reporting rules, and prescribing the types and amounts of investments permitted.

Insurance companies are required to file detailed annual reports in each state in which they do business. The financial statements contained in these reports are prepared using regulatory accounting principles or statutory-basis financial statements as they are referred to in the insurance industry. Statutory accounting principles represent a comprehensive basis of accounting that is different from accounting principles generally accepted in the United States of America ("GAAP") and so the accounting practices used by the insurance subsidiaries in their regulatory financial statements are different in certain material respects from the accounting policies used in preparing the consolidated financial statements included in this Form 10-K.

The National Association of Insurance Commissioners ("NAIC") has adopted the Codification of Statutory Accounting Principles (the "NAIC Codification"). The NAIC Codification became applicable to all statutory-basis financial statements issued after January 1, 2001. While the NAIC Codification represents the official guidance on the statutory basis of accounting, the individual states and insurance departments continue to have the discretion to modify its guidance or establish their own statutory accounting principles for insurance companies.

Insurance companies are also subject to assessments by state financial guaranty associations. The primary purpose of these guaranty associations is to fund the unpaid claims and policyholder benefits of insolvent insurers. Generally, these associations assess member insurers on the basis of written premiums in their states.

During 2003, the State of Florida enacted legislation specifically directed at MPL insurance reforms. Among the more significant aspects of this legislation were caps on non-economic damages and reforms to bad faith statutes with respect to MPL insurance claims. The legislation also contained a requirement that insurers freeze their rates as of July 1, 2003, and file new rates or re-file those rates for formal approval. In addition, the legislation called for the State of Florida to engage an outside actuarial consultant to estimate the benefits to be derived from the legislative reforms and a presumed factor for such benefit to be included in the rate filings to be made by the companies. That presumed factor was a net reduction of approximately 7.8%, of which the consultant attributed 5.3% to the cap on non-economic damages and 2.5% to bad faith reforms.

In November 2004, three constitutional amendments were passed in Florida relating to tort reform. Amendment Three limits the fees a plaintiff's attorney can charge a client. Amendment Seven, referred to as the "patient's right to know" amendment, allows the discovery of medical peer review. Amendment Eight, known as the "three strikes" amendment, requires the revocation of the license of any medical doctor found to have committed three or more incidents of medical malpractice. A temporary injunction has been issued against the implementation of Amendment Eight until after the end of the Florida Legislature's 2005 Regular Session. Each of the three amendments appears to be subject to varying interpretations of how the amendments are to be implemented.

Business Segments

Insurance Segment

Our insurance segment includes four insurance subsidiaries, three of which actively provide MPL insurance to physicians, dentists and other healthcare professionals. At December 31, 2004, we insured 14,158 MPL policyholders (including 111 professional liability policyholders under fronting programs, whereby the direct insurance is written on our policy forms and reinsured to unaffiliated carriers in exchange for fee income). Effective June 30, 2004, all of our fronting programs were terminated and are now in run off. Our primary focus is on individual professionals, whether or not they practice individually or as a member of a group. Therefore, our insurance segment does not underwrite hospitals, nursing homes or other large healthcare institutions.

Our MPL insurance line comprised 95% of our direct and assumed premiums written for the year ended December 31, 2004, and workers' compensation, a non-core line written on a fronted basis, represented the remaining 5%. Our Florida market generated 74% of our direct and assumed premiums written for the year ended December 31, 2004. The following table summarizes (in thousands) direct and assumed premiums written subdivided by our top five states and all others for the years ended December 31, 2004, 2003 and 2002:

	Direct and Assumed Premiums Written by State					
	2004	**% of Total**	**2003**	**% of Total**	**2002**	**% of Total**
Florida	$ 231,112	73.9%	210,155	61.7%	186,455	54.1%
Tennessee	14,869	4.8%	25,791	7.6%	20,185	5.9%
Missouri	13,179	4.2%	24,701	7.2%	32,814	9.5%
Georgia	12,326	3.9%	13,049	3.8%	12,445	3.6%
Pennsylvania	10,175	3.3%	17,886	5.2%	14,212	4.1%
All other	31,067	9.9%	49,159	14.4%	78,616	22.8%
All states	$ 312,728	100.0%	340,741	100.0%	344,727	100.0%

FPIC's insurance subsidiaries reinsure portions of their business. The following table summarizes (in thousands) our ceded reinsurance premiums written by program for the years ended December 31, 2004, 2003 and 2002.

	2004	**2003**	**2002**
Excess of loss reinsurance	$ (39,614)	(56,490)	(47,540)
Net account quota share reinsurance	(50,357)	(84,255)	(85,531)
Fronting programs	(30,225)	(56,862)	(71,408)
Total ceded premiums written	$ (120,196)	(197,607)	(204,479)

Although reinsurance does not legally discharge our insurance subsidiaries from their obligations to policyholders as the primary insurer, it does make the reinsurer liable to us to the extent of the risks ceded. The placement of reinsurance with a number of individual companies and syndicates mitigates the concentration of credit risks under our excess of loss reinsurance programs. We monitor the financial condition and creditworthiness of our reinsurers periodically and use reinsurance brokers and intermediaries to assist in the process of the placement of our reinsurance. Most of FPIC's reinsurers under our excess of loss and net account quota share agreements are rated A- or better by A.M. Best. Reinsurers that are not authorized or accredited are required to provide collateral in the form of an irrevocable letter of credit or investment securities held in a trust account to secure their respective balances due.

Net premiums written, including premiums under fronting programs, are direct and assumed premiums net of reinsurance ceded. The following table summarizes (in thousands) net premiums written by our top five states and all others and presents the insurance business and underwriting risks we retain for our own account after all the reinsurance ceded to others for the years ended December 31, 2004, 2003 and 2002:

	Net Premiums Written by State					
	2004	**% of Total**	**2003**	**% of Total**	**2002**	**% of Total**
Florida	$ 150,184	78.0%	91,570	64.0%	72,319	51.6%
Missouri	10,050	5.2%	17,014	11.9%	27,506	19.6%
New York	9,187	4.8%	15,423	10.8%	17,472	12.5%
Georgia	7,957	4.1%	5,585	3.9%	4,558	3.2%
Arkansas	6,353	3.3%	2,786	1.9%	3,015	2.1%
All other	8,801	4.6%	10,756	7.5%	15,378	11.0%
All states	$ 192,532	100.0%	143,134	100.0%	140,248	100.0%

Our insurance segment's net premiums written have grown significantly, particularly since 2000, because of significant increases in our premium rates and withdrawn market capacity. Beginning in 2001 and through the end of 2004, we increased our effective rates for Florida physicians by a cumulative 127% at our largest insurance subsidiary. Nevertheless, demand for our products in Florida reached historically high levels during this period, and this high demand continued in 2004. We market our coverages primarily through an established network of independent agents who have specialized knowledge in our markets.

Our principal insurance subsidiary, First Professionals, was founded by Florida physicians, and we have served the Florida market for more than 28 years. In Florida, we are endorsed by the Florida Medical Association, the Florida Osteopathic Medical Association, the Florida Dental Association, 13 county medical societies, and 10 state specialty societies. These endorsements, however, do not require us to accept applicants who do not meet our underwriting criteria. Our years in the Florida market have enabled us to develop extensive resources in the state and an extensive understanding of the market, regulatory and judicial environments. We believe this market understanding provides us with competitive advantages in terms of underwriting, pricing, claims management and policyholder service.

In addition, we believe our physician-oriented culture and reputation for outstanding client service, among both agents and policyholders, has allowed us to attract and retain many of the preferred risks that we seek in the marketplace. We emphasize client service, physician advocacy, commitment to our markets, established relationships with organized medicine and aggressive claims defense, and we believe these emphases differentiate us from our competition. For the year ended December 31, 2004, our policyholder retention rate in Florida was 93%.

We believe that careful risk selection is also integral to our success. Accordingly, we focus on a wide range of underwriting factors, including the individual professional’s practice environment, training, claims history and professional reputation. We underwrite professionals individually, whether or not they practice individually or as a member of a group. We require board certification or board eligibility from an appropriate American specialty board as a prerequisite for coverage.

All of the policies we offer are on a claims-made basis, where only claims reported to us prior to the expiration of the policy are covered. We believe our claims-made approach allows us to more accurately estimate our loss exposures and price our coverage than other insurers that use an occurrence-based approach, where losses may be reported for a number of years after a policy’s coverage period.

In our largest market, Florida, many physicians and other medical professionals have responded to increasing MPL insurance premiums by purchasing lower coverage limits. As a result, our purchased policy limits in Florida are on average lower than in many other markets, with 61% of our insured physicians in Florida having policy limits of $250,000 per loss or less and 79% having policy limits of $500,000 per loss or less, as of December 31, 2004. We believe these lower policy limits, among other things, contribute to reduced volatility in our loss severity relative to companies and markets where higher insured limits are prevalent.

Since 2001, we have experienced significant growth in our premiums driven in part by rate increases implemented during the current hard market environment. We have sought to manage this growth by limiting the growth of insurance exposures to core markets, exiting non-core markets and products, including fronting programs, and prudently managing our capital structure to support our growth.

In 2002, we entered into a net account quota share reinsurance agreement under which we ceded a significant portion of our premiums to reinsurers. For the years ended December 31, 2002 and 2003, we ceded $85.5 million and $84.3 million, respectively, of our premiums written to reinsurers under this reinsurance agreement, which represented 50% of the direct MPL insurance premiums, net of other reinsurance, written in selected states by our largest insurance subsidiary. We continued to cede 50%, or $50.4 million, of such premiums written during the first six months of 2004. Effective July 1, 2004, we eliminated further cessions under this agreement, thereby allowing us to retain business for our own account that would otherwise have been ceded. We expect to derive significant benefits from eliminating our utilization of this reinsurance, including the organic growth that will result from retaining more of the revenues and earnings generated by the insurance policies we underwrite.

Insurance Management Segment

Our insurance management segment was acquired in 1999 and provides comprehensive management services to two insurance carriers. The segment’s largest client is PRI, the second largest provider of MPL insurance in New York. Our subsidiary, AFP, has served as attorney-in-fact and been the sole provider of such services to PRI since PRI’s formation in 1982. PRI is owned by and operated for the benefit of its policyholders, and it has no employees. AFP has been responsible for establishing PRI as a leading competitor in the New York market with a reputation for outstanding client service and provides all the functions of PRI, which include marketing, underwriting, claims, financial administration, legal, risk and investment management services. We have an experienced team of more than 270 employees based in New York, including 21 internal defense attorneys. This localized and specialized presence allows us to better control underwriting and claims processes, respond to market conditions and effectively serve PRI’s clients.

Our fee-for-service business model requires a lower capital investment and is an attractive means of participating in this large and unique market, where the primary objectives of the New York State Insurance Department ("NYSID") are the affordability and accessibility of MPL insurance. Since our 1999 acquisition of AFP, it has achieved consistently profitable operations, excluding the cumulative effect of a change in accounting principle, and has been a significant contributor to our cash flow.

Our insurance management segment provides services to PRI under an exclusive management agreement, the current term of which expires December 31, 2008. The agreement provides for fees based on a percentage of direct premiums written, and for the reimbursement of certain expenses incurred by us on behalf of PRI. PRI's direct premiums written totaled $293.3 million for the year ended December 31, 2004. This segment also provides reinsurance brokerage and administrative services to PRI and to our insurance segment.

As a result of rising MPL insurance rates in many markets, healthcare professionals are increasingly considering forming self-insurance mechanisms that require experienced insurance management services such as ours. Effective July 1, 2004, our insurance management segment commenced operations as the administrator of PaPRI, a newly formed insurance exchange that cedes 100% of its business to PRI in the form of reinsurance.

PRI is a Major Client of Ours

In addition to their contribution to our results of operations, our agreements and business arrangements with PRI as a major client of ours also means that our revenues and results of operations are financially sensitive to its revenues and financial condition. We do not own PRI, or have a controlling financial interest in PRI, nor is PRI considered a variable interest entity under FIN 46R, Consolidation of Variable Interest Entities (as Revised), and so PRI's financial statements are not consolidated or included in ours. Instead, PRI is similar to a mutual insurer and the risks and rewards of ownership vest with the policyholders of PRI.

PRI and our subsidiary, AFP, are regulated by the NYSID. PRI files its annual and quarterly statements with the NYSID containing its statutory-basis financial statements and other data. AFP and PRI are required to file audited financial statements annually with the NYSID obtained from the same qualified independent accounting firm.

PRI, as an MPL insurer, is subject to many of the same types of risks as those of our insurance subsidiaries and MPL companies generally. These risks include, but are not limited to, rate adequacy, adverse loss experience, and the effects of changes in market interest rates that it can earn on invested assets. As allowed under New York insurance laws, PRI has requested and received permission from the NYSID to follow the permitted practice of discounting its loss and loss adjustment expense ("LAE") reserves. Therefore the effects of these items on PRI's discount rate can also adversely impact PRI's loss and LAE reserve position and statutory surplus.

The NYSID mandates the insurance rates PRI and other New York MPL insurance carriers are allowed to charge their policyholders. These include the rates charged for the policies in excess of $1.3 million and for covered extended reporting endorsements for death, disability and retirement, which have been reinsured to First Professionals. Under New York insurance statutes, the NYSID is also permitted to implement a surcharge on the established rates if necessary to satisfy a projected premium deficiency for one or more years. The amount of the surcharge to be imposed and collected is subject to certain annual limitations. PRI files information about its rates annually with the NYSID. PRI implemented an 8.5% rate increase effective July 1, 2003 following several years of level rates. Effective July 1, 2004, the NYSID granted an additional 7% base rate increase plus a small additional increase for premiums applicable to higher limit policies issued by PRI. The NYSID also granted effective July 1, 2004, a 20% rate increase on policies issued by the Medical Malpractice Insurance Pool ("MMIP"), which has historically been unprofitable. PRI and other New York MPL insurance carriers are required to participate in, and therefore share in the results of, the MMIP in proportion to the amount of MPL premiums written by them in the New York market.

Growth at PRI is also subject to surplus constraints; however, as a New York reciprocal insurance company, PRI is able to operate with lower surplus and at higher leverage ratios than non-reciprocals such as our insurance subsidiaries. PRI's policyholders' surplus, as reported in its 2004 annual regulatory filing, exceeds the minimum amount required under New York insurance laws and regulations. New York insurance laws and regulations do not impose risk-adjusted capital requirements on PRI.

TPA Segment

Our TPA segment, operating under the EMI brand, provides administrative and client claims management services to employers primarily in Florida that maintain group accident and health, workers' compensation, liability and property self-insurance plans. The services of our TPA segment include claims administration and related services, medical management and loss control services. We also provide brokerage services for the placement of excess insurance coverage on behalf of our clients with insurers and reinsurers. In addition, we provide claims administration services for a large ambulance service organization. We believe that EMI enjoys established name recognition and a reputation for quality service within its markets.

As of December 31, 2004, we provided employee benefit services to 21 clients with approximately 58,701 covered lives and workers' compensation administration services to 25 employers with approximately 25,075 covered lives. In addition, we provided property and casualty insurance brokerage services to employers with over $3.4 billion in total insured value. Our TPA segment markets its services directly and through agents and brokers primarily in Florida, and our operating strategy includes superior service, flexibility and innovation, and competitive pricing. We continue to take steps to sustain and improve this segment's results.

See Note 20, Subsequent Event, to the consolidated financial statements for disclosure of the definitive agreement to sell the TPA segment's employee benefits administration business.

Employees

At December 31, 2004, FPIC employed 619 people. None of our employees are covered by a collective bargaining agreement. We believe our relationships with our employees are very important. We also believe that the significant number of long-term employees we have is indicative of good employee relations.

Additional Information with Respect to FPIC's Business

FPIC will provide its annual report on Form 10-K, its quarterly reports on Form 10-Q and current reports on Form 8-K, including exhibits and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable, after electronically filing such material with or furnishing them to, the Securities and Exchange Commission ("SEC"). Such materials will be provided without charge by FPIC through its Internet website at *www.fpic.com*. FPIC will also furnish a copy of any exhibit, upon payment of a reasonable fee to cover the cost of copying and mailing the requested materials. Requests for such materials should be directed to the attention of Investor Relations, FPIC Insurance Group, Inc., 225 Water Street, Suite 1400, Jacksonville, FL 32202 or via e-mail at *ir@fpic.com* or by calling Investor Relations at (904) 354-2482, extension 3287.

Any materials FPIC files with or furnishes to the SEC may also be reviewed and copied by investors and the public generally at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Additional information is available regarding the SEC's operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site, which contains reports, proxy statements and other information regarding issuers, including FPIC, that file electronically with the SEC. The SEC's internet website address for such materials is www.sec.gov.

Item 2. Properties

The physical properties used by FPIC and its subsidiaries are summarized below:

Business	Location	Type of Property	Owned or Leased	Approximate Square Footage
Corporate headquarters	Jacksonville, FL	Offices	Leased	8,900
First Professionals	Jacksonville, FL	Offices	Owned	66,900
First Professionals	Plantation, FL	Offices	Leased	4,700
First Professionals	Tampa, FL	Offices	Leased	1,200
First Professionals	Sanford, FL	Offices	Leased	600
First Professionals	Coral Gables, FL	Offices	Leased	100
First Professionals	Maitland, FL	Offices	Leased	300
Tenere	Springfield, MO	Offices	Leased	13,300
AFP	Manhasset, NY	Offices	Leased	55,500
AFP	Lake Success, NY	Offices	Leased	15,000
AFP	Rochester, NY	Offices	Leased	5,300
AFP	New City, NY	Offices	Leased	3,900
AFP	West Chester, PA	Offices	Leased	300
EMI	Stuart, FL	Offices	Leased	13,300
EMI	Jacksonville, FL	Offices	Leased	13,500

Item 3. Legal Proceedings

FPIC's insurance subsidiaries from time to time become subject to claims for extra-contractual obligations or risks in excess of policy limits in connection with their insurance claims. These claims are sometimes referred to as "bad faith" actions as it is alleged that the insurance company acted in bad faith in the administration of a claim against an insured. Bad faith actions are infrequent and generally occur in instances where a jury verdict exceeds the insured's policy limits. Under such circumstances, it is routinely alleged that the insurance company failed to negotiate a settlement of a claim in good faith within the insured's policy limit. FPIC has evaluated such exposures as of December 31, 2004, and believes its position and defenses are meritorious. However, there can be no absolute assurance as to the outcome of such exposures. FPIC currently maintains insurance for such occurrences, which serves to limit exposure to such claims. During 2004, FPIC resolved one case arising in 1993 for which no such coverage was available. No additional net charge or increase in incurred losses or aggregate reserves for losses was required. In addition, multiple claims for extra contractual obligations in a single year could result in potential exposures materially in excess of insurance coverage or in increased costs of insurance coverage.

Based on analysis of our exposure to extra-contractual obligations and claims in excess of policy limits ("ECO/XPL"), we elected not to renew the supplemental awards made ECO/XPL reinsurance that we had carried in addition to the ECO/XPL coverage already included as part of our primary excess of loss reinsurance program. Therefore, this additional layer of excess reinsurance is no longer in effect after April 27, 2004 and we now retain this excess risk.

FPIC may also become involved in legal actions not involving claims under its insurance policies from time to time. FPIC has evaluated such exposures as of December 31, 2004, and in all cases, believes its position and defenses are meritorious. However, there can be no absolute assurance as to the outcome of such exposures.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders in the fourth quarter of 2004.

Part II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common equity has been publicly traded on the NASDAQ National Market System since August 1, 1996 under the symbol, "FPIC". Additional information about FPIC can be found on our website *www.fpic.com*. Information presented on our website is not incorporated by reference in this Form 10-K.

The following table sets forth, for the periods indicated, the high and low trades as reported. Such trades are without retail markup, markdown or commission.

	2004		2003	
	High Trade	Low Trade	High Trade	Low Trade
First quarter	$ 26.43	21.90	8.35	4.22
Second quarter	$ 28.09	20.37	14.94	6.80
Third quarter	$ 27.14	21.29	17.00	13.50
Fourth quarter	$ 35.56	25.28	25.97	14.77

We estimate that as of March 7, 2005 there were approximately 2,115 shareholders of record of FPIC common stock.

We have not paid any dividends since 1996 because we have elected to retain our earnings to support our growth. Our Board of Directors will periodically review our dividend policy in the future taking into consideration capital adequacy and future assessments of capital needs. As a holding company with no direct operations other than the management of our subsidiaries, we would rely on cash dividends and other permitted payments from our subsidiaries to pay any future dividends to our stockholders. State insurance laws limit the dividends or other amounts that may be paid to us by our insurance subsidiaries.

Item 6. Selected Financial Data

The selected financial data presented below for the fiscal years ended December 31 should be read in conjunction with FPIC's consolidated financial statements and the notes thereto, which are included in Item 8. Financial Statements and Supplementary Data, herein. For additional information with respect to FPIC's business see Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.

		(in thousands)				
		2004	**2003**	**2002**	**2001**	**2000**
Statements of Financial Position Data:						
Total cash and investments	$	683,968	622,701	538,720	441,966	423,955
Total assets	$	1,271,306	1,182,756	1,026,431	770,822	663,682
Liability for losses and LAE	$	635,118	574,529	440,166	318,483	281,295
Long term debt	$	46,083	46,083	—	—	—
Revolving credit facility	$	—	—	37,000	37,000	67,219
Term loan	$	—	—	10,208	16,042	—
Total liabilities	$	1,054,055	996,019	860,426	596,100	491,155
Minority interest	$	131	80	92	148	—
Total shareholders' equity	$	217,120	186,657	165,913 [1]	174,574	172,527

		(in thousands, except per share amounts)				
		2004	**2003**	**2002**	**2001**	**2000**
Statements of Income (Loss) Data:						
Direct and assumed premiums written	$	312,728	340,741	344,727	245,403	197,280
Net premiums written	$	192,532	143,134	140,248	147,084	161,931
Net premiums earned	$	149,676	131,665	151,684	131,058	120,454
Total revenues	$	236,807	201,724	221,940	197,582	182,089
Minority interest	$	248	94	172	150	—
Income from operations before cumulative effect of accounting change	$	28,181	16,572	14,876	2,930	614
Cumulative effect of accounting change, net of an income tax benefit	$	—	—	(29,578) [1]	—	—
Net income (loss)	$	28,181	16,572	(14,702)	2,930	614
Diluted earnings per common share before cumulative effect of accounting change	$	2.70	1.71	1.58	0.31	0.06
Basic earnings (loss) per common share	$	2.83	1.75	(1.57)	0.31	0.06
Diluted earnings (loss) per common share	$	2.70	1.71	(1.56)	0.31	0.06

[1] Adoption of Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets, resulted in a one-time, non cash charge of $29,578, net of an income tax benefit of $18,784.

Item 7. Management's Discussion and Analysis ("MD&A") of Results of Operations and Financial Condition

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements appearing elsewhere in this report. The consolidated financial statements include the results of all of FPIC Insurance Group, Inc.'s ("FPIC") wholly owned and majority owned subsidiaries.

Safe Harbor Disclosure

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Any written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. These forward-looking statements can be identified by such words as, but are not limited to, "believe," "expect," "intend," "anticipate," "estimate," "project," "plan," "foresee," "hope," "should," "will," "will likely result" or "will continue" and other similar expressions. These forward-looking statements are subject to certain risks, uncertainties and other factors that could cause actual results to differ materially from such statements. These risks, uncertainties and other factors that could adversely affect our operations or cause actual results to differ materially from anticipated results include, but are not limited to, the following:

i) Risks factors, including the effect on reserves and underwriting results, associated with changing market conditions that result from fluctuating cyclical patterns of the property and casualty insurance business;
ii) The uncertainties of the loss reserving process;
iii) The occurrence of insured or reinsured events with a frequency or severity exceeding our estimates;
iv) The impact of surplus constraints on growth;
v) The competitive environment in which we operate, including reliance on agents to place insurance, physicians electing to practice without insurance coverage, related trends and associated pricing pressures and developments;
vi) The actual amount of new and renewal business;
vii) Business risks that result from our size and geographic concentration;
viii) Developments in reinsurance markets that could affect our reinsurance programs;
ix) The ability to collect reinsurance recoverables;
x) The dependence of our insurance management segment upon a major customer, Physicians' Reciprocal Insurers ("PRI"), for its revenue, and consequently, the effects of premium rate adequacy, claims experience, policyholder retention, and PRI's overall financial position on its ability to maintain or grow its premium base;
xi) Developments in financial and securities markets that could affect our investment portfolio and financing plans;
xii) Risk factors associated with the impact of rising interest rates on the market value of our investments;
xiii) Risk factors associated with the impact of rising interest rates on our interest costs associated with our long term debt;
xiv) Rates, including rates on excess policies, being subject to or mandated by legal requirements and regulatory approval, which could affect our business or reinsurance arrangements;
xv) Uncertainties relating to government and regulatory policies (such as subjecting us to insurance regulation or taxation in additional jurisdictions or amending, revoking or enacting any laws, regulations or treaties affecting our current operations);
xvi) Legal developments, including claims for extra-contractual obligations or in excess of policy limits in connection with the administration of insurance claims;
xvii) Business and financial risks associated with the unpredictability of court decisions;

xviii) The loss of the services of any of our executive officers;

xix) Risks of impairment of assets, generally, including the risk of impairment or inability to continue to recognize deferred acquisition costs, deferred tax assets, goodwill and other deferred or intangible assets;

xx) General economic conditions, either nationally or in our market areas, that are worse than expected;

xxi) Changes in our financial ratings resulting from one or more of these uncertainties or other factors and the potential impact on our agents' ability to place insurance business on our behalf; and

xxii) Other risk factors discussed elsewhere within this Form 10-K for the year ended December 31, 2004.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition, results of operations and liquidity and capital resources is based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We generally base our estimates on historical experience or other appropriate assumptions that we believe are reasonable and relevant under the circumstances and evaluate them on an on-going basis. The results of these estimation processes form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the critical accounting policies discussed in the remainder of this section of our MD&A affect our more significant judgments and estimates used in preparation of the consolidated financial statements. These may be further commented upon in applicable sections on Results of Operations, Financial Position and Liquidity and Capital Resources that follow. Information about the significant accounting policies we use in the preparation of our consolidated financial statements is included in Note 2, Significant Accounting Policies, to our consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this Form 10-K.

Liability for Losses and Loss Adjustment Expenses ("LAE")

Our liability for losses and LAE (also referred to as our loss and LAE reserves) is the largest liability of FPIC and represents the financial statement item most sensitive to estimation and judgment. Medical professional liability ("MPL") insurance, including business written directly and reinsurance assumed, is our primary line of business and accounted for $610.6 million and $549.8 million, or 96%, of our total consolidated liability for losses and LAE as of December 31, 2004 and 2003, respectively.

Our loss and LAE reserves represent management's best estimate of the amounts we expect to pay out in the future on account of all insured claims and incidents as of the end of the period. The liability comprises estimated case reserves on reported claims plus estimates of insured losses and LAE incurred but not yet reported ("IBNR"). IBNR primarily comprises provisions for LAE, losses under tail policies, and losses on covered extended reporting endorsements issued following the death, disability or retirement of claims-made insureds. Also implicit in loss and LAE reserves is a provision for case reserve development, which represents an estimate of the aggregate difference between our individually estimated case reserves and the amount for which they will ultimately be settled. Because FPIC consistently settles its cases for amounts that are less than their individually estimated case reserves, this provision serves to offset the other loss and LAE reserve components.

Management sets the loss and LAE reserves taking into account the results of multiple actuarial techniques applied as well as other assumptions, some of which are not strictly mathematical in nature. As of December 31, 2004, management utilized and integrated, within our loss and LAE reserves estimation process, calculations contained in an actuarial study performed by an independent actuarial firm. Our aggregate loss and LAE reserves as of December 31, 2004 are recorded at our best estimate, which is primarily based upon the independent actuarial study supplemented by additional considerations and assumptions by management. The independent actuarial firm's reports on our reserves for the years ended December 31, 2004 and 2003 have been filed with state insurance regulators along with the statutory financial statements of our insurance companies.

The primary factors affecting our estimates of how much we will pay and therefore our reserve for insurance claims, defense and other related costs are:

- Frequency and severity trends (numbers of claims and how much we will pay for each claim on average);
- Frequency of claims closed with indemnity payments (the percentage of claims received that ultimately result in a loss payment versus those that are settled and closed without a loss payment);
- The timing or pattern of future payments;
- The amount of defense cost we will pay for each claim or group of claims; and
- Inflationary trends that are expected to bear on future loss and LAE payments.

These factors, in turn, can be affected by the judicial environment and tort-related trends over time. It is also important to note that one or more of the actuarial methods used by us do not rely on specific assumptions for these factors; rather, these assumptions are developed as a by-product of the application of the methods, which may then be monitored and factored into the final judgmental considerations of the selection of the point estimate and range of reasonable values around the point estimate from among the methods. All of the above-mentioned factors individually can and will generally vary from one period to the next over time but are estimated to approximate their ultimate values in setting reserve estimates.

In addition, due to the relatively small number of claims ultimately resulting in an indemnity payment and the average cost per claim, any change in the trends assumed in the ultimate values for these factors may be expected to result in a significant change in the reserve estimates. Because our aggregate loss and LAE reserves are so large, this also means that virtually any change in the level of our carried reserves will be material to results of operations and may be material to our financial position. As an example, a 1% increase or decrease in carried reserves, net of reinsurance, as of December 31, 2004, would result in an after-tax addition or reduction in reported net income of approximately $1.9 million, or 7% of our consolidated net income for the year ended December 31, 2004. A typical range of reasonable values for MPL reserve estimates is considered to be as wide as 15%; thus, in addition to the performance of the business itself, our results of operations and financial position are very sensitive to our reserve estimates and judgments.

For additional information and data concerning our liability for losses and LAE see Management's Discussion and Analysis of Financial Condition: December 31, 2004 Compared to December 31, 2003.

Reinsurance

Reinsurance does not relieve us from our primary obligations to policyholders. Therefore, the failure of reinsurers to honor their obligations could result in losses to us. The amounts recoverable from reinsurers on our unpaid losses and LAE are calculated by applying the terms of the respective ceded reinsurance contracts to our estimates of the underlying loss and LAE reserves that are subject to reinsurance. Thus, to the extent our reinsured reserves change or are adjusted, so will the related reinsurance recoverable amounts and our exposure.

We evaluate the financial condition of our reinsurers and monitor concentrations of credit risk with respect to the individual reinsurers that participate in our ceded programs to minimize our exposure to significant losses from reinsurer insolvencies. We hold collateral in the form of letters of credit or trust accounts for amounts recoverable from reinsurers that are not designated as authorized reinsurers by the applicable departments of insurance of the states that have jurisdiction over the underlying business.

Income Taxes

Deferred tax assets and liabilities are estimated and recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

A valuation allowance against deferred tax assets is estimated and recorded if it is more likely than not that all or some portion of the benefits related to the deferred tax assets will not be realized. Valuation allowances are based on estimates of taxable income and the period over which deferred tax assets will be recoverable. We believe it is more likely than not that our deferred tax assets will be fully realized. In the event that actual results differ from our estimates or those estimates are adjusted in future periods, we may need to establish a valuation allowance, which would impact our financial position and results of operations.

Goodwill

Effective January 1, 2002, we adopted Statement of Financial Accounting Standard No. (“FAS”) 142, Goodwill and Other Intangible Assets. Under FAS 142, goodwill and indefinite-lived intangible assets are no longer amortized through charges to income, but do continue to be subject to annual (or under certain circumstances more frequent) impairment testing based on estimated fair values.

During the first quarter of 2002, we performed transitional impairment testing required under the new standard and took a charge in the form of a cumulative effect of accounting change for $29.6 million, net of an income tax benefit, as of January 1, 2002.

We have obtained independent appraisals annually since the adoption of FAS 142, the most recent of which was performed as of December 31, 2004, which indicate that our goodwill and other intangible assets are fully recoverable. Our remaining goodwill of $18.9 million will continue to be subject to impairment testing through independent appraisal or otherwise at least annually, and potentially more often should a triggering event occur. A triggering event under FAS 142 might include such things as a significant adverse change in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, or a loss of key personnel.

Investments

Our invested assets comprise our largest single asset class and consist mostly of investment securities with fixed maturities, including bonds and notes. Our fixed maturity investment securities are carried at their market values and accounted for $548.5 million and $528.6 million or 99% and 98% of our total investments, and 43% and 45% of our total assets, respectively as of December 31, 2004 and 2003. Unrealized gains or losses in their market values are recorded directly in shareholders’ equity, net of tax effects, as a component of accumulated other comprehensive income.

There is an exception to the treatment noted above if and when an investment security considered to be available for sale is deemed to be other-than-temporarily impaired. An other-than-temporary impairment may occur when the market value of a security falls below its cost by a material amount for an extended period of time (generally one year but can be less under certain circumstances) or when other creditworthiness issues arise with regard to an issuer. If and when a security is deemed to be other-than-temporarily impaired it is written down to its estimated market value with a corresponding realized investment loss recognized in net income.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is determined to be probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

Our insurance subsidiaries are also subject to assessment by the financial guaranty associations in the states in which they conduct business for the provision of funds necessary for the settlement of covered claims under certain policies of insolvent insurers. Generally, these associations can assess member insurers on the basis of written premiums in their particular states. In addition to standard assessments, the Florida and Missouri legislatures may also levy special assessments to settle claims caused by certain catastrophic losses. No special assessments were made in 2002, 2003 or 2004. In addition, we could become subject to additional assessments in the future as a result of damages caused by catastrophic losses, such as hurricanes.

Revenue Recognition

Premium income, which is our main source of revenue, is generally recognized pro-rata over the respective period of each policy. Premium receivables are recorded net of an estimated allowance for uncollectible amounts. In the event it is determined that the unearned premium reserve for a book of business will not be sufficient to recover the future expected losses and LAE and acquisition and maintenance costs, including consideration of related investment income, recognition of a premium deficiency would be required through a write down of deferred acquisition costs and corresponding charge to income. In the event deferred acquisition costs are written off entirely, any remaining premium deficiency would be accounted for as a liability with a corresponding charge to income.

Claims administration and management fee revenues include management fees of the insurance management segment, which are determined by contract as a percentage of PRI’s direct premiums written for the calendar year. Such management fees are estimated, billed and earned monthly based upon the estimated or re-estimated direct premiums written of PRI for the calendar year.

Consolidated Results of Operations - Comparison for the Years Ended December 31, 2004 and 2003

NET INCOME for the year ended December 31, 2004 was $28.2 million, or $2.70 per diluted share, an increase of 70% and 58%, respectively, when compared with net income of $16.6 million, or $1.71 per diluted share, for the year ended December 31, 2003. All of our segments reported higher net income for 2004 compared with 2003. Significantly improved underwriting results and lower interest costs on our long term debt in 2004 mainly contributed to the growth in insurance segment net income. Growth in premiums written by PRI for 2004 contributed to growth in insurance management revenues and net income.

TOTAL REVENUES for the year ended December 31, 2004 increased $35.1 million, or 17%, to $236.8 million from $201.7 million for the year ended December 31, 2003. The increase in total revenues for the year 2004 is primarily due to higher net premiums earned as the result of rate increases and lower ceded reinsurance premiums in our insurance segment and higher claims administration and management fees in our insurance management segment associated with growth in written premiums at PRI. Net investment income also increased for the year 2004 primarily resulting from growth in our fixed income securities arising from growth in our insurance invested assets. Net realized investment gains also increased for the year 2004.

TOTAL EXPENSES for the year ended December 31, 2004 increased $15.7 million, or 9%, to $191.4 million from $175.7 million for the year ended December 31, 2003. The increase in total expenses for the year 2004 is primarily due to higher other underwriting expenses at our insurance segment and claims administration and management expenses at our insurance management segment. Our GAAP underwriting (combined) ratio improved to 92% for 2004 from 98% for 2003. Other underwriting expenses increased for the year primarily due to lower ceding commissions associated with lower ceded premiums earned, resulting from the terminations of a large reinsurance agreement and fronting programs. Claims administration and management expenses were higher as a result of growth in premiums written by PRI and the related growth in insurance management revenues and operations. Offsetting these higher expenses were lower borrowing costs (interest plus the costs of related hedging instruments) on our debt. We also incurred charges of $2.5 million, in 2003, to unwind interest rate swap agreements, which did not recur during 2004. Income tax expense was higher for 2004 when compared to 2003 primarily due to higher taxable income. Income tax expense for 2004 also includes a small provision for income tax contingencies identified in a current Internal Revenue Service (“IRS”) examination.

Comparison for the Years Ended December 31, 2003 and 2002

Net income for the year ended December 31, 2003 was $16.6 million, or $1.71 per diluted share, an increase of 11% and 8%, respectively, when compared with income before accounting change of $14.9 million, or $1.58 per diluted share for the year ended December 31, 2002. All three of our business segments were profitable in 2003. The year 2003 was the third year in a row of significant improvements in insurance pricing. In addition, our insurance management and third party administration (“TPA”) segments reported improved profits.

Total revenues for the year ended December 31, 2003 decreased $20.2 million, or 9%, to $201.7 million from $221.9 million for the year ended December 31, 2002. Total expenses for the year ended December 31, 2003 decreased $22.4 million, or 11%, to $175.7 million from $198.1 million for the year ended December 31, 2002. Most of the decline in our revenues and expenses in 2003 when compared with 2002 was the result of growth management initiatives we put in place in 2002, designed to level the amount of growth in our policyholder counts and significant additional ceded reinsurance coverage following an unprecedented period of growth at our insurance subsidiaries in 2001 and 2002. Our MPL insurance markets hardened significantly since 2000. Net investment income was also lower in 2003. While the equity markets recovered in 2003, interest rates fell to record lows for the third straight year, although rates did recover somewhat by the end of 2003 and exceeded 2002 year end levels.

Insurance Segment Results and Selected Other Information

Our insurance segment is made up of FPIC's four insurance subsidiaries. Holding company operations are also included in the insurance segment due to the segment's size and prominence and the substantial attention devoted to the segment.

During 2003, we completed the integration of Anesthesiologists Professional Assurance Company ("APAC") operations and transitioned the management of APAC and Intermed Insurance Company ("Intermed") into First Professionals Insurance Company, Inc. ("First Professionals"). During the fourth quarter 2003, we negotiated and completed the commutation of our reinsurance with Gerling Global Reinsurance Corporation of America ("Gerling"). We also negotiated our primary excess of loss reinsurance program renewal for 2004 at a reduced cost for the first time in several years. Finally, we played an active part in tort reform on behalf of our policyholders, as well as the healthcare economy and the citizens of the State of Florida.

Due to recent increases in profitability and the growing equity and statutory surplus of our insurance businesses, we terminated future cessions under the Hannover Re net account quota share reinsurance agreement, effective July 1, 2004. With this termination, business is no longer ceded under the agreement beginning with business written and renewed in the third quarter of 2004. The business already ceded through June 30, 2004, will continue to be subject to the agreement as it runs off.

Financial and selected other data of our insurance segment for the years ended December 31, 2004, 2003 and 2002 is summarized in the table below. Dollar amounts are in thousands.

		2004	Percentage Change	2003	Percentage Change	2002
Direct and assumed premiums written	$	312,728	-8%	340,741	-1%	344,727
Net premiums written	$	192,532	35%	143,134	2%	140,248
Net premiums earned	$	149,676	14%	131,665	-13%	151,684
Net investment income		20,627	13%	18,285	-12%	20,793
Commission income		—	0%	—	-100%	8
Net realized investment gains		3,867	88%	2,052	-56%	4,688
Finance charges and other income		637	-33%	945	-24%	1,251
Intersegment revenues		286	1%	284	21%	235
Total revenues		175,093	14%	153,231	-14%	178,659
Net losses and LAE		125,172	5%	118,974	-15%	139,571
Other underwriting expenses		12,527	33%	9,443	-44%	16,867
Interest expense on debt		2,564	-56%	5,886	24%	4,762
Other expenses		7,432	36%	5,445	241%	1,596
Intersegment expenses		2,864	-33%	4,291	26%	3,414
Total expenses		150,559	5%	144,039	-13%	166,210
Income from operations before income taxes		24,534	167%	9,192	-26%	12,449
Less: Income tax expense		8,262	246%	2,389	-43%	4,162
Net income	$	16,272	139%	6,803	-18%	8,287

		2004	Percentage Change	2003	Percentage Change	2002
Selected Direct Professional Liability Claims Information:						
Net paid losses and LAE on professional liability claims	$	119,305	6%	112,443	22%	92,497
Average net paid loss per professional liability claim with indemnity payment	$	194	-9%	213	16%	184
Total professional liability claims and incidents reported during the period		2,189	-29%	3,063	-4%	3,191
Total professional liability claims with indemnity payment		350	24%	283	-3%	293
Total professional liability claims and incidents closed without indemnity payment		2,162	10%	1,965	-7%	2,104
Total professional liability claims and incidents that remained open		5,145	-7%	5,507	18%	4,676
Professional Liability Policyholders Information:						
Medical professional liability policyholders (excludes fronting arrangements)		14,047	1%	13,919	-8%	15,117
Legal professional liability policyholders		—	0%	—	-100%	1,798
Total professional liability policyholders		14,047	1%	13,919	-18%	16,915
Professional liability policyholders under fronting arrangements		111	-95%	2,136	-53%	4,544

INSURANCE NET INCOME increased 139% to $16.3 million for the year ended December 31, 2004 from $6.8 million for the year ended December 31, 2003. The increase in net income was primarily the result of increases in net premiums earned driven by rate increases implemented during 2003 and declines in the proportion of our premiums ceded to reinsurers as a result of the lower cost of our excess of loss reinsurance program, and lower interest costs related to debt and intersegment expenses. Partially offsetting these developments were a reduction in ceding commissions and an increase in other underwriting expenses. The decrease in ceding commissions resulted from the elimination of further cessions under the Hannover Re net account quota share reinsurance agreement as of July 1, 2004. The increase in other underwriting expenses was driven by the cancellation of fronting programs and an increase in corporate expenses associated with Sarbanes-Oxley compliance. Other expenses increased due to growth in finance charges associated with the Hannover Re net account quota share reinsurance agreement.

Insurance net income decreased 18% to $6.8 million for the year ended December 31, 2003 from $8.3 million for the year ended December 31, 2002. The decrease in net income was the result of lower net realized investment gains, lower net investment income, higher debt-related costs, and higher net intersegment expenses, comprised mainly of commissions payable to the insurance management segment. The holding company, which is grouped with the insurance segment for reporting purposes, incurred debt-related costs of $1.5 million after-tax ($2.5 million before-tax) during 2003 as a result of unwinding interest rate swap agreements in the second and fourth quarters in connection with the repayment and retirement of our term loan and revolving credit facility. Our improved underwriting margin (defined as net premiums earned less net losses and LAE and other underwriting expenses) of $4.9 million after-tax was mostly attributable to pricing improvements. Approximately $1.3 million of the after-tax improvement in 2003 was attributable to the Hannover Re net account quota share reinsurance agreement.

DIRECT and ASSUMED PREMIUMS WRITTEN decreased 8% to $312.7 million for the year ended December 31, 2004 from $340.7 million for the year ended December 31, 2003. The decrease in direct and assumed premiums written is primarily attributable to our planned exits from fronting programs and non-core states. We began exiting our fronting programs in 2002 to free up capacity for our core MPL business and all of our previous programs are now in run-off. Also contributing to the decrease was the non-renewal of the excess of loss reinsurance treaty under which First Professionals assumed reinsurance from PRI. Direct premiums written for the year ended December 31, 2004 excluding premiums under fronting programs increased 2% to $273.3 million for the year ended December 31, 2004 from $268.5 million for the year ended December 31, 2003. The increase in direct premiums written excluding premiums under fronting programs reflects a combination of factors including increased insurance rates offset by an overall shift in the mix of policies written and renewed, primarily by First Professionals, towards lower limits of coverage. The total number of MPL insurance policyholders increased 1% to 14,047 at December 31, 2004 from 13,919 at December 31, 2003. The 1% net increase in the number of policyholders was comprised of an increase in First Professionals policyholders in Florida of 1,272, or 13%, offset by reductions in policyholders at Intermed and in non-core states totaling 1,144 during 2004.

Direct and assumed premiums written decreased 1% to $340.7 million for the year ended December 31, 2003 from $344.7 million for the year ended December 31, 2002. The small decrease primarily reflects the offsetting trends of price improvements at all our insurance companies and growth in our core MPL book of business in Florida, offset by lower premiums on fronted business and legal professional liability business and lower MPL premiums in certain other states.

NET PREMIUMS WRITTEN increased 35% to $192.5 million for the year ended December 31, 2004 from $143.1 million for the year ended December 31, 2003. Approximately $33.9 million, or 69%, of the $49.4 million increase in net premiums written for 2004 was the result of the termination of the Hannover Re net account quota share reinsurance agreement, effective June 30, 2004. First Professionals had been ceding 50% of its direct MPL insurance premiums under this reinsurance agreement. In addition to the factors affecting direct premiums, lower reinsurance costs in 2004 as compared with 2003 under the excess of loss reinsurance program also contributed to higher net premiums written.

Net premiums written increased 2% to $143.1 million for the year ended December 31, 2003 from $140.2 million for the year ended December 31, 2002. The small increase in net premiums written is attributable to the growth management initiatives put into place during 2002, and is basically the result of planned reductions in our overall numbers of policyholders in 2003, and continuing pricing improvements, which have largely offset one another.

NET PREMIUMS EARNED increased 14% to $149.7 million for the year ended December 31, 2004 from $131.7 million for the year ended December 31, 2003. The termination of the Hannover Re net account quota share reinsurance agreement, accounted for approximately $11.6 million, or 64%, of the $18.0 million increase in net premiums earned for 2004. The remaining increase in net premiums earned is primarily due to the effects of pricing improvements at First Professionals, APAC and Intermed, which have all implemented significant rate increases in recent years. Partially offsetting these increases in net premiums earned was a reduction in assumed premiums earned due to the non-renewal of the excess of loss reinsurance treaty between First Professionals and PRI.

Net premiums earned decreased 13% to $131.7 million for the year ended December 31, 2003 from $151.7 million for the year ended December 31, 2002. The decline in net premiums earned for 2003 is the result of ceded premiums earned under the Hannover Re net account quota share reinsurance agreement. Excluding the effect of ceded premiums earned under the Hannover Re net account quota share reinsurance agreement, net premiums earned increased $19.1 million primarily due to the effects of price increases. The positive effects of price increases were, in turn, offset by an 18% reduction in the total number of professional liability insurance policyholders from 16,915 at December 31, 2002 to 13,919 at December 31, 2003. Of this decline, the sale of the renewal rights to the Interlex legal professional liability book of business in 2002 accounted for approximately 1,800 fewer policies. The remaining decline occurred in non-core states and in Missouri as capacity was freed up with a view towards using it for First Professionals' core MPL business in Florida. The declines in Missouri were expected as we implemented a very large rate increase in 2003.

Our investment revenues, which are comprised of NET INVESTMENT INCOME and NET REALIZED INVESTMENT GAINS AND LOSSES, increased 20% to $24.5 million for the year ended December 31, 2004 from $20.3 million for the year ended December 31, 2003. Net investment income increased primarily as a result of recent growth in our fixed income investment portfolio corresponding with increases in our insurance business. Net realized investment gains increased primarily as a result of lower other-than-temporary impairments in 2004 when compared with 2003. During 2003 we recognized losses of $5.3 million for other-than-temporary impairments of two private equity holdings, of which $4.5 million was related to our investment in American Professional Assurance Ltd. ("APAL"). In 2004 we recognized an additional other-than-temporary impairment of $0.8 million related to our investment in APAL. With the recognition of this impairment, we have written our investment in APAL down to $0. Net realized investment gains in 2004 also included a gain of $2.1 million related to the sale of an investment in a limited partnership.

Our investment revenues decreased 20% to $20.3 million for the year ended December 31, 2003 from $25.5 million for the year ended December 31, 2002. Net investment income declined primarily as the result of the prolonged status of prevailing interest rates at historically low levels. As a result, current funds were primarily invested in fixed income securities with shorter maturities and durations and we maintained significant short-term invested cash. While these holdings reduce our exposure to losses should the interest environment change and rates begin to rise, they also produce lower current income. Net realized investment gains decreased due to charges of $5.3 million for other-than-temporary impairments of two private equity holdings, including $4.5 million related to our investment in APAL.

NET LOSSES AND LAE INCURRED increased 5% to $125.2 million for the year ended December 31, 2004 from $119.0 million for the year ended December 31, 2003. The increases in our net losses and LAE incurred relative to net premiums earned and corresponding decrease in our loss ratio reflects pricing and other improvements in our insurance business and the resulting improvement in our underwriting results. Our loss and LAE ratios (defined as the ratio of net losses and LAE incurred to net premiums earned) were 84% and 90% for the years ended December 31, 2004 and 2003, respectively.

Net losses and LAE incurred decreased 15% to $119.0 million for the year ended December 31, 2003 from $139.6 million for the year ended December 31, 2002. Net losses and LAE incurred for 2003 decreased $31.9 million, or 23%, as a result of ceded losses and LAE under the Hannover Re net account quota share reinsurance agreement. Excluding the effect of ceded losses and LAE under the Hannover Re net account quota share reinsurance agreement, net losses and LAE for 2003 increased $11.3 million, or 6%, which was primarily due to increased losses at Intermed and APAC in 2003. Our loss and LAE ratios were 90% and 92% for the years ended December 31, 2003 and 2002, respectively. The negative effects on the loss and LAE ratios of our smaller companies were offset to a significant extent by improvement in the losses and LAE incurred relative to net premiums earned at First Professionals. In addition to being much larger than Intermed and APAC, First Professionals began implementing significant pricing improvements earlier and has done so over a longer period.

SELECTED DIRECT PROFESSIONAL LIABILITY INSURANCE CLAIMS DATA

Net paid losses and LAE on professional liability claims increased 6% to $119.3 million for the year ended December 31, 2004 from $112.4 million for the year ended December 31, 2003 and increased 22% to $112.4 million for the year ended December 31, 2003 from $92.5 million for the year ended December 31, 2002. These increases were generally to be expected and consistent with recent growth in our insurance business, considering the inherent time lag until the related claims are settled and closed. The average net paid loss per professional liability claim with indemnity payment for calendar year 2004 declined 9% to $0.19 million from $0.21 million for calendar year 2003. The decrease is primarily the result of increased reinsurance coverage on claims settled and paid during 2004, including ceded losses under the Hannover Re net account quota share reinsurance agreement.

Newly reported claims and incidents were down significantly (29%) in 2004 when compared with 2003. A portion of these declines relates to a speed up in claims reporting experienced during 2003. This resulted in a higher than usual number of claims reported in 2003, as plaintiffs' attorneys accelerated case filings to precede the effective date of tort reform legislation passed in Florida in the fall of 2003 followed by lower than usual reported claims in subsequent periods.

The number of claims with an indemnity payment ("CWIP") during 2004 increased 24% from the number of CWIP in 2003. The percentage of CWIP to all closed claims for 2004 was 14%, or 1 percentage point higher than the 2003 CWIP percentage of 13%. While our 2004 and 2003 CWIP percentages are higher than 2002's CWIP percentage of 12%, the 2002 through 2004 percentages are significantly lower than the CWIP percentages for 2000 and 2001, which were 20% and 18%, respectively. This significant improvement is largely the result of a harder claims philosophy and related management initiatives implemented beginning in 2001. We also believe that the application of disciplined underwriting and risk selection criteria have helped minimize claims.

OTHER UNDERWRITING EXPENSES increased 33% to $12.5 million for the year ended December 31, 2004 from $9.4 million for the year ended December 31, 2003. The increase in other underwriting expenses is primarily the result of recent growth in our insurance business and a decrease in ceding commissions resulting from the elimination of cessions under the Hannover Re net account quota share reinsurance agreement during the third quarter of 2004. Also contributing to the 2004 increase were direct costs associated with compliance with the Sarbanes-Oxley Act of 2002 of approximately $1.5 million and lower ceding commissions under reinsurance agreements.

Other underwriting expenses decreased 44% to $9.4 million for the year ended December 31, 2003 from $16.9 million for the year ended December 31, 2002. The decrease in other underwriting expenses is primarily due to the ceding commissions under the Hannover Re net account quota share reinsurance agreement, which is a credit to other underwriting expenses. The ceding commission increased $9.9 million to $23.1 million for the year ended December 31, 2003 from $13.2 million for the year ended December 31, 2002.

INTEREST EXPENSE ON DEBT decreased 56% to $2.6 million for the year ended December 31, 2004 from $5.9 million for the year ended December 31, 2003. The significant decrease in interest expense on debt for 2004 is primarily due to the retirement of our former bank debt during 2003, which carried higher total borrowing costs, through refinancing in the form of private issuances of long term debt securities and by repayment using internally generated funds. Included in interest expense on debt for 2003 are charges of $2.5 million related to the unwinding of swap agreements associated with our former bank debt.

Interest expense on debt increased 24% to $5.9 million for the year ended December 31, 2003 from $4.8 million for the year ended December 31, 2002. The increase in interest expense on debt is primarily due to charges of $2.5 million in 2003 to unwind swap agreements associated with the pay down and retirement of our former bank credit facility. This was offset by the lower total borrowing costs, as compared with the former bank credit facility, of FPIC's newly issued junior subordinated debentures and unsecured senior notes and the recapture of the amortization of unrealized losses of previous interest rate swap agreements.

Finance charges associated with funds withheld under the Hannover Re net account quota share reinsurance agreement are included in OTHER EXPENSES and were $7.2 million, $4.5 million and $1.1 million for the years ended December 31, 2004, 2003 and 2002, respectively. Growth in these finance charges contributed to the increase in other expenses and is due to the growth in the amount of funds withheld for business ceded under this agreement through June 30, 2004. As discussed elsewhere, we exercised our option to terminate future cessions under the agreement effective July 1, 2004.

INCOME TAXES increased 246% to $8.3 million for the year ended December 31, 2004 from $2.4 million for the year ended December 31, 2003. Income tax expense was relatively higher for 2004 compared to 2003 primarily due to higher taxable income. Income tax expense for 2004 also includes a $0.8 million provision for income tax contingencies identified in a current IRS examination. We also incurred additional state income taxes in 2004 from the amendment of certain prior year state income tax returns.

Income taxes decreased 43% to $2.4 million for the year ended December 31, 2003 from $4.2 million for the year ended December 31, 2002. The decrease in income tax expense for 2003 is primarily due to the decrease in income before income taxes and cumulative effect of accounting change when compared with the prior year and additional tax expense recognized in 2002 associated with the examination of FPIC's 1998 and 1999 Federal income tax returns by the IRS.

HANNOVER RE NET ACCOUNT QUOTA SHARE REINSURANCE AGREEMENT

The results of our insurance segment include the effects of a significant net account quota share reinsurance agreement with the Hannover Re companies. Amounts ceded under the Hannover Re net account quota share reinsurance agreement for the years ended December 31, 2004, 2003 and 2002 are summarized in the table below. Dollar amounts are in thousands.

		2004	Percentage Change	2003	Percentage Change	2002
Ceded premiums written	$	(50,357)	40%	(84,255)	1%	(85,531)
Ceded premiums earned	$	(75,675)	13%	(87,256)	-81%	(48,179)
Ceded losses and LAE incurred	$	57,538	-19%	70,967	82%	39,025
Ceded other underwriting expenses	$	22,710	3%	22,065	73%	12,767
Net increase in underwriting margin	$	4,573	-21%	5,776	60%	3,613
Other expenses	$	(7,152)	-59%	(4,492)	-318%	(1,075)
Net (decrease) increase in income from operations before income taxes	$	(2,579)	-301%	1,284	-49%	2,538
Net (decrease) increase in net income	$	(1,582)	-301%	789	-49%	1,559

Insurance Management Segment Results and Selected Other Information

Our insurance management segment is made up of FPIC's New York subsidiaries. Effective July 1, 2004, operations of Administrators For The Professions, Inc.'s ("AFP") wholly owned subsidiary, Physicians Reciprocal Managers, Inc. ("PRM"), commenced as the administrator and attorney-in-fact of Pennsylvania Physicians' Reciprocal Insurers ("PaPRI"). PaPRI is an insurance exchange domiciled in Pennsylvania. It was formed to take the place of the unrelated fronting carrier that previously had underwritten, and ceded as reinsurance to PRI, medical professional liability insurance program business in Pennsylvania. PaPRI commenced underwriting the Pennsylvania program business effective July 1, 2004. PaPRI is not a subsidiary of PRM, AFP or FPIC. As an insurance exchange, the organization of PaPRI is similar to that of a mutual insurance company. PaPRI is also not a subsidiary of PRI, but received its initial capitalization in the form of a subordinated surplus note from PRI.

Financial and selected other data for the insurance management segment for the years ended December 31, 2004, 2003 and 2002 is summarized in the table below. Dollar amounts are in thousands.

		2004	Percentage Change	2003	Percentage Change	2002
Claims administration and management fees	$	39,100	47%	26,582	9%	24,341
Net investment income		126	9%	116	-18%	141
Commission income		6,193	13%	5,496	47%	3,732
Other income		197	110%	94	13%	83
Intersegment revenues		2,914	-32%	4,316	28%	3,381
Total revenues		48,530	33%	36,604	16%	31,678
Claims administration and management expenses		29,193	37%	21,241	4%	20,518
Other expenses		213	0%	213	-14%	248
Total expenses		29,406	37%	21,454	3%	20,766
Income from operations before income taxes, minority interest and cumulative effect of accounting change		19,124	26%	15,150	39%	10,912
Less: Income tax expense		8,006	29%	6,217	39%	4,463
Income from operations before minority interest and cumulative effect of accounting change		11,118	24%	8,933	39%	6,449
Less: Minority interest		248	164%	94	-45%	172
Income from operations before cumulative effect of accounting change		10,870	23%	8,839	41%	6,277
Less: Cumulative effect of accounting change		—	0%	—	-100%	24,363
Net income (loss)	$	10,870	23%	8,839	149%	(18,086)
Selected Information Regarding Management of PRI and PaPRI:						
Reciprocal premiums written under management	$	297,836	45%	205,557	10%	186,924
Reciprocal statutory assets under management	$	973,141	13%	860,463	5%	821,396
Professional liability policyholders under management		12,006	8%	11,149	6%	10,547

INSURANCE MANAGEMENT NET INCOME increased 23% to $10.9 million for the year ended December 31, 2004 from $8.8 million for the year ended December 31, 2003. The increase is primarily due to higher management fees. The growth in management fees was the result of growth in premiums written at PRI, a significant portion of which was due to the acquisition of two new institutional clients, and higher insurance premiums placed by Professional Medical Administrators (“PMA”) under a PRI professional liability insurance program. The new institutional clients were acquired in the first and third quarters of 2004. Partially offsetting the positive effect of higher revenues on net income were higher claims administration and management expenses.

Insurance management net income increased 41% to $8.8 million for the year ended December 31, 2003 from income before cumulative effect of accounting change of $6.3 million for the year ended December 31, 2002. The increase in insurance management net income for the year ended December 31, 2003 was primarily due to higher management fees, commission income and intersegment revenues. The growth in these revenues was the result of growth in premiums written at PRI and higher ceded premiums at PRI and our insurance companies for which FPIC Intermediaries receives commissions. Intersegment revenues primarily relate to commission income from First Professionals for the placement of reinsurance and the management of the Pennsylvania fronting program. These amounts are eliminated in the consolidated financial statements.

The insurance management segment recorded a transitional impairment charge of $24.4 million, after income taxes, during the first quarter of 2002, as a result of the adoption of FAS 142. This transitional impairment charge is accounted for as a cumulative effect of accounting change. The non-cash transitional impairment charge primarily reflects certain intangibles and synergies, which, in our opinion, are opportunistic in nature and carry a significant degree of uncertainty; therefore, we treated these intangibles conservatively in the valuation required by FAS 142.

CLAIMS ADMINISTRATION AND MANAGEMENT FEES earned by the insurance management segment are mainly comprised of management fees from PRI. In accordance with the management agreement between AFP and PRI, AFP receives a management fee equal to 13% of PRI’s direct premiums written. As such, increases in the direct premiums written by PRI result in a corresponding increase in management fees earned by AFP.

Claims administration and management fees increased 47% to $39.1 million for the year ended December 31, 2004 from $26.6 million for the year ended December 31, 2003. The increase in claims administration and management fees is due to a corresponding increase in direct written premiums by PRI. Two new institutional clients have added approximately $56 million to PRI’s 2004 annual written premiums. The addition of these new accounts had the effect of increasing AFP’s management fee revenue by $7.3 million for the year ended December 31, 2004. Subsequent to entering into the agreement with PRI, certain physicians of one of the institutional clients decided to self insure. The effect of these cancellations is reflected in the fourth quarter. Also, PRM commenced operations effective July 1, 2004 and had management fee revenues of $0.9 million for the year ended December 31, 2004.

Claims administration and management fees increased 9% to $26.6 million for the year ended December 31, 2003 from $24.3 million for the year ended December 31, 2002. The increase in claims administration and management fees is due to a corresponding increase in direct written premiums by PRI.

COMMISSION INCOME increased 13% to $6.2 million for the year ended December 31, 2004 from $5.5 million for the year ended December 31, 2003. The increase in commission income earned in 2004 is primarily the result of an increase in insurance premiums placed by PMA under a PRI professional liability insurance program.

Commission income increased 47% to $5.5 million for the year ended December 31, 2003 from $3.7 million for the year ended December 31, 2002. The increase in commission income in 2003 is primarily due to increases in brokerage commissions earned by FPIC Intermediaries from third party reinsurers for the placement of reinsurance and by PMA based on growth in the insurance program it manages for PRI in Pennsylvania. FPIC Intermediaries' brokerage commissions are determined as a percentage of reinsurance premiums ceded and have increased significantly as the underlying ceded premiums have grown at both our insurance subsidiaries and PRI, for which FPIC Intermediaries participates in the placement of reinsurance. In addition, commission income of approximately $0.5 million was recognized in 2002 as a result of a brokerage fee earned from Hannover Re related to the placement of our net account quota share reinsurance agreement.

CLAIMS ADMINISTRATION AND MANAGEMENT EXPENSES increased 37% to $29.2 million for the year ended December 31, 2004 from $21.2 million for the year ended December 31, 2003. The increase in claims administration and management expenses is due to the increase in operating expenses at AFP and commission expenses at PMA. The increase in operating expenses at AFP is primarily the result of the growth of PRI's business. The increase in commission expenses at PMA was associated with an increase in premiums written and placed under a PRI professional liability insurance program. Also contributing to the increase in claims administration and management expenses for the year ended December 31, 2004 were direct costs associated with compliance with the Sarbanes-Oxley Act of 2002 of approximately $1.0 million.

Claims administration and management expenses increased 4% to $21.2 million for the year ended December 31, 2003 from $20.5 million for the year ended December 31, 2002. The increase is due to the combination of an increase in operating expenses at AFP to manage growth at PRI and an increase in operating and commission expenses at PMA associated with an increase in premiums written and placed on behalf of PRI.

TPA Segment Results and Selected Other Information

Our TPA segment represents the business of our subsidiary Employers Mutual, Inc. Financial and selected other data for our TPA segment for the years ended December 31, 2004, 2003 and 2002 is summarized in the table below. Dollar amounts are in thousands.

	2004	Percentage Change	2003	Percentage Change	2002
Claims administration and management fees	$ 14,146	-1%	14,313	13%	12,693
Net investment income	6	-54%	13	-70%	43
Commission income	2,232	3%	2,162	-13%	2,475
Other income	—	-100%	1	-88%	8
Intersegment revenues	—	-100%	25	-70%	83
Total revenues	16,384	-1%	16,514	8%	15,302
Claims administration and management expenses	14,336	-1%	14,539	0%	14,496
Intersegment expenses	336	1%	334	17%	285
Total expenses	14,672	-1%	14,873	1%	14,781
Income from operations before income taxes and cumulative effect of accounting change	1,712	4%	1,641	215%	521
Less: Income tax expense	673	-5%	711	240%	209
Income from operations before cumulative effect of accounting change	1,039	12%	930	198%	312
Less: Cumulative effect of accounting change	—		—		5,215
Net income (loss)	$ 1,039	12%	930	119%	(4,903)
Selected TPA Segment Customer Data:					
Covered lives under employee benefit programs	58,701	-45%	106,927	-2%	109,171
Covered lives under workers compensation programs	25,075	-35%	38,400	1%	38,100

TPA NET INCOME increased 12% to $1.0 million for the year ended December 31, 2004 from $0.9 million for the year ended December 31, 2003. The increase is primarily due to an increase in commission income and a decrease in claims administration and management expenses. The increase in commission income is due to an increase in brokerage income from the placement of excess insurance arrangements on behalf of self-insured property and casualty clients. The TPA segment has experienced a decrease in covered lives under the employee benefits and worker compensation programs it administers, but the segment has substantially offset the decrease with higher revenues per program and new business.

TPA net income increased 198% to $0.9 million for the year ended December 31, 2003 when compared with income before cumulative effect of accounting change of $0.3 million for the year ended December 31, 2002. The increase is primarily due to higher claims administration fees and improved operating margins. Growth in the number of covered members serviced by the ambulance service organization to which we provide administrative services along with cost savings and productivity initiatives helped improve our margins in 2003.

The TPA segment recorded a transitional impairment charge of $5.2 million, after income taxes, during the first quarter of 2002, as a result of the adoption of FAS 142. This transitional impairment charge is accounted for as a cumulative effect of accounting change. The non-cash transitional impairment charge primarily reflects changes in market conditions and an increase in competition in recent years in the markets served by the TPA segment.

See Note 20, Subsequent Event, to the consolidated financial statements for disclosure of the definitive agreement to sell the TPA segment's employee benefits administration business.

INVESTMENTS AND CASH AND CASH EQUIVALENTS increased $61.3 million to $684.0 million as of December 31, 2004 from $622.7 million as of December 31, 2003. The net increase is primarily the result of net cash flows from operating activities associated with recent growth at our insurance and insurance management segments.

PREMIUMS RECEIVABLE decreased $7.0 million to $94.3 million as of December 31, 2004 from $101.3 million as of December 31, 2003. The decrease in premiums receivable is primarily the result of a decrease in premiums written under fronting programs. We terminated the last of our fronting programs as of June 30, 2004. The reduction in policyholders and resulting decrease in premiums written at Intermed also contributed to the decrease in premiums receivable.

Our reinsurance assets, REINSURANCE RECOVERABLE ON PAID LOSSES and DUE FROM REINSURERS ON UNPAID LOSSES, increased in 2004 primarily as the result of the continuing effects of growth in our insurance premiums. Approximately $34.9 million of the increase in due from reinsurers on unpaid losses is attributable to the net account quota share reinsurance agreement with Hannover Re under which loss and LAE reserves are ceded. CEDED UNEARNED PREMIUMS decreased in 2004. Approximately $25.3 million of the reduction is due to a decrease in ceded unearned premiums under the Hannover Re net account quota share reinsurance agreement. As discussed under Results of Operations, we terminated future cessions under this agreement effective July 1, 2004.

In keeping with our growth management strategy, we terminated all of our fronting programs as of June 30, 2004. Therefore, we expect the insurance assets and liabilities associated with former fronting programs to decline in the future as the underlying business runs off.

OTHER ASSETS increased $9.7 million as of December 31, 2004. The increase is primarily the result of growth in management fees receivable corresponding with the growth in business at PRI and deposits paid in the course of the implementation of a new policy administration system. Other assets also increased as a result of sale transactions involving investment securities, which were entered into prior to December 31, 2004, but for which settlements occurred in January 2005.

The LIABILITY FOR LOSSES AND LAE increased $60.6 million to $635.1 million as of December 31, 2004 from $574.5 million as of December 31, 2003. The increase is mostly attributable to recent growth in our core MPL insurance business.

A loss and LAE reserve study as of December 31, 2004, was performed by an independent actuarial firm. The independent actuarial firm calculated aggregate point estimates and estimated ranges of reasonable values around the point estimates for FPIC's aggregate loss and LAE reserves, gross and net of reinsurance. As discussed more fully below, management has utilized the calculations made by the independent actuarial firm along with other relevant considerations in forming its best estimate of FPIC's reserves. The estimated range of values as determined by the independent actuarial firm around our carried reserves, net of reinsurance, was $259.9 million to $310.4 million. Our carried reserves, net of reinsurance, of $301.7 million ($635.1 million gross, less related reinsurance recoverables of $333.4 million), as of December 31, 2004, were approximately 6% higher than our independent actuarial firm's respective point estimate and within the upper end of the range.

The following table sets forth (in thousands) the development of our liability for losses and LAE, net and gross of reinsurance, for the 10-year period preceding the year ended December 31, 2004[1]:

Year Ended December 31,	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Balance Sheet Liability	$143,415	155,318	161,124	173,971	200,763	214,692	223,597	238,073	272,007	298,763	301,699
Re-estimated Liability As of:											
One Year Later	129,472	140,322	146,009	159,639	182,208	221,212	232,208	240,489	272,489	299,236	
Two Years Later	114,193	116,151	127,529	142,369	182,498	222,281	231,617	250,079	288,193		
Three Years Later	90,666	106,937	112,770	141,850	183,389	221,270	238,823	273,247			
Four Years Later	86,154	104,684	106,557	140,707	183,491	231,870	255,608				
Five Years Later	87,807	103,402	105,949	141,437	192,612	231,814					
Six Years Later	85,881	103,454	106,825	144,379	189,440						
Seven Years Later	85,854	104,326	109,683	143,288							
Eight Years Later	86,710	105,691	110,122								
Nine Years Later	85,378	104,350									
Ten Years Later	85,389										
Cumulative Paid As of:											
One Year Later	28,701	35,562	33,103	49,697	76,291	91,269	95,890	96,496	89,044	105,719	
Two Years Later	52,832	60,464	62,612	90,165	121,199	152,862	163,850	162,880	177,369		
Three Years Later	63,738	78,291	88,649	115,336	153,200	185,126	200,792	214,771			
Four Years Later	73,296	94,882	98,027	127,774	168,522	206,430	222,968				
Five Years Later	82,840	100,294	102,355	134,272	179,504	216,837					
Six Years Later	85,047	102,122	105,689	137,564	184,232						
Seven Years Later	85,221	103,310	106,251	139,644							
Eight Years Later	86,184	103,053	107,962								
Nine Years Later	85,376	103,941									
Ten Years Later	85,357										
Redundancy / (Deficiency)	$ 58,026	50,968	51,002	30,683	11,323	(17,122)	(32,011)	(35,174)	(16,186)	(473)	
% Redundancy / (Deficiency)	40.5%	32.8%	31.7%	17.6%	5.6%	-8.0%	-14.3%	-14.8%	-6.0%	-0.2%	
Gross liability-end of year	$152,268	164,506	172,738	188,086	242,377	273,092	281,295	318,483	440,166	574,529	635,118
Reinsurance recoverables-end of year	8,853	9,188	11,614	14,115	41,614	58,400	57,698	80,410	168,159	275,766	333,419
Net liability-end of year	$143,415	155,318	161,124	173,971	200,763	214,692	223,597	238,073	272,007	298,763	301,699
Gross re-estimated liability-latest	$ 95,917	115,039	119,168	160,091	218,426	286,128	336,578	388,898	503,720	577,682	
Reinsurance recoverables-latest	10,528	10,689	9,046	16,803	28,986	54,314	80,970	115,651	215,527	278,445	
Net re-estimated liability-latest	$ 85,389	104,350	110,122	143,288	189,440	231,814	255,608	273,247	288,193	299,237	

[1] Data presented in this table represents consolidated information of all our insurance subsidiaries commencing from their respective dates of acquisition. Data presented from 1994 to 1997 reflects only First Professionals' liability for losses and LAE. The 1998 year reflects losses and LAE data for First Professionals and APAC. The data presented from 1999 to 2004 reflects all of FPIC's current insurance subsidiaries.

The top portion of the preceding table ending with the subtotal "Redundancy / (Deficiency)" demonstrates how our net loss and LAE reserves as of the end of each of the last ten calendar years compares with net paid losses and re-estimates of those net reserves after the end of each of these years. A net redundancy means that the reserves carried as of the end of that particular calendar year (including reserves on claims still open, if any) have developed downward. When reserves develop downward, this means that we now believe we will have to pay less for these claims than we had previously set aside in reserves. A net deficiency means that the reserves have been increased since the end of the calendar year. This means that we now believe we will have to pay more for these claims than we previously set aside in reserves. For example, the table indicates that the cumulative net reserves carried at the end of calendar years 1994 through 1998 have been higher than subsequent payments and re-estimates. In contrast, the cumulative net reserves at the end of calendar years 1999 through 2003 have been increased from amounts initially carried as of the end of each of these years.

In 2003, we increased our net reserves for the years 1999 through 2001 primarily in recognition of higher severity than initially assumed, particularly in Missouri. As of December 31, 2004, we increased our net allocated loss adjustment expense ("ALAE") reserves for calendar years 1999 through 2003, which resulted in additional upward development in reserves for years 1999 through 2001. The higher ALAE reserves are the result of our harder claims philosophy, under which we began taking more cases to trial in 2001. We also experienced some upward development in loss experience on corporate policy endorsements and on business in non-core states and increased our 2000 and 2001 reserves.

Despite higher ALAE and other upward development for years 1999, 2000 and 2001, our loss experience and outlook overall has improved significantly in the most recent years. Improvements in our loss experience resulting from claims and underwriting initiatives we've implemented since 2001 have essentially met or exceeded our estimates for years since 2002. Accordingly, the upward development in 1999 through 2001 net reserves has been substantially offset by downward development in reserves for years 2002 and 2003 resulting in relatively immaterial net development for all years prior to 2004 combined.

The bottom portion of the preceding table presents the original cumulative gross reserves, reinsurance recoverables and net reserves as of the end of each calendar year together with summaries of the corresponding latest cumulative re-estimated amounts as of December 31, 2004. The effects on our results of operations of a cumulative redundancy or deficiency in our gross reserves as depicted in the bottom portion of the table in excess of the development in our reserves, net of reinsurance, for those years are entirely offset by corresponding decreases or increases in reinsurance recoverables. The upward development in our gross loss and LAE reserves recognized during 2004 for years 1999 through 2001 is largely consistent with the development in our net reserves as described above. In addition, during 2003, we increased our gross reserves and related reinsurance recoverable amounts for APAC for the years 2000, 2001 and 2002 to conform its gross reserves as a result of its integration under the management of First Professionals. As with our net loss and LAE reserves, the upward development pertaining to years 1999 through 2001 has been largely offset by better than expected loss experience and downward development in our reserves for years 2002 and 2003 since then.

The following table rolls forward FPIC's consolidated liability for losses and LAE reserves, net of reinsurance, (in thousands) showing the changes for the period beginning January 1, 2002 and ending December 31, 2004.

	2004	2003	2002
Net loss and LAE reserves, January 1	$ 298,763	272,007	238,073
Incurred Related To:			
Current year	124,699	118,492	137,155
Prior years	473	482	2,416
Total incurred	125,172	118,974	139,571
Paid Related To:			
Current year	16,517	13,455	9,130
Prior years	105,719	101,989	96,507
Total paid	122,236	115,444	105,637
Gerling commutation	—	23,226	—
Net loss and LAE reserves, December 31	$ 301,699	298,763	272,007
Gross loss and LAE reserves, December 31	$ 635,118	574,529	440,166
Reinsurance recoverables, December 31	333,419	275,766	168,159
Net loss and LAE reserves, December 31	$ 301,699	298,763	272,007

Incurred Related to Current Year

Our best estimate of reserves for the 2004 year has been determined using historical trends with adjustments added to provide for uncertainties inherent in the claims environment in Florida, including those resulting from significant tort reform initiatives passed by the legislature in 2003 and three constitutional amendments passed by popular initiative in 2004. Because of the uncertainty created by these changes, we believe that booking a more conservative provision in the current year is prudent.

Incurred Related to Prior Years

FPIC's aggregate loss and LAE reserve estimates reported for years 2003 and prior have not increased significantly, as a group, in 2004. FPIC adopted a new harder claims payment philosophy beginning in 2001. The new claims philosophy, which is now approaching its fourth full year, has had the effect so far of reducing FPIC's overall loss costs relative to its former claims philosophy. It has also had the effect of changing FPIC's loss development patterns thereby introducing an additional element of uncertainty into the provisions for the individual prior years. We believe that it is best to treat this element of uncertainty conservatively and thus, have not reduced our prior year reserves, in aggregate, but have increased the provisions in some years and reduced them in others. As shown in the 10 year table and further commented upon above, as of December 31, 2004, we have increased our aggregate loss and LAE reserves, net of reinsurance, for the years ended December 31, 2001 and prior as originally reported by $35.2 million and have reduced our reserves for claims related to the years ended December 31, 2002 and 2003 by $19.0 million and $15.7 million, respectively.

Given the proximity and status of the years 2000 through 2002, in particular, relative to the timing of the initiation of our harder claims payment philosophy and the implementation of initiatives to control increasing ALAE expenditures attendant to executing that philosophy, it is still reasonably possible that the remaining reserves for these years, in particular, may experience upward or downward development in the future.

As a result of the commutation of our ceded reinsurance to Gerling Global Reinsurance Corporation of America ("Gerling") during 2003, we now retain the corresponding insured risks and losses and LAE we formerly ceded. We received $23.2 million in exchange for the release of Gerling from its reinsurance obligations to us, which we added to our net reserves. No gain or loss was recognized on the transaction.

For additional information on our accounting policy for loss and LAE reserves, see Note 2, Significant Accounting Policies, to the consolidated financial statements.

REINSURANCE PAYABLE decreased $3.1 million since year end 2003 primarily as a result of a reduction in premiums due under FPIC's excess of loss reinsurance program and the exit from our fronting programs. These decreases were partially offset by business ceded under the Hannover Re net account quota share reinsurance agreement. Reinsurance premiums payable under the Hannover Re net account quota share reinsurance agreement increased approximately $14.5 million for the year ended December 31, 2004.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

FPIC has various contractual obligations that are recorded as liabilities in our consolidated financial statements. FPIC also has items that represent contractual obligations, commitments and contingent liabilities that are not recorded on its balance sheet or that are considered to possess off-balance sheet risks beyond their respective amounts otherwise reflected in the balance sheet. These include: (1) derivative financial instruments, which are used to hedge interest rate risk, (2) guarantees by us of trust preferred securities issued by separately created, unconsolidated trusts, (3) a contingent liability under an amendment made to AFP's management agreement with PRI, effective January 1, 2002, and (4) two irrevocable letters of credit issued in favor of the lessor under operating leases.

FPIC uses interest rate collars as a hedge to maintain the total borrowing costs of its long term debt (interest expense on the debt instruments, plus or minus cash flows under the interest rate collar instruments) to within specified ranges. FPIC's all in borrowing costs on long term debt combined with the corresponding cash flows under the related interest rate collars can fluctuate between $2.3 million to $3.8 million annually, until such time as the interest rate collars expire. The interest rate collars are set to expire on dates corresponding with the first dates under the respective long-term debt agreements at which they can be retired by us at our option, which is five years from the date of issue in each case. See Note 10, Derivative Financial Instruments, to the consolidated financial statements for additional disclosures about FPIC's derivative financial instruments.

FPIC guarantees the floating rate interest and principal obligations under the trust preferred securities issued by its separately created, unconsolidated trusts, which have been established solely for the purpose of issuing the securities. The total principal balance of these trust preferred securities was $35.0 million as of December 31, 2004. FPIC also carries corresponding junior subordinated debentures on its balance sheet, which debentures were issued to these trusts in exchange for the proceeds raised by the trusts upon their respective issuances of the trust preferred securities. The junior subordinated debentures of FPIC are comprised of the same maturities, floating interest rates and other applicable terms and are the instruments by which FPIC funds the related interest and principal obligations of the unconsolidated trusts. See Note 9, Long Term Debt, to the consolidated financial statements for additional disclosures about FPIC's trusts and junior subordinated debentures.

AFP has an exclusive 10 year management agreement with PRI with the current term ending December 31, 2008. During 2002, the management agreement between AFP and PRI was amended to remove the sharing by AFP of 10% of PRI's statutory net income or loss, effective January 1, 2002. Compensation under the agreement as originally in effect was equal to 13% of PRI's direct premiums written, with an adjustment for expected return premiums, plus or minus 10% of PRI's statutory net income or loss. With regard to profit sharing amounts already earned and collected, AFP has agreed pursuant to the amendment, to consider the years 1999, 2000 and 2001 open for re-determination and possible adjustment for a period of five years each (expiring 2004, 2005 and 2006, respectively.) Such adjustments would be based primarily on development of and related adjustments, if any, to loss and LAE reserves for those years. There have been no adjustments to date. AFP had previously earned and collected profit sharing amounts under the original agreement totaling $3.6 million for the three years ended December 31, 2001. In accordance with the amended agreement, AFP also agreed to pay 6% annual interest on the 10% profit share amounts previously earned and collected under the original agreement for 1999, 2000 and 2001, while those years remain open for possible future re-determination and adjustment, if any. In addition, AFP is reimbursed for 50% of the costs associated with the risk management department it maintains for PRI insureds. The management agreement and amendment were reviewed and approved by the New York State Insurance Department. See Note 18, Related Party Transactions, to the consolidated financial statements for additional information about the management agreement with PRI.

FPIC has issued two irrevocable letters of credit in the amount of $500,000 each as collateral under operating leases for the buildings occupied by AFP in Manhasset and Lake Success, New York. FPIC also issues irrevocable letters of credit or places assets in trust under its assumed reinsurance contracts with PRI. These assets in trust or letters of credit serve as collateral to corresponding insurance liabilities recorded on our balance sheet and are not considered to be off-balance sheet obligations. Finally, FPIC is contractually committed to make certain minimum lease payments for the use of property under operating lease agreements.

The following table summarizes our significant contractual obligations and commitments as of December 31, 2004 and the future periods in which such obligations are expected to be settled in cash. In addition, the table reflects the timing of principal payments on outstanding borrowings. Additional information regarding these obligations is provided in Note 9, Long Term Debt, Note 13, Employee Benefit Plans, and Note 14, Commitments and Contingencies, to the consolidated financial statements.

	Payment Due by Period				
	Total	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**More Than Five Years**
Contractual Obligations:					
Liability for losses and LAE[(1)]	$ 635,118	222,780	286,781	91,129	34,428
Long term debt obligations	46,083	—	—	—	46,083
Capital lease obligations	—	—	—	—	—
Operating lease obligations	15,757	3,271	5,533	4,050	2,903
Pension obligations[(2)]	6,168	3,277	—	—	2,891
Purchase obligations	350	350	—	—	—
Other long term liabilities	2,271	578	855	838	—
Total	$ 705,747	230,256	293,169	96,017	86,305

(1) The liability for losses and LAE represents our best estimate of the unpaid cost of settling claims, including claims that have been incurred but not yet reported. The estimated costs of settling claims are generally based upon past experience adjusted for current trends, and any other factors that would modify past experience. While management believes the liabilities for losses and LAE are adequate to cover the ultimate liability, the actual ultimate loss costs may vary from the amounts presently estimated and such differences could be material. The liability for losses and LAE are gross of anticipated amounts recoverable from reinsurers. Reinsurance balances recoverable are reported separately in the consolidated statements of financial position. As of December 31, 2004, our reinsurance balances recoverable related to the liability for losses and LAE were $333.4 million in aggregate.

(2) Pension obligations are comprised of approved plan contributions and FPIC's obligation should a plan terminate as of December 31, 2004.

Stock Repurchase Plans

Under our stock repurchase program, we may repurchase shares at such times, and in such amounts, as management deems appropriate. We did not repurchase any shares during 2004 and a total of 365,500 shares remain available to be repurchased under the program. Under certain circumstances, limitations may be placed on FPIC's ability to purchase its capital stock by the terms of agreements relating to its junior subordinated debentures. For information regarding these limitations, refer to Note 9, Long Term Debt, to the consolidated financial statements. For additional information, see also the discussion of Liquidity and Capital Resources, below.

Liquidity and Capital Resources

The payment of losses and LAE, insurance operating expenses (including reinsurance costs), claims administration and management expenses, non-insurance operating expenses, interest expense and income taxes in the ordinary course of business are the principal needs for our liquid funds. The principal sources of cash from our operations to meet our on-going liquidity requirements are the premiums collected for the insurance sold by our insurance subsidiaries, income on the investment of those funds, and claims administration and management fees and reinsurance brokerage and other commission income earned by our non-insurance subsidiaries.

Net Cash Provided By Operating Activities

As reported in the consolidated statement of cash flows, net cash provided by operating activities was $64.9 million for the year ended December 31, 2004 compared with net cash provided by operating activities of $89.9 million for the year ended December 31, 2003. The majority of the decrease in cash provided by operating activities for the year ended December 31, 2004 can be attributed to the commutation of our ceded reinsurance to Gerling in 2003, pursuant to which we received $23.2 million in exchange for the release of Gerling from its reinsurance obligations to us.

As of December 31, 2004, we had cash and invested assets of $684.0 million and held fixed maturity debt securities with a fair value of approximately $12.0 million with scheduled maturities during the next twelve months. We believe that our cash and invested assets as of December 31, 2004, combined with expected cash flows from operating activities and the scheduled maturities of investments, will be sufficient to meet our cash needs for operating purposes for at least the next twelve months.

A number of factors could cause unexpected changes in liquidity and capital resources available, including but not limited to, the following:

- Unexpected changes in premium revenue due to higher or lower than expected new business or retention of insurance policies in force;
- Unexpected changes in the amounts needed to defend and settle claims;
- Unexpected changes in operating costs, including new or increased taxes;
- Failure of one or more of our reinsurers leading to uncollectible reinsurance recoverables;
- Possible impairments of our investments; and
- Unexpected changes in liquidity provided by our insurance management and TPA segments.

Furthermore, liquidity and capital risks can come about as the result of the broader business and financial risks facing us, including the uncertainties and factors disclosed in the Safe Harbor Disclosure. Many, if not most, of these types of uncertainties could have a corresponding and materially negative effect on our liquidity and capital resources, as well as our financial condition and results of operations. In order to compensate for such risks, we:

- Maintain what management considers to be adequate capital and reinsurance;
- Monitor our reserves and periodically perform actuarial reviews of loss and LAE reserves; and
- Attempt to maintain adequate asset diversification and liquidity (by managing our cash flow from operations coupled with the maturities from our fixed income portfolio investments).

Long Term Debt

During 2003, we completed the placement of $10.0 million in senior notes and created three trusts that issued 30-year trust preferred securities for which the proceeds from such issuances together with cash previously contributed to the trusts were used to purchase junior subordinated debentures from FPIC totaling $36.1 million. We used the proceeds along with other internally generated funds to retire our bank term loan and revolving credit facility, make a capital contribution to our insurance operations and unwind hedge agreements related to the revolving credit facility and term loan.

We established three wholly owned, but not consolidated, trusts for the sole purpose of issuing the trust preferred securities: FPIC Capital Trust I, FPIC Capital Statutory Trust II and FPIC Capital Statutory Trust III. The proceeds received by the three trusts were used to purchase junior subordinated debentures from FPIC of the same amounts, maturities and other applicable terms and features. The debentures issued by FPIC, which are reported as long term debt in the consolidated statements of financial position, to the three trusts are subordinated to all senior indebtedness, including the senior notes, and are equal in standing with one another.

The securities are uncollateralized and bear floating interest rates equal to the three-month LIBOR plus spreads ranging from 3.85% to 4.20% (the interest rates ranged from 5.98% to 6.60% as of December 31, 2004). The floating interest rates are adjustable quarterly with changes in the three-month LIBOR, and in the case of two offerings, the maximum rate that may be charged under the securities within the first five years is 12.50%. We have also purchased hedging instruments, as described below, designed to maintain the ultimate floating rate interest cost on all of these securities within a stated range for five years from closing. We have the option to call the trust preferred securities at par or its equivalent beginning five years from closing. The trust preferred securities also contain features that allow us the option, under certain conditions, to defer interest payments for up to 20 quarters and to redeem the securities before the first optional call date in five years. In the case of the potential earlier call date, the redemption or call price payable by us may be different than par. The securities have stated maturities of thirty years and are due in May and October 2033.

Indenture agreements relating to FPIC's junior subordinated debentures and trust preferred securities contain limitations, under certain circumstances, as to (i) the declaration or payment of dividends, or distributions thereon, or the redemption, purchase, acquisition or liquidation with respect to any capital stock of FPIC or its affiliates; (ii) the payment, in certain circumstances, of principal, premium or interest on, or the repayment, repurchase or redemption of, debt securities of FPIC or its affiliates that rank in equal standing with or are junior in interest to the debentures; or (iii) the payment, in certain circumstances, under any guarantees of FPIC or its affiliates that rank equal in standing with, or junior in interest to, capital securities guarantees relating to the issuance of the debentures. Circumstances that would result in such limitations include a continuing event of default, as defined by the indenture agreements, a default with respect to payment of any obligations under capital securities guarantees, or a continuing interest deferral election by FPIC.

Holding Company Sources of Liquidity

The sources of liquidity to FPIC, the holding company, for the payment of its operating expenses, taxes and debt-related expenses are management fees from First Professionals and APAC and overhead allocations to the non-insurance subsidiaries for which FPIC receives reimbursement, and dividends.

FPIC has management agreements with First Professionals and APAC, under which it provides substantially all management and administrative services to these subsidiaries. Under the terms of the agreements, FPIC receives management fees equal to 115% of the costs incurred to manage the two subsidiaries. The additional 15% provision in the First Professionals and APAC management fees is intended to cover overhead, corporate expenses and profit and is eliminated in the consolidated financial statements. In the case of the agreement with APAC, the total annual management fees are also limited to an amount not to exceed those that would have been paid under the terms of its former management agreement.

Shareholder dividends available from our insurance subsidiaries are subject to certain limitations imposed by Florida and Missouri laws. As of December 31, 2004, the insurance subsidiaries are permitted, within insurance regulatory guidelines, to pay FPIC dividends of approximately $16.0 million during 2005 without prior regulatory approval.

Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued FAS 123(R), "Share−Based Payment," which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. FAS 123(R) requires stock options and other share−based payments made to employees to be accounted for as compensation expense and recorded at fair value. Consistent with the provisions of the new standard, we intend to adopt FAS 123(R) in the third quarter of 2005. Information about the fair value of stock options under the Black−Scholes model and its pro forma impact on our net income and earnings per share for the years ended December 31, 2004, 2003 and 2002 can be found in Note 2, Significant Accounting Policies, to the consolidated financial statements. However, a number of technical implementation issues are yet to be resolved, including the selection and use of an appropriate valuation model, and the ultimate impact of adopting FAS 123(R) is not yet known.

During 2004, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus with respect to guidance to be used in determining whether an investment within the scope of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," is other-than-temporarily impaired. The guidance was to be applied in other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004, however, in October 2004 the implementation date was deferred. Due to the uncertainty as to how all of the relevant outstanding issues will be resolved, FPIC is unable to determine the impact of adopting paragraphs 10-20 of EITF 03-1 until final implementation guidance is issued.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss arising from adverse changes in market and economic conditions, such as changes in interest rates, spreads among various asset classes, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The following is a discussion of our primary market risk exposures and how we managed those exposures as of December 31, 2004. Our market risk sensitive instruments are entered into for purposes other than trading.

The fair value of all our investment securities as of December 31, 2004 was approximately $555.7 million. Our investment portfolio was invested primarily in fixed maturity securities, which comprised $548.5 million, or 99%, of the fair value of all our investment securities. The fixed maturity portfolio currently reflects an average Moody's credit quality of Aa2. We invest in securities with investment grade credit ratings, with the intent to minimize credit risks. The allocation of the fixed maturity investment portfolio by Moody's credit quality is approximately 56% in Aaa, 17% in Aa, 16% in A and 11% in Baa. We purchase collateralized mortgage obligations in the context of our overall investment and asset class allocation strategy and, specifically, to help improve our yields and current income. Approximately 46% of our fixed income portfolio is allocated to the municipal sector in the form of tax-exempt securities. The balance is diversified through investments in treasury, agency, and corporate and mortgage-backed securities.

Generally, we do not invest in derivatives and do not currently use hedging strategies in our investment portfolio. However, we do have investments in hedging instruments designed to maintain the ultimate floating rate interest cost on our long term debt within a stated range.

The four market risks that can most directly affect the investment portfolio are changes in U.S. interest rates, credit risks, prepayment risks, and legislative changes, including changes in tax laws that might affect the taxation of our investment securities.

From time to time, discussion arises in the United States Congress relative to changing or modifying the tax-exempt status of municipal securities. At present there are no hedging or other strategies being used to minimize this risk. We have increased our concentration in tax-exempt municipal securities during 2004 relative to tax-exempt holdings in 2003, as part of our overall investment strategy.

We manage risks associated with the changes in interest rates by attempting to manage the duration of our investments in relation to the duration of our anticipated liabilities (principally claim payments and related defense costs) in such a way so as to minimize the likelihood of having to liquidate investments at a loss before their maturity. Effective duration is a standard measure of interest rate sensitivity that takes into account, among other things, the effect that changing interest rates will have on prepayments and the re-investment of these funds. The effective duration of our consolidated fixed income investment portfolio as of December 31, 2004 was 4.8 years.

The following table summarizes the effects on the estimated fair value of our fixed income portfolio assuming a range of increases and decreases in market interest rates. For purposes of this interest rate analysis, each market interest rate change is assumed to be uniform across the portfolio. As shown in this table, if prevailing market interest rates on investments in debt securities comparable to those we held as of December 31, 2004 were to uniformly increase 100 or 200 basis points, the fair value of our fixed maturity securities would have decreased approximately $27 million or $56 million, respectively. Dollar amounts are shown in thousands.

	Hypothetical Decrease – (200 bps)	**Hypothetical Decrease – (100 bps)**	**Current Market**	**Hypothetical Increase + 100 bps**	**Hypothetical Increase + 200 bps**
Fair Value	$ 604,758	575,659	548,543	522,375	497,174
Fair Value/Reported Value	110%	105%	100%	95%	91%

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

The following table presents the projected cash flows for our assets and liabilities associated with financial instruments and operating leases. It does not reflect operating cash flows, including investment income and interest expense earned or accrued as expense under these instruments. Thus, the amounts reported as cash flows in the table below for fixed maturities represent par values at maturity date, and exclude investment income and expenses and other cash flows. The fair values of fixed maturities are based upon quoted market prices or dealer quotes for comparable securities. The fair value of the interest rate collars is estimated using quotes from the financial institution that acted as the broker in obtaining them and represents the cash requirement if the existing agreement had been settled at year-end. The projected cash flows of long term debt and operating leases are estimated to approximate their fair values as of December 31, 2004. Interest expense on debt is excluded from this table as is interest income on investments. However, weighted average interest rates earned on our fixed income securities and interest expense on our long term debt are presented in the last section of the table. Weighted average variable rates are based on implied forward rates.

	Projected Cash Flows (in thousands)							December 31, 2004
	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
Assets:								
Fixed maturity securities,								
Available for sale	$ 11,800	34,148	34,810	33,055	35,859	366,407	516,079	548,543
Interest rate collars	$ —	—	—	—	—	—	—	498
Liabilities:								
Long term debt	$ —	—	—	—	—	(46,083)	(46,083)	(46,083)
Operating leases	$ (3,271)	(2,920)	(2,613)	(2,572)	(1,478)	(2,903)	(15,757)	—
Weighted Average Interest Rate:								
Fixed maturity securities	6.02%	5.43%	5.14%	5.06%	5.37%	5.22%		
Long term debt	7.25%	8.09%	8.36%	8.53%	8.71%	8.86%		
Interest rate collars	0.00%	0.00%	0.00%	0.05%	0.18%	0.33%		

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required to be included in this Item 8 are set forth in Item 15 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in or disagreements with accountants on accounting and financial disclosure matters.

Item 9A. Controls and Procedures

An evaluation of FPIC’s disclosure controls and procedures (as defined by Rule 13a-15(e) of the Securities Exchange Act of 1934 (the “Act”)) was completed as of December 31, 2004, by FPIC’s Chief Executive Officer and Chief Financial Officer. Based on such evaluation, FPIC’s disclosure controls and procedures were found to be effective in ensuring that material information, relating to FPIC and its consolidated subsidiaries, as required to be disclosed by FPIC in its periodic reports filed with the Securities and Exchange Commission, is accumulated and made known to the Chief Executive Officer and Chief Financial Officer, and other management, as appropriate, to allow for timely decisions regarding required disclosure.

There have been no changes in FPIC’s internal controls over financial reporting identified in connection with such evaluation that occurred during the fourth quarter of 2004 that have materially affected or are reasonably likely to materially affect FPIC’s internal controls over financial reporting.

Information required herein regarding Management’s Report on Internal Control Over Financial Reporting will appear under Part IV, Item 15 Exhibits and Financial Statement Schedules, Section 1. Financial Statements.

Item 9B. Other Information

On December 28, 2004, the Budget and Compensation Committee of the Board of Directors (the "Committee") of FPIC took the following actions regarding executive compensation and material definitive agreements.

2005 Base Salary Increases

Effective January 1, 2005, the Committee increased the base salaries of the executive officers of FPIC who will be the "named executive officers" (as defined by Item 402(a)(3) of Regulation S-K) for purposes of FPIC's proxy statement for the 2005 annual meeting of shareholders. The base salaries of FPIC's executive officers for 2005 are as follows:

Name	Base Salary
John R. Byers	$ 550,000
President and Chief Executive Officer	
Kim D. Thorpe	$ 350,000
Executive Vice President and Chief Financial Officer	

Extension of Employment Agreements; Change in Bonus Target Percentage

The Committee extended for one year the employment agreement between FPIC and John R. Byers, President and Chief Executive Officer of FPIC. Mr. Byers' employment agreement currently continues through December 31, 2007. In addition, the Committee increased Mr. Byers' bonus target under FPIC's Executive Incentive Compensation Plan (the "Plan") from 45% to 50% of Mr. Byers' base salary. The Committee also extended for one year the employment agreement between FPIC and Kim D. Thorpe, Executive Vice President and Chief Financial Officer of FPIC. Mr. Thorpe's employment agreement currently continues through December 31, 2006.

On January 20, 2005, the Committee approved 2005 financial and strategic targets under the Plan. Incentive compensation under the Plan is assessed through a formal evaluation of overall FPIC performance. Performance under the Plan for 2005 will be evaluated based on (i) financial targets, including revenues and earnings; (ii) strategic targets; and (iii) subjective evaluation of each participant, based on individual performance objectives and core competencies. A copy of the Plan is filed herewith as Exhibit 10(eeee).

On February 25, 2005, the Committee approved annual cash incentive compensation awards for 2004 under the Plan. Incentive compensation of FPIC's executive officers for 2004 is as follows:

Name	Incentive Compensation
John R. Byers	$ 333,000
President and Chief Executive Officer	
Kim D. Thorpe	$ 185,231
Executive Vice President and Chief Financial Officer	

Part III

Item 10. Directors and Executive Officers of the Registrant

FPIC's Code of Ethics ("Code"), which applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, was filed as Exhibit 14.1 to its Form 10-K for the year ended December 31, 2003 as filed with the SEC on March 15, 2004, and is posted on its Internet website at http://www.fpic.com. FPIC intends to post any amendments or waivers thereto on its website. As of December 31, 2004, no amendments or waivers had been made to its Code as previously filed with the SEC. FPIC will provide to any person, without charge, a copy of such Code upon written request to Investor Relations, FPIC Insurance Group, Inc., 225 Water Street, Suite 1400, Jacksonville FL 32202, or through its website or via email at ir@fpic.com or by calling Investor Relations at (904) 354-2482 Extension 3287.

Further information required hereunder with respect to directors and executive officers will appear under the heading "Executive Compensation" in FPIC's Proxy Statement for the 2005 Annual Meeting of shareholders, which information is incorporated herein by reference.

Item 11. Executive Compensation

The information required herein will appear under the heading "Executive Compensation" in FPIC's Proxy Statement for the 2005 Annual Meeting of Shareholders, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Securities authorized for issuance under equity compensation plans as of December 31, 2004 are provided below.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,454,446	$17.24	1,060,492
Equity compensation plans not approved by security holders	—	—	—
Total	1,454,446	$17.24	1,060,492

Other information required herein will appear under the heading "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters" in FPIC's Proxy Statement for the 2005 Annual Meeting of Shareholders, which information is incorporated herein by reference. See Item 8, Financial Statements and Supplementary Data, and Note 12, Stock Option and Employee Stock Purchase Plans, to the consolidated financial statements for information about FPIC's equity compensation plans.

Item 13. Certain Relationships and Related Transactions

The information required herein will appear under the heading "Certain Relationships and Related Transactions" in FPIC's Proxy Statement for the 2005 Annual Meeting of Shareholders, which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required herein will appear under the heading "Principal Accountant Fees and Services" in FPIC's Proxy Statement for the 2005 Annual Meeting of Shareholders, which information is incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules

1. *Financial Statements of FPIC Insurance Group, Inc.:*

2. *Financial Statement Schedules:*

(Schedules other than those listed are omitted for the reason that they are not required or are not applicable or the required information is shown in the financial statements or notes thereto.)

3. *Exhibits:*

3.1	Restated Articles of Incorporation of FPIC Insurance Group, Inc., incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on August 16, 1999.
3.2	Amended and Restated Bylaws of FPIC Insurance Group, Inc. dated July 20, 2002, incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on August 13, 2002.
10(c)*	Form of Indemnity Agreement dated February 28, 1996 between the Registrant and Drs. Acosta-Rua, Gause, Shapiro, Selander, White, Bagby, Baratta, Murray, Bridges, Hagen, Van Eldik, Yonge; Messrs. Russell, Rosenbloom, Sabia, Carey, Driscoll and Ms. Whitter, incorporated by reference to FPIC's Registration Statement on Form S-4 (Registration No. 333-02040) first filed on March 7, 1996.
10(d)*	Omnibus Incentive Plan, as amended by shareholder approval on June 2, 2004, incorporated by reference to FPIC's definitive proxy statement (Commission File No. 1-11983) filed on April 29, 2004.
10(e)*	Director Stock Option Plan, as amended by shareholder approval on June 2, 2004, incorporated by reference to FPIC's definitive proxy statement (Commission File No. 1-11983) filed on April 29, 2004.
10(f)*	Supplemental Executive Retirement Plan, as amended, incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on May 17, 1999.
10(g)*	Excess Benefit Plan, incorporated by reference to FPIC's Registration Statement on Form S-4 (Registration No. 333-02040) first filed on March 7, 1996.

10(l)*	Form of Severance Agreement dated January 1, 1999 between the Registrant and John R. Byers incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on May 17, 1999.
10(l)(1)*	Form of Amendment to Severance Agreement between the Registrant and John R. Byers dated December 14, 2001, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(m)*	Form of Employment Agreement dated January 1, 1999 between the Registrant and John R. Byers incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on May 17, 1999.
10(m)(1)*	Form of Amendment to Employment Agreement between the Registrant and John R. Byers dated December 14, 2001, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(n)*	Form of Employment Agreement dated November 22, 1999 between the Registrant and Kim D. Thorpe incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2000.
10(n)(1)*	Form of Amendment to Employment Agreement between the Registrant and Kim D. Thorpe dated December 14, 2001, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(o)*	Form of Severance Agreement dated November 22, 1999 between the Registrant and Kim D. Thorpe incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2000.
10(o)(1)*	Form of Amendment to Severance Agreement between the Registrant and Kim D. Thorpe dated December 14, 2001, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(p)*	Form of Indemnity Agreements dated January 1, 1999 between the Registrant and Frank Moya, M.D. and John R. Byers incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2000.
10(q)*	Form of Indemnity Agreements dated May 8, 1999 between the Registrant and Ms. Deyo, Parks and Ryan incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2000.
10(r)*	Form of Indemnity Agreement dated August 22, 1999 between the Registrant and Steven Coniglio incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2000.
10(s)*	Form of Indemnity Agreements dated November 6, 1999 between the Registrant and Messrs. Cetin and Thorpe incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2000.
10(t)	Reinsurance agreement between Physicians' Reciprocal Insurers and First Professionals Insurance Company, Inc. incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on May 15, 2000.
10(w)*	Form of Employment Agreement dated May 1, 2000 between the Registrant and Gary M. Dallero, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2001.
10(w)(1)*	Form of Amendment to Employment Agreement between the Registrant and Gary M. Dallero dated December 16, 2000, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(x)*	Form of Severance Agreement dated June 19, 2000 between the Registrant and Charles Divita, III, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2001.
10(y)*	Form of Indemnity Agreement dated July 15, 2000 between the Registrant and Messrs. Dallero and Divita, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2001.

10(z)*	Form of Indemnity Agreement dated December 16, 2000 between the Registrant and Roberta G. Cown, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2001.
10(aa)*	Form of Severance Agreement dated December 16, 2000 between the Registrant and Roberta G. Cown, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2001.
10(bb)*	Form of Severance Agreement dated December 22, 2000 between the Registrant and Pamela D. Deyo, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2001.
10(cc)	Waiver and Modification Agreement dated as of March 30, 2001, by and among FPIC Insurance Group, Inc., and The Banks Listed Herein, and SunTrust Bank, as Issuing Bank, Administrative Agent and as Collateral Agent, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 30, 2001.
10(ff)*	Form of Indemnity Agreement dated June 6, 2001 between the Registrant and John K. Anderson, Jr. , incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(gg)*	Form of Indemnity Agreement dated June 6, 2001 between the Registrant and M.C. Harden, III, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(hh)*	Form of Indemnity Agreement dated July 14, 2001 between the Registrant and Gene C. Witherspoon, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(jj)*	Form of Employment Agreement dated December 14, 2001 between the Registrant and Roberta G. Cown, incorporated by reference to FPIC's Form 10-K (Commission File No. 1-11983) filed on March 27, 2002.
10(ll)	First Professionals Insurance Company, Inc. Net Account Quota Share Reinsurance Agreement dated July 1, 2002, incorporated by reference to FPIC's Form 8-K filed on August 7, 2002.
10(mm)*	Form of employment agreement dated January 1, 1999 between the Administrators for the Professions, Inc. and Anthony Bonomo, as amended, incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on August 13, 2002.
10(pp)	Amendment of the Management Agreement between AFP and PRI dated January 1, 1999, incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on November 13, 2002.
10(ss)	Form of Assignment Agreement dated January 1, 2003 between Anthony Bonomo, FPIC Insurance Group, Inc. and Physicians' Reciprocal Insurers, incorporated by reference to Form 10-K for the year ended December 31, 2002, filed on March 28, 2003.
10(tt)	FPIC Insurance Group, Inc. Medical Malpractice Liability Excess of Loss Reinsurance Agreement effective January 1, 2003 to January 1, 2004, incorporated by reference to Form 10-K for the year ended December 31, 2002, filed on March 28, 2003.
10(uu)	Form of Second Amendment to the Management Agreement effective January 1, 2002 among Anesthesiologists Professional Assurance Company, APA Management, Inc. and FPIC Insurance Group, Inc., incorporated by reference to Form 10-K for the year ended December 31, 2002, filed on March 28, 2003.
10(vv)	FPIC Insurance Group, Inc. Casualty Awards Made Excess of Loss Reinsurance Agreement - 2003 Final Reinsurance Placement Slip, incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on May 14, 2003.
10(ww)	First Professionals Insurance Company, Inc. Net Account Quota Share Reinsurance Agreement Amendment No. 1 to the 2002 Final Placement Slip, incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on May 14, 2003.

10(xx)	Placement Agreement dated April 25, 2003, among FPIC Insurance Group, Inc. and its financing subsidiary, FPIC Capital Statutory Trust II, together as offerors, and FTN Financial Capital Markets and Keefe, Bruyette & Woods, Inc., as placement agents, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 16, 2003.
10(yy)	Subscription Agreement dated May 15, 2003 among FPIC Insurance Group, Inc. and FPIC Capital Statutory Trust II, together as offerors, and I-Preferred Term Securities II, Ltd., as purchaser, incorporated by reference to FPIC's Form 8-K (Commission File No. 001-11983) filed on May 16, 2003.
10(zz)	Amended and Restated Declaration of Trust of FPIC Capital Statutory Trust II dated May 15, 2003 by and among FPIC Insurance Group, Inc., as sponsor, U.S. Bank National Association, as institutional trustee, and Kim D. Thorpe, Roberta Goes Cown and Pamela D. Deyo, as administrators, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 16, 2003.
10(aaa)	Guarantee Agreement dated May 15, 2003 by and between FPIC Insurance Group, Inc., as guarantor, and U.S. Bank National Association, as guarantee trustee, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 16, 2003.
10(bbb)	Indenture dated May 15, 2003 between FPIC Insurance Group, Inc. and U.S. Bank National Association, as debenture trustee, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 16, 2003.
10(ccc)	Amendment No. 3 to Revolving Credit and Term Loan Agreement dated April 10, 2003 by and among FPIC Insurance Group Inc., as the borrower, and several banks and other financial institutions from time to time party thereto, as lenders, and SunTrust Bank, as administrative agent and collateral agent for the lenders, and joined by certain subsidiaries of the borrower as subsidiary guarantors, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 16, 2003.
10(ddd)	Placement Agreement dated May 13, 2003 among FPIC Insurance Group, Inc. and its financing subsidiary, FPIC Capital Trust I, together as offerors, and Sandler O'Neill & Partners, L.P., as placement agent, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 29, 2003.
10(eee)	Capital Securities Subscription Agreement dated May 13, 2003 among FPIC Insurance Group, Inc. and FPIC Capital Trust I, together as offerors, and InCapS Funding I, Ltd., as purchaser, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 29, 2003.
10(fff)	Amended and Restated Declaration of Trust of FPIC Capital Trust I dated May 22, 2003 by and among FPIC Insurance Group, Inc., as sponsor, Wilmington Trust Company, as Delaware trustee, Wilmington Trust Company, as institutional trustee, and Kim D. Thorpe, Roberta Goes Cown and Pamela D. Deyo, as administrators, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 29, 2003.
10(ggg)	Guarantee Agreement dated as of May 22, 2003 by and between FPIC Insurance Group, Inc., as guarantor, and Wilmington Trust Company, as guarantee trustee, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 29, 2003.
10(hhh)	Indenture dated as of May 22, 2003 between FPIC Insurance Group, Inc., as issuer and Wilmington Trust Company, as trustee, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 29, 2003.
10(iii)	Placement Agreement dated May 13, 2003 between FPIC Insurance Group, Inc., as offeror, and Sandler O'Neill & Partners, L.P., as placement agent, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 29, 2003.
10(jjj)	Senior Notes Subscription Agreement dated May 13, 2003 between FPIC Insurance Group, Inc. and InCapS Funding I, Ltd., as purchaser, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 29, 2003.

10(kkk)	Indenture dated as of May 22, 2003 between FPIC Insurance Group, Inc., as issuer, and Wilmington Trust Company, as trustee, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on May 29, 2003.
10(lll.1)	Employee Stock Purchase Plan, as amended on June 2, 2004 by shareholder approval, incorporated herein by reference to FPIC Insurance Group, Inc.'s Definitive Proxy Materials (Commission File No. 1-11983) filed on April 29, 2004.
10(lll.2)	Placement Agreement dated October 16, 2003 among FPIC Insurance Group, Inc. and its financing subsidiary, FPIC Capital Statutory Trust III, together as offerors, and FTN Financial Capital Markets and Keefe, Bruyette & Woods, Inc., as placement agents, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on November 3, 2003.
10(mmm)	Subscription Agreement dated October 29, 2003 among FPIC Insurance Group, Inc. and FPIC Capital Statutory Trust III, together as offerors, and I-Preferred Term Securities III, Ltd., as purchaser, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on November 3, 2003.
10(nnn)	Amended and Restated Declaration of Trust of FPIC Capital Statutory Trust III dated October 29, 2003 among FPIC Insurance Group, Inc., as sponsor, U.S. Bank National Association, as institutional trustee, and Kim D. Thorpe, Roberta Goes Cown and Pamela D. Deyo, as administrators, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on November 3, 2003.
10(ooo)	Guarantee Agreement dated October 29, 2003 between FPIC Insurance Group, Inc., as guarantor, and U.S. Bank National Association, as guarantee trustee, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on November 3, 2003.
10(ppp)	Indenture dated October 29, 2003 between FPIC Insurance Group, Inc. and U. S. Bank National Association, as debenture trustee, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on November 3, 2003.
10(qqq)	Amendment No. 4 to Revolving Credit and Term Loan Agreement dated October 10, 2003 among FPIC Insurance Group, Inc., as borrower, and several banks and other financial institutions from time to time party thereto, as lenders, and SunTrust Bank, as administrative agent and collateral agent for the lenders, and joined by certain subsidiaries of the borrower as subsidiary guarantors, incorporated by reference to FPIC's Form 8-K (Commission File No. 1-11983) filed on November 3, 2003.
10(rrr)	Confidentiality Agreement dated October 27, 2003 between FPIC Insurance Group, Inc., on the one hand, and Stilwell Value Partners III., L.P., Stilwell Associates, L.P., Stilwell Value, LLC, Joseph Stilwell, and John G. Rich, on the other, incorporated by reference to FPIC's Form 10-K for the year ended December 31, 2003 (Commission File No. 1-11983) filed on March 15, 2004.
10(sss)	Form of Indemnity Agreement dated June 5, 2002 between the Registrant and Kenneth M. Kirschner, incorporated by reference to FPIC's Form 10-K for the year ended December 31, 2003 (Commission File No. 1-11983) filed on March 15, 2004.
10(ttt)	Form of Indemnity Agreement dated June 5, 2002 between the Registrant and Joan D. Ruffier, incorporated by reference to FPIC's Form 10-K for the year ended December 31, 2003 (Commission File No. 1-11983) filed on March 15, 2004.
10(uuu)	Form of Indemnity Agreement dated June 4, 2003 between the Registrant and Terence P. McCoy, M.D., incorporated by reference to FPIC's Form 10-K for the year ended December 31, 2003 (Commission File No. 1-11983) filed on March 15, 2004.
10(vvv)	Form of Indemnity Agreement dated November 10, 2003 between the Registrant and John G. Rich, incorporated by reference to FPIC's Form 10-K for the year ended December 31, 2003 (Commission File No. 1-11983) filed on March 15, 2004.

10(www)*	Form of Letter Agreement regarding additional compensation dated February 5, 2003 between Administrators for the Professions, Inc. and Anthony J. Bonomo, incorporated by reference to FPIC's Form 10-K for the year ended December 31, 2003 (Commission File No. 1-11983) filed on March 15, 2004.
10(xxx)	Medical Professional Liability Excess of Loss Reinsurance Contract, effective January 1, 2004, issued to Member Companies of FPIC Insurance Group, Inc. including First Professionals Insurance Company, Inc., Anesthesiologists Professional Assurance Company and Intermed Insurance Company, incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on August 6, 2004.
10(yyy)	Medical Professional Liability Excess of Loss Reinsurance Contract, effective January 1, 2004, issued to Member Companies of FPIC Insurance Group, Inc. including First Professionals Insurance Company, Inc., Anesthesiologists Professional Assurance Company and Intermed Insurance Company, incorporated by reference to FPIC's Form 10-Q (Commission File No. 1-11983) filed on August 6, 2004.
10(zzz)*	Form of Indemnity Agreement dated December 28, 2004 between the Registrant and Becky Thackery.
10(aaaa)*	Form of Indemnity Agreement dated December 28, 2004 between the Registrant and Pamela E. Tripp.
10(bbbb)*	Form of Omnibus Incentive Plan Stock Option Agreement, effective March 11, 2005.
10(cccc)*	Form of Omnibus Incentive Plan Restricted Stock Agreement, effective March 11, 2005.
10(dddd.1)	Attorney-In-Fact Agreement between Pennsylvania Physicians Reciprocal Insurers and Physicians Reciprocal Managers, Inc., effective July 1, 2004.
10(dddd.2)	Physicians Reciprocal Managers, Inc. Program Manager's Agreement with Professional Medical Administrators, L.L.C., effective January 1, 2004.
10(dddd.3)	Claims Administration Agreement between Administrators for the Professions, Inc. and Physicians Reciprocal Managers, Inc., effective July 1, 2004.
10(eeee)*	FPIC Insurance Group, Inc. Executive Incentive Compensation Plan, effective January 20, 2005.
21	Subsidiaries of the Registrant.
23	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of John R. Byers, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Kim D. Thorpe, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of John R. Byers, President and Chief Executive Officer, and Kim D. Thorpe, Executive Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Management contract or compensatory plan or arrangement.

SIGNATURES

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

FPIC Insurance Group, Inc.

By: /s/ John R. Byers

John R. Byers
President and Chief Executive Officer

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

Signature	Title	Date
/s/ John R. Byers John R. Byers	President, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2005
/s/ Kim D. Thorpe Kim D. Thorpe	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 15, 2005
/s/ Robert O. Baratta, M.D. Robert O. Baratta, M.D.	Chairman of the Board	March 15, 2005
/s/ David M. Shapiro, M.D. David M. Shapiro, M.D.	Vice Chairman	March 15, 2005
/s/ John K. Anderson, Jr. John K. Anderson, Jr.	Director	March 15, 2005
/s/ Richard J. Bagby, M.D. Richard J. Bagby, M.D.	Director	March 15, 2005
/s/ Kenneth M. Kirschner Kenneth M. Kirschner	Director	March 15, 2005
/s/ M.C. Harden, III M. C. Harden, III	Director	March 15, 2005
/s/ Terence P. McCoy, M.D. Terence P. McCoy, M.D.	Director	March 15, 2005
/s/ John G. Rich John G. Rich	Director	March 15, 2005
/s/ Joan D. Ruffier Joan D. Ruffier	Director	March 15, 2005
/s/ Guy T. Selander, M.D. Guy T. Selander, M.D.	Director	March 15, 2005
/s/ James G. White, M.D. James G. White, M.D.	Director	March 15, 2005

Report of Independent Registered Certified Public Accounting Firm

To the Board of Directors and Shareholders of
FPIC Insurance Group, Inc.:

We have completed an integrated audit of FPIC Insurance Group, Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in accompanying index appearing in Item 15(1) present fairly, in all material respects, the financial position of FPIC Insurance Group, Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing in Item 15(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 2 and 5 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill following adoption of Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets."

Internal control over financial reporting

Also, in our opinion, management's assessment, included in "Management's Report on Internal Control Over Financial Reporting," appearing under Item 15(1), that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

Jacksonville, Florida
March 15, 2005

Management's Report on Internal Control over Financial Reporting

FPIC management is responsible for establishing and maintaining effective internal control over financial reporting. Based on our assessment of internal control over financial reporting as of December 31, 2004, we have determined that FPIC maintained effective internal control over financial reporting based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

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

Our management's assessment of the effectiveness of FPIC's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report that appears herein.

March 15, 2005

FPIC Insurance Group, Inc.

By: /s/ John R. Byers

John R. Byers
President and Chief Executive Officer

By: /s/ Kim D. Thorpe

Kim D. Thorpe
Executive Vice President and Chief Financial Officer

FPIC Insurance Group, Inc.
Consolidated Statements of Financial Position
As of December 31, 2004 and 2003
(in thousands, except common share data)

		2004	2003
Assets			
Investments:			
Fixed maturities available for sale, at fair value	$	548,543	528,647
Other invested assets (Includes related party amounts of $0 and $788 - Note 18)		7,175	8,990
Total investments		555,718	537,637
Cash and cash equivalents		128,250	85,064
Premiums receivable, net (Includes related party amounts of $5,374 and $8,608 - Note 18)		94,282	101,262
Accrued investment income		7,232	6,153
Reinsurance recoverable on paid losses (Includes related party amounts of $2,663 and $2,738 - Note 18)		19,140	15,950
Due from reinsurers on unpaid losses and advance premiums (Includes related party amounts of $82,762 and $82,474 - Note 18)		333,419	275,766
Ceded unearned premiums (Includes related party amounts of $2,550 and $16,486 - Note 18)		28,147	71,435
Deferred policy acquisition costs (Includes related party amounts of $3,002 and $3,500 - Note 18)		11,280	6,209
Deferred income taxes		35,636	34,819
Goodwill		18,870	18,870
Other assets (Includes related party amounts of $7,882 and $4,171 - Note 18)		39,332	29,591
Total assets	$	1,271,306	1,182,756
Liabilities and Shareholders' Equity			
Policy liabilities and accruals:			
Losses and loss adjustment expenses (Includes related party amounts of $25,292 and $20,555 - Note 18)	$	635,118	574,529
Unearned premiums (Includes related party amounts of $46,575 and $47,240 - Note 18)		177,003	177,435
Reinsurance payable (Includes related party amounts of $4,620 and $11,761 - Note 18)		134,639	137,708
Paid in advance and unprocessed premiums		13,698	11,766
Total policy liabilities and accruals		960,458	901,438
Long term debt		46,083	46,083
Other liabilities (Includes related party amounts of $7,793 and $8,759 - Note 18)		47,514	48,498
Total liabilities		1,054,055	996,019
Commitments and contingencies (Note 14)			
Minority interest		131	80
Common stock, $0.10 par value, 50,000,000 shares authorized; 10,069,532 and 9,770,843 shares issued and outstanding at December 31, 2004 and 2003, respectively		1,007	977
Additional paid-in capital		47,871	43,705
Retained earnings		165,880	137,699
Accumulated other comprehensive income, net		2,362	4,276
Total shareholders' equity		217,120	186,657
Total liabilities and shareholders' equity	$	1,271,306	1,182,756

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

FPIC Insurance Group, Inc.
Consolidated Statements of Income (Loss)
For the Years Ended December 31, 2004, 2003 and 2002
(in thousands, except per common share data)

		2004	2003	2002
Revenues				
Net premiums earned (Note 18)	$	149,676	131,665	151,684
Claims administration and management fees (Note 18)		53,246	40,895	37,034
Net investment income		20,759	18,414	20,977
Commission income		8,425	7,658	6,215
Net realized investment gains (Note 3)		3,867	2,052	4,688
Finance charges and other income (Note 18)		834	1,040	1,342
Total revenues		236,807	201,724	221,940
Expenses				
Net losses and loss adjustment expenses (Note 18)		125,172	118,974	139,571
Other underwriting expenses (Note 18)		12,527	9,443	16,867
Claims administration and management expenses		43,529	35,780	35,014
Interest expense on debt		2,564	5,886	4,762
Other expenses (Note 18)		7,645	5,658	1,844
Total expenses		191,437	175,741	198,058
Income from operations before income taxes, minority interest and cumulative effect of accounting change		45,370	25,983	23,882
Less: Income tax expense		16,941	9,317	8,834
Income from operations before minority interest and cumulative effect of accounting change		28,429	16,666	15,048
Less: Minority interest		248	94	172
Income from operations before cumulative effect of accounting change		28,181	16,572	14,876
Less: Cumulative effect of accounting change (net of an $18,784 income tax benefit)		—	—	29,578
Net income (loss)	$	28,181	16,572	(14,702)
Basic earnings per common share before cumulative effect of accounting change	$	2.83	1.75	1.58
Cumulative effect of accounting change		—	—	(3.15)
Basic earnings (loss) per common share	$	2.83	1.75	(1.57)
Diluted earnings per common share before cumulative effect of accounting change	$	2.70	1.71	1.58
Cumulative effect of accounting change		—	—	(3.14)
Diluted earnings (loss) per common share	$	2.70	1.71	(1.56)
Basic weighted average common shares outstanding		9,973	9,483	9,387
Diluted weighted average common shares outstanding		10,420	9,665	9,432

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

FPIC Insurance Group, Inc.

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive (Loss) Income

For the Years Ended December 31, 2004, 2003 and 2002

(in thousands, expect common share data)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net	Total
Balances at December 31, 2001	9,337,755	$ 934	37,837	135,829	(26)	174,574
Net loss	—	—	—	(14,702)	—	(14,702)
Unrealized gain on fixed maturity investments and other invested assets, net	—	—	—	—	5,565	5,565
Unrealized loss on derivative financial instruments, net	—	—	—	—	(270)	(270)
Amortization of unrealized loss on derivative financial instruments	—	—	—	—	256	256
Comprehensive loss						(9,151)
Issuance of shares	53,040	5	433	—	—	438
Income tax reductions relating to exercise of stock options	—	—	52	—	—	52
Balances at December 31, 2002	9,390,795	939	38,322	121,127	5,525	165,913
Net income	—	—	—	16,572	—	16,572
Minimum pension liability adjustment, net	—	—	—	—	(140)	(140)
Unrealized loss on fixed maturity investments and other invested assets, net	—	—	—	—	(2,835)	(2,835)
Unrealized gain on derivative financial instruments, net	—	—	—	—	486	486
Settlement of derivative financial instrument, net	—	—	—	—	1,532	1,532
Amortization of unrealized loss on derivative financial instruments	—	—	—	—	(292)	(292)
Comprehensive income						15,323
Issuance of shares	380,048	38	4,385	—	—	4,423
Income tax reductions relating to exercise of stock options	—	—	998	—	—	998
Balances at December 31, 2003	9,770,843	977	43,705	137,699	4,276	186,657
Net income	—	—	—	28,181	—	28,181
Minimum pension liability adjustment, net	—	—	—	—	(252)	(252)
Unrealized loss on fixed maturity investments and other invested assets, net	—	—	—	—	(1,302)	(1,302)
Unrealized loss on derivative financial instruments, net	—	—	—	—	(360)	(360)
Comprehensive income						26,267
Issuance of shares	298,689	30	3,187	—	—	3,217
Income tax reductions relating to exercise of stock options	—	—	979	—	—	979
Balances at December 31, 2004	10,069,532	$ 1,007	47,871	165,880	2,362	217,120

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

FPIC Insurance Group, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2004, 2003 and 2002
(in thousands)

	2004	2003	2002
Cash Flows from Operating Activities:			
Net income (loss)	$ 28,181	16,572	(14,702)
Adjustments to Reconcile Net Income (Loss) to Cash Provided by Operating Activities:			
Cumulative effect of accounting change	—	—	29,578
Depreciation, amortization and accretion	4,536	3,383	7,960
Net realized gains on investments	(3,867)	(2,052)	(4,688)
Realized loss on sale of property and equipment	146	135	93
Net loss (gain) from equity investments	118	(59)	110
Bad debt expense	43	95	668
Deferred policy acquisition costs, net of related amortization	(13,488)	(7,764)	(5,403)
Deferred income tax expense	357	385	844
Deferred ceding commission, net of related amortization	9,828	7,717	10,691
Minority interest in net income	(248)	(94)	(172)
Other Changes in Assets and Liabilities:			
Premiums receivable, net	6,937	7,136	(35,800)
Accrued investment income	(1,079)	(155)	(1,393)
Reinsurance recoverable on paid losses	(3,190)	(9,421)	776
Due from reinsurers on unpaid losses and advance premiums	(57,653)	(107,607)	(87,749)
Ceded unearned premiums	43,288	7,454	(38,095)
Other assets	(5,631)	(5,023)	2,208
Losses and loss adjustment expenses	60,589	134,363	121,683
Unearned premiums	(432)	4,014	26,660
Reinsurance payable	(3,069)	41,238	69,781
Paid in advance and unprocessed premiums	1,932	(2,294)	4,118
Other liabilities	(2,382)	1,907	10,958
Net cash provided by operating activities	64,916	89,930	98,126
Cash Flows from Investing Activities:			
Proceeds from sale of fixed maturities available for sale	498,981	607,201	313,313
Purchase of fixed maturities available for sale	(524,068)	(696,418)	(395,070)
Proceeds from sale of other invested assets	3,095	2,889	2,682
Purchase of other invested assets	(163)	(1,303)	(433)
Proceeds from sale of property and equipment	—	3	22
Purchase of property and equipment	(2,792)	(3,498)	(1,876)
Net cash used in investing activities	(24,947)	(91,126)	(81,362)
Cash Flows from Financing Activities:			
Proceeds from issuance of long term debt	—	46,083	—
Payment of revolving credit facility and term loan	—	(47,208)	(5,833)
Purchase of derivative financial instruments	—	(1,134)	—
Settlement of derivative financial instruments	—	(2,493)	—
Issuance of common stock	3,217	4,423	438
Net cash provided by (used in) financing activities	3,217	(329)	(5,395)
Net increase (decrease) in cash and cash equivalents	43,186	(1,525)	11,369
Cash and cash equivalents at beginning of period	85,064	86,589	75,220
Cash and cash equivalents at end of period	$ 128,250	85,064	86,589
Supplemental Disclosure of Cash Flow Information:			
Interest paid on debt	$ 2,524	3,363	4,718
Federal income taxes paid	$ 12,950	9,450	6,293
Federal income tax refunds received	$ —	346	4,958

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

1. Organization and Nature of Operations

FPIC Insurance Group, Inc. (“FPIC”) was formed in 1996 in a reorganization of First Professionals Insurance Company, Inc. (“First Professionals,” formerly named Florida Physicians Insurance Company, Inc.) and McCreary Corporation (“McCreary”). Under the reorganization plan, First Professionals’ shareholders became the shareholders of FPIC. They received five shares of FPIC common stock for each share of their First Professionals’ common stock. McCreary also became a subsidiary of FPIC. Effective January 1, 2002, McCreary was merged into its subsidiary, Employers Mutual, Inc. (“EMI”), with EMI continuing as the surviving entity.

FPIC is a provider of specialty property and casualty insurance and insurance management services focused on medical professional liability (“MPL”)insurance. Our primary products provide protection for physicians, dentists and other healthcare providers as individual practitioners or as members of practice groups. Our insurance protects policyholders against losses arising from professional liability claims and the related defense costs for injuries in which the patient alleges that medical error or malpractice has occurred. Optional coverage is available for the professional corporations under which physicians or dentists practice.

We have chosen to focus on selected markets where we believe we have advantages in terms of our market knowledge, well established reputation, significant market presence and resources. Our insurance companies are licensed in 28 states and during 2004 have written business in 17 of these states. We are the largest provider of medical professional liability insurance in Florida, and an insurance company we manage is the second largest provider of medical professional liability insurance in New York. New York is the largest market for MPL insurance in the United States based on premium volume, and Florida is the third largest market.

We conduct our business through three segments:

Our *insurance segment* provides MPL insurance products and related risk management services for physicians, dentists, and other healthcare providers in Florida and selected other states through our insurance subsidiaries. These subsidiaries issue policies, bear the associated risks and earn income on the related investment assets. Through this segment, FPIC is the leading carrier for MPL insurance in Florida. The following subsidiaries are included in the insurance segment:

- FPIC subsidiaries (The holding company is also grouped within the insurance segment):
  - First Professionals, a wholly owned subsidiary of FPIC
    - The Tenere Group, Inc. (“Tenere”), a wholly owned subsidiary of First Professionals
      - Intermed Insurance Company (“Intermed”), a wholly owned subsidiary of Tenere
        - Interlex Insurance Company (“Interlex”), a wholly owned subsidiary of Intermed
        - Insurance Services, Inc., a wholly owned subsidiary of Intermed
        - Trout Insurance Services, Inc., a wholly owned subsidiary of Intermed
  - Anesthesiologists Professional Assurance Company (“APAC”), a wholly owned subsidiary of FPIC
  - FPIC Insurance Agency, Inc. (“FPIC Agency”), a wholly owned subsidiary of FPIC

Our *insurance management segment* provides comprehensive management services to two insurance carriers, the largest being Physicians' Reciprocal Insurers ("PRI"). We do not own PRI; rather, it is owned by and operated for the benefit of its policyholders. PRI provides medical professional liability insurance in New York. PRI has no employees and has been under management of our insurance management subsidiary since its formation. Pursuant to our management agreement with PRI, we receive fees and expense reimbursements, but we do not bear the associated insurance risks.

New Subsidiary

Effective July 1, 2004, operations of Administrators For The Professions, Inc.'s ("AFP") wholly owned subsidiary, Physicians Reciprocal Managers, Inc. ("PRM"), commenced as the administrator and attorney-in-fact of Pennsylvania Physicians' Reciprocal Insurers ("PaPRI"). PaPRI is an insurance exchange domiciled in Pennsylvania. It was formed to take the place of the unrelated fronting carrier that previously had underwritten, and ceded as reinsurance to PRI, medical professional liability insurance program business in Pennsylvania. PaPRI commenced underwriting the Pennsylvania program business effective July 1, 2004. PaPRI is not a subsidiary of PRM, AFP or FPIC. As an insurance exchange, the organization of PaPRI is similar to that of a mutual insurance company. PaPRI is also not a subsidiary of PRI, but received its initial capitalization in the form of a subordinated surplus note from PRI. For additional information about PRM and PaPRI, refer to Note 18, Related Party Transactions.

The following subsidiaries are included in the insurance management segment:

- FPIC subsidiaries:
  - AFP, a wholly owned subsidiary of FPIC
    - FPIC Intermediaries, Inc. ("FPIC Intermediaries"), a wholly owned subsidiary of AFP
    - Group Data Corporation, a wholly owned subsidiary of AFP
    - PRM, a wholly owned subsidiary of AFP
  - Professional Medical Administrators, LLC ("PMA") (80% owned by FPIC)

Our *third party administration ("TPA") segment* provides administrative and claims management services to municipalities and other employers primarily in Florida that maintain group accident and health, workers' compensation, liability and property self insurance plans. The following subsidiaries are included in the TPA segment:

- FPIC subsidiaries:
  - EMI, a wholly owned subsidiary of FPIC
    - Professional Strategy Options, Inc., a wholly owned subsidiary of EMI
    - FPIC Services, Inc., a wholly owned subsidiary of EMI

Through our insurance and insurance management segments, we operate in the medical professional liability insurance line as both an insurance carrier, which bears underwriting risks, and as an insurance management company, which earns fees for services.

The main sources of revenue for FPIC are dividends, return of capital and management fees from our subsidiaries. The main sources of revenue for the subsidiaries are premiums earned and investment income (insurance segment) and claims administration and management fees and commission income (insurance management and TPA segments).

Risks inherent in FPIC's operations include legal/regulatory risk, credit risk, underwriting risk and market risk. These risks are discussed below.

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which FPIC operates will change and reduce revenues or create additional costs or expenses not anticipated in pricing our products. That is, regulatory initiatives designed to reduce FPIC's profits or new legal theories may reduce revenues or create costs for FPIC as compared with those currently reflected in the consolidated financial statements. This risk is concentrated in Florida, Missouri and New York, where FPIC has written or assumed most of the insurance and reinsurance business we have retained for our own account.

Credit Risk is the risk that issuers of securities owned by FPIC will default, or other parties, primarily our insureds and reinsurers that owe FPIC money, will not pay. Financial instruments that potentially expose FPIC to concentrations of credit risk consist of fixed maturity investments, premiums receivable, deposits with reinsurers, and assets carried for reinsurance recoverable related to unpaid losses and loss adjustment expenses ("LAE") and unearned premiums. Reinsurers that are neither authorized nor accredited by applicable state insurance departments ("unauthorized reinsurers") are required to provide collateral in the form of an irrevocable letter of credit or investment securities held in a trust account to collateralize their respective balances due to FPIC.

Underwriting Risk is the risk that actual ultimate losses are higher than the losses we have estimated in our decisions regarding pricing and selecting of insured risks. Such criteria are generally based upon the expected loss experience for particular types, classes and geographic locations of the insured risks. Unlike other businesses, we must price and sell our insurance policies before the actual loss costs associated with those policies are known. Therefore, to the extent the actual insurance-related results of an insurer, before consideration of investment income, fail to correspond with the related pricing and/or selection criteria, an underwriting gain or loss occurs.

Market Risk is the risk that a change in interest rates will cause a decrease in the value of FPIC's investments or other assets whose recoverability may be sensitive to changes in interest rates. To the extent that liabilities come due more quickly than assets mature, we would have to sell assets prior to maturity and recognize a gain or loss.

2. Significant Accounting Policies

Basis of Presentation. Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These financial statements include the accounts of FPIC and all of our wholly owned and majority owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates. In preparing our consolidated financial statements, we are required to make estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from such estimates.

Cash and Cash Equivalents. Cash and cash equivalents include all demand deposits, overnight investments and other liquid instruments with an original maturity of three months or less when acquired.

Investments. All of our investments in fixed maturities, which are comprised of debt securities, are classified as available-for-sale and reported at estimated fair values on the consolidated statements of financial position, with the change in fair values during the period excluded from earnings and recorded, net of tax, as a component of other comprehensive income. Fair values for debt securities are based on quoted market prices.

Other invested assets include real estate investments, which consist of a building, a condominium unit and developed land. These investments are carried at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the property (exclusive of land, which is non-depreciable), using the straight-line method. Estimated useful lives range from twenty-seven to thirty-nine years. Rental income and expenses are included in net investment income. Other invested assets also include certain investments in non-public entities whose carrying values approximate their fair values.

Income on investments includes the amortization of premium and accretion of discount computed using the interest method relating to debt securities acquired at other than par value. Realized investment gains and losses are determined on the basis of specific identification. Declines in the fair value of investment securities considered to be other than temporary, if any, are recorded as realized losses in the consolidated statements of income.

We consider whether our real estate investments have been impaired and assess whether significant events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds the anticipated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded, if any, is calculated by the excess of the assets carrying value over its fair value.

Reinsurance. Net premiums written, net premiums earned, losses and LAE and underwriting expenses are reported in the consolidated statements of income net of the amounts for reinsurance ceded to other companies. Amounts recoverable from reinsurers including those related to the portions of the liability for losses and LAE and unearned premiums ceded to them are reported as assets in the consolidated statements of financial position. Reinsurance recoverables related to unpaid losses and LAE are estimated in a manner consistent with the claim liabilities associated with the reinsured policies. Reinsurance assumed from other companies including assumed premiums written and earned, losses and LAE and underwriting expenses (principally ceding commissions) is accounted for in the same manner as direct insurance written.

Deferred Policy Acquisition Costs. Deferred policy acquisition costs consist primarily of commissions and premium taxes, which are primarily related to the production of new and renewal insurance business. Acquisition costs are deferred and amortized over the period in which the related premium is earned. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. If such costs are estimated to be unrecoverable, they are expensed. Commissions and brokerage fee expenses incurred by FPIC's non-insurance businesses are expensed as incurred.

Income Taxes. FPIC recognizes current and deferred income tax expense, which is comprised of estimated provisions for Federal and state income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded if it is more likely than not that all or some portion of the benefits related to the deferred tax assets will not be realized. We have not established a valuation allowance because we believe it is more likely than not that our deferred tax assets will be fully realized.

Goodwill. FPIC has made acquisitions in the past that have included goodwill. Effective January 1, 2002, we adopted Statement of Financial Accounting Standard No. ("FAS") 142, "Goodwill and Other Intangible Assets." In accordance with FAS 142, goodwill and indefinite lived intangible assets are no longer amortized. Instead, they are subject to an annual (or under certain circumstances more frequent) impairment tests based on their estimated fair value. Other intangible assets that meet certain criteria continue to be amortized over their useful lives and are also subject to an impairment test based on estimated fair value. During the first quarter 2002, we recorded a transitional impairment charge of $29,578, net of an $18,784 income tax benefit, as the cumulative effect of accounting change.

Revenue Recognition. Premiums are earned and recognized as revenues on a pro rata basis over the terms of our insurance policies. Policy terms do not exceed one year. Unearned premiums represent the portion of written premiums that remain to be earned in future periods. Premiums received in advance of the policy year are recorded as premiums collected in advance in the consolidated statements of financial position.

Claims administration and management fee income is comprised of revenues of the insurance management and TPA segments. Management fees of the insurance management segment are billed and recognized under the contract based on a percentage of PRI's direct written premiums for the calendar year. Such management fees are estimated, billed and recognized for quarterly reporting purposes based upon estimates of the direct written premiums of PRI for the year. Claims administration and management fees of the TPA segment are subject to contractual arrangements, some of which exceed one year. These revenues are billed and recognized commensurate with the terms of these contracts, which generally correspond with the provision of services to customers.

Commission income for both non-insurance segments is associated with the placement of insurance and reinsurance with outside carriers on behalf of PRI, various TPA customers and in some cases, FPIC, where commissions or brokerage fees related to a transaction are payable by the reinsurer. Commissions and brokerage fees are recognized as revenues as of the later of the billing or the effective date of the insurance or reinsurance placed.

Losses and Loss Adjustment Expenses. The liability for losses and LAE is based upon our best estimate of the unpaid cost of settling the claims (including the effects of inflation and other societal and economic factors). Amounts attributable to ceded reinsurance based on the recorded liability for loss and LAE are classified as assets in the consolidated statements of financial position. The estimated costs of settling claims are generally based upon past experience adjusted for current trends, and any other factors that would modify past experience. These liabilities are not discounted.

We utilize actuarial techniques to estimate the liability for losses and LAE, including provisions for estimated future development or changes in our individual case reserves and losses and LAE that have been incurred but not reported to us ("IBNR"), where applicable. These techniques consist of a statistical analysis of historical experience by line of business, grouping contracts with like characteristics and policy provisions. Decisions to use particular actuarial methods and the results obtained from those methods are evaluated by considering the inherent assumptions underlying the methods and the appropriateness of the methods and assumptions to the circumstances. No single projection method is inherently better than any other in all circumstances. We apply multiple methods in determining our reserve estimates and consider these along with additional considerations and assumptions in arriving at our best estimate.

FPIC also has direct and assumed liabilities associated with covered extended reporting endorsements under claims-made MPL policy forms, which provide, at no additional charge, continuing MPL coverage for claims-made insureds in the event of death, disability or retirement ("DD&R reserves"). These DD&R reserves, which possess elements of both loss reserves and pension-type liabilities, are carried within unearned premiums and are estimated using assumptions for mortality, morbidity, retirement, interest and inflation.

The liabilities for losses and LAE, DD&R reserves, and the related estimation methods are periodically reviewed and revised to reflect current conditions and trends. The resulting adjustments are reflected in current year net income. While management believes the liabilities for losses and LAE are adequate to cover the ultimate liability, the actual ultimate loss costs may vary from the amounts presently estimated and such differences could be material.

Per Share Data. Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per common share are calculated using the weighted average combination of dilutive common share equivalents and common shares outstanding during the period.

Commitments and Contingencies. Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

Interest Rate Collars and Swaps. We account for our interest rate collars and swaps in accordance with FAS 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by FAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and FAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." FPIC uses derivative financial instruments to manage market risks related to the effects of changes in interest rates on its floating rate long-term debt. The cost of these contracts is being amortized over their respective maturities. In addition, the remaining balances are adjusted and carried at their estimated fair values, with the changes therein reported as unrealized gains or losses in other comprehensive income (loss). The differential, if any, to be paid or received as interest rates change is accrued and recognized as an adjustment to interest expense related to the debt. The related amount payable to or receivable from the counterparties is included as adjustments to accrued interest. See Note 10, Derivative Financial Instruments, for additional information related to the interest rate collars and swaps. FPIC does not currently hold and has not issued any other derivative financial instruments.

Variable Interest Entities. PaPRI, the Pennsylvania insurance exchange managed by our subsidiary, PRM, is a variable interest entity as defined by Revised Financial Accounting Standards Board ("FASB") Interpretation No. FIN 46(R) ("FIN 46(R)"). PRI, the New York reciprocal insurer managed by our insurance management subsidiary, AFP, has a variable interest in and is the primary beneficiary of PaPRI. PRI is the primary beneficiary of PaPRI due to its provision of subordinated financial support, its role as assuming reinsurer of 100% of PaPRI's insured risks (and related residual income or losses), and its control of the PaPRI board of directors. PRI is a related party of FPIC, which under FIN 46(R) results in the assumption that PRI's variable interest in PaPRI is also ascribed to us. However, we do not consolidate PaPRI's financial statements with ours because we are not the primary beneficiary nor do we hold a controlling interest in it. Our subsidiaries PMA and PRM provide insurance brokerage and management services to PaPRI in exchange for commission and fee income. PRI is not a variable interest entity and thus we do not consolidate its financial statements either.

Accounting for Share-Based Compensation. In December 2002, the FASB issued FAS 148, "Accounting for Stock-Based Compensation, Transition and Disclosure" to provide transition guidance for a voluntary change to the fair value based method of accounting for stock-based employee compensation and to amend the disclosure requirements of FAS 123 "Accounting for Stock-Based Compensation" for both annual and interim financial statements. FAS 148 requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. The transition and annual disclosure requirements of FAS 148 were effective for fiscal years ended after December 15, 2002. The interim disclosure requirements of FAS 148 are effective for interim periods beginning after December 15, 2002. The adoption of the provisions of FAS 148 did not have an impact on FPIC's consolidated financial statements; however, we have modified the disclosures as provided for in the new standard.

FPIC elected to adopt FAS 123 on a disclosure basis only and measure stock-based compensation in accordance with Accounting Principles Board No. ("APB") 25, "Accounting for Stock Issued to Employees," using intrinsic values with appropriate disclosures under the fair value based method as required by FAS 123 and FAS 148. In accordance with APB 25 and related interpretations, compensation expense for stock options is recognized in income based on the excess, if any, of the quoted market price of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. Generally, the exercise price for stock options granted to an employee equals the fair market value of FPIC common stock at the date of grant, thereby resulting in no recognition of compensation expense. For awards that generate compensation expense as defined under APB 25, FPIC calculates the amount of compensation expense and recognizes the expense over the vesting period of the award.

(Dollars in thousands, except per share amounts and elsewhere as noted)

Had compensation cost for FPIC's stock option plans been determined based on the fair value method set forth in FAS 123, FPIC's net income (loss) and basic and diluted earnings (loss) per common share would have been impacted as follows for the years ended December 31, 2004, 2003 and 2002:

		2004	2003	2002
Pro Forma Net Income (Loss):				
Net income (loss), as reported	$	28,181	16,572	(14,702)
Stock-based compensation expense determined under fair value based method, net of income taxes		(1,231)	(1,060)	(1,053)
Pro forma net income (loss)	$	26,950	15,512	(15,755)
Basic Earnings (Loss) Per Common Share:				
Net income (loss), as reported	$	2.83	1.75	(1.57)
Stock-based compensation expense determined under fair value based method, net of income taxes		(0.12)	(0.11)	(0.11)
Pro forma basic earnings (loss) per common share	$	2.71	1.64	(1.68)
Diluted Earnings (Loss) Per Common Share:				
Net income (loss), as reported	$	2.70	1.71	(1.56)
Stock-based compensation expense determined under fair value based method, net of income taxes		(0.12)	(0.11)	(0.11)
Pro forma diluted earnings (loss) per common share	$	2.58	1.60	(1.67)

See Note 12, Stock Options and Employee Stock Purchase Plans, for discussion about the methods and assumptions used in estimating the fair value of stock options used in preparation of the pro-forma information presented in the above tabular presentation.

New Accounting Pronouncements.

In December 2004, the Financial Accounting Standards Board issued FAS 123(R), "Share−Based Payment," which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. FAS 123(R) requires stock options and other share−based payments made to employees to be accounted for as compensation expense and recorded at fair value. Consistent with the provisions of the new standard, we intend to adopt FAS 123(R) in the third quarter of 2005, and to implement it on a modified prospective basis. Information about the fair value of stock options under the Black−Scholes model and its pro forma impact on our net income and earnings per share for the years ended December 31, 2004, 2003 and 2002 is shown above in the section *Accounting for Share-Based Compensation*. However, a number of technical implementation issues are yet to be resolved, including the selection and use of an appropriate valuation model, and the ultimate impact of adopting FAS 123(R) is not yet known.

During 2004, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board reached a consensus with respect to guidance to be used in determining whether an investment within the scope of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", is other-than-temporarily impaired. The guidance was to be applied in other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004, however, in October 2004 the implementation date was deferred. Due to the uncertainty as to how all of the relevant outstanding issues will be resolved, FPIC is unable to determine the impact of adopting paragraphs 10-20 of EITF 03-1 until final implementation guidance is issued.

Reclassification. Certain amounts for 2003 and 2002 have been reclassified to conform with the 2004 presentation.

(Dollars in thousands, except per share amounts and elsewhere as noted)

3. Investments

The amortized cost and estimated fair value of investments in fixed maturities, available for sale, as of December 31, 2004 and 2003 were as follows:

2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate securities	$ 131,128	1,755	942	131,941
U.S. Government agencies and authorities	80,512	1,354	610	81,256
States, municipalities and political subdivisions	251,274	4,052	1,080	254,246
Mortgage-backed securities	81,382	201	483	81,100
Total fixed maturities, available for sale	$ 544,296	7,362	3,115	548,543

2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate securities	$ 154,533	3,305	1,159	156,679
U.S. Government agencies and authorities	147,531	2,291	1,058	148,764
States, municipalities and political subdivisions	108,719	2,714	284	111,149
Mortgage-backed securities	111,369	1,142	456	112,055
Total fixed maturities, available for sale	$ 522,152	9,452	2,957	528,647

The amortized cost and estimated fair value of fixed maturities, available for sale, at December 31, 2004 by contractual maturity are shown below. Expected maturities will differ from contractual maturities, because borrowers have the right to call or prepay these obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 11,819	11,992
Due after one year through five years	132,774	133,409
Due after five years through ten years	249,854	252,196
Due after ten years	68,467	69,846
	462,914	467,443
Mortgage-backed securities	81,382	81,100
Total fixed maturities, available for sale	$ 544,296	548,543

(Dollars in thousands, except per share amounts and elsewhere as noted)

As of December 31, 2004, investments in securities and cash with an amortized cost of $15,364 and a market value of $15,940 were on deposit with the insurance departments in various states as required by law. Investment securities and cash with an amortized cost of $108,941 and a market value of $110,415 were held in trust accounts as collateral for reinsurance assumed as required by law in certain states in which we assume insurance business.

Net investment income for the years ended December 31, 2004, 2003 and 2002 was as follows:

		2004	2003	2002
Fixed maturities, available for sale	$	21,099	19,083	20,714
Other invested assets		533	669	636
Cash and cash equivalents		849	613	1,221
		22,481	20,365	22,571
Less: Investment expense		(1,722)	(1,951)	(1,594)
Net investment income	$	20,759	18,414	20,977

Realized investment gains (losses) for the years ended December 31, 2004, 2003 and 2002 are summarized below:

		2004	2003	2002
Fixed Maturities, Available for Sale:				
Gross realized gains	$	6,042	11,211	8,769
Gross realized losses		(3,522)	(4,059)	(4,092)
Other Invested Assets:				
Gross realized gains		2,134	201	37
Gross realized losses		—	—	(26)
Other-than-temporary impairments		(787)	(5,301)	—
Net realized investment gains	$	3,867	2,052	4,688

Other invested assets as of December 31, 2004 and 2003 are summarized below:

		2004	2003
Real estate, net of depreciation	$	4,035	4,207
Investments in limited partnerships		2,057	2,904
Other		1,083	1,879
Total other invested assets	$	7,175	8,990

Total depreciation expense on real estate investments was $298, $277 and $286 in 2004, 2003 and 2002, respectively.

(Dollars in thousands, except per share amounts and elsewhere as noted)

4. Deferred Policy Acquisition Costs

Changes in deferred policy acquisition costs for the years ended December 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Beginning balance	$ 6,209	4,452	9,001
Additions	13,488	7,765	6,707
Amortization expense	(8,417)	(6,008)	(9,952)
Other	—	—	(1,304)
Ending balance	$ 11,280	6,209	4,452

During 2002, we recorded a charge related to our MPL business at Intermed, as it was estimated that not all of its deferred policy acquisition costs were recoverable. As a result, deferred policy acquisition costs were reduced by $1,304 in 2002.

5. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
Beginning balance	$ 18,870	18,870	67,232
Transitional impairment charge under FAS 142	—	—	(48,362)
Ending balance	$ 18,870	18,870	18,870

FPIC adopted FAS 142 effective January 1, 2002. In connection with the adoption in the first quarter of 2002, FPIC discontinued the amortization of goodwill and engaged independent valuation consultants to perform transitional impairment tests at each of its operating segments: insurance, insurance management and TPA. These operating segments meet the reporting unit requirements as defined by FAS 142.

The fair values for each of the reporting units were calculated using one or more of the following approaches: (i) market multiple approach; (ii) discounted cash flow (“DCF”) approach; and/or (iii) asset approach.

- Under the market multiple approach, the values of the reporting units were based on the market prices and performance fundamentals of similar public companies.
- Under the DCF approach, the values of the reporting units were based on the present value of the projected future cash flows to be generated.
- Under the asset approach, the value of a reporting unit is the difference in the fair value of total assets and the fair value of total liabilities. The fair value of each asset and liability may in turn be estimated using an income approach, market approach or cost approach.

(Dollars in thousands, except per share amounts and elsewhere as noted)

Based on the results of the impairment tests conducted in the first quarter of 2002, goodwill was not deemed to be impaired at the insurance segment, since the fair value of the reporting unit exceeded its carrying value. Therefore, the second step of the goodwill impairment test was not performed. However, the carrying values of the insurance management and TPA segments exceeded their respective fair values, indicating an impairment of goodwill. Under step 2 of the test, the implied fair values of the insurance management and TPA goodwill were compared to their carrying values to measure the amount of impairment loss. As a result, a non-cash transitional impairment charge of $48,362 ($29,578, after an income tax benefit of $18,784) was recognized and recorded as a cumulative effect of accounting change in the accompanying consolidated statements of income (loss) for the year ended December 31, 2002. The results of the transitional impairment tests and charges were as follows:

	Insurance	Insurance Management	Third Party Administration	Total
Balance as of December 31, 2001	$ 10,833	49,140	7,259	67,232
Impairment charge	—	(41,103)	(7,259)	(48,362)
Balance as of December 31, 2002	$ 10,833	8,037	—	18,870

The transitional impairment charge at the insurance management segment primarily reflects certain intangibles and synergies, which, in our opinion, are opportunistic in nature and carry a relatively significant degree of uncertainty; therefore, we treated these intangibles conservatively in the valuation required by FAS 142. The transitional impairment charge at the TPA segment primarily reflects changes in market conditions and an increase in competition in recent years in the markets served by FPIC's TPA segment.

The following table provides comparative disclosures of net income excluding the cumulative effect of accounting change, net of taxes, for 2004, 2003 and 2002.

	2004	2003	2002
Net Income (Loss):			
Net income (loss), as reported	$ 28,181	16,572	(14,702)
Cumulative effect of accounting change	—	—	29,578
Net income, comparative	$ 28,181	16,572	14,876
Basic Earnings (Loss) Per Common Share:			
Net income (loss), as reported	$ 2.83	1.75	(1.57)
Cumulative effect of accounting change	—	—	3.15
Basic earnings per common share, comparative	$ 2.83	1.75	1.58
Diluted Earnings (Loss) Per Common Share:			
Net income (loss), as reported	$ 2.70	1.71	(1.56)
Cumulative effect of accounting change	—	—	3.14
Diluted earnings per common share, comparative	$ 2.70	1.71	1.58

(Dollars in thousands, except per share amounts and elsewhere as noted)

As required by FAS 142, we completed annual impairment testing of our remaining goodwill as of December 31, 2004 and 2003 during the first quarters of 2005 and 2004, respectively, including obtaining reports from independent valuation consultants. Based on the results of such testing, we determined that the fair value of the goodwill exceeded the carrying value and that no impairment exists.

6. Income Taxes

FPIC's provision for income taxes for the years ended December 31, 2004, 2003 and 2002 consisted of the following:

	2004	2003	2002
Current Expense:			
Federal	$ 13,178	7,538	6,605
State	3,406	1,394	1,385
Total	16,584	8,932	7,990
Deferred Expense:			
Federal	120	(11)	767
State	237	396	77
Total	357	385	844
Net income tax expense	$ 16,941	9,317	8,834

The provision for income taxes differs from the statutory corporate tax rate of 35% for the years ended December 31, 2004, 2003 and 2002 as follows:

	2004	2003	2002
Computed "expected" tax expense	$ 15,793	9,061	8,298
Municipal bond interest	(2,206)	(1,130)	(1,309)
State income taxes, net of Federal benefit	2,368	1,164	950
Prior year adjustments upon IRS examination	750	—	544
Other, net	236	222	351
Actual income tax expense	$ 16,941	9,317	8,834

(Dollars in thousands, except per share amounts and elsewhere as noted)

At December 31, 2004 and 2003, the significant components of the net deferred tax asset were as follows:

		2004	2003
Deferred Tax Assets Arising From:			
Loss reserve discounting	$	12,746	12,252
Goodwill and intangible assets		12,163	14,321
Unearned premiums		10,477	7,558
Realized loss on securities		2,075	1,751
Net operating loss carry forward		1,776	2,149
Benefit plans		1,461	1,096
Deferred ceding commission		481	1,206
Other		1,610	358
Total deferred tax assets		42,789	40,691
Deferred Tax Liabilities Arising From:			
Deferred policy acquisition costs		4,335	2,464
Unrealized gains on securities		1,992	2,470
Other		826	938
Total deferred tax liabilities		7,153	5,872
Net deferred tax asset	$	35,636	34,819

Net deferred tax assets and Federal income tax expense in future years can be significantly affected by changes in enacted tax rates or by unexpected adverse events that would influence management's conclusions as to the ultimate realizability of deferred tax assets.

FPIC has remaining net operating loss carry forwards of approximately $5,075 as of December 31, 2004 that may be used to offset taxable income in future years subject to an annual limitation imposed by the Internal Revenue Code. These net operating loss carry forwards expire in the years 2018 and 2019.

FPIC is currently undergoing an audit of its tax returns by the Internal Revenue Service ("IRS") for the years ended December 31, 2000 and 2001. Management believes that its positions on issues raised in the examination thus far are meritorious and that its current and deferred tax amounts are appropriate. However, there can be no assurance that additional tax adjustments and related penalties and interest will not be proposed and incurred as a result of an IRS examination.

During 2002, FPIC concluded examinations by the IRS of its consolidated Federal income tax returns for the years ended December 31, 1998 and 1999. As a result of these examinations, a net additional provision for income taxes was recognized in the amount of $554.

(Dollars in thousands, except per share amounts and elsewhere as noted)

7. Liability for Losses and LAE

Activity in the liability for losses and LAE for the years ended December 31, 2004, 2003 and 2002 was as follows:

	2004	2003	2002
Gross balance, January 1	$ 574,529	440,166	318,483
Less reinsurance recoverables	275,766	168,159	80,410
Net balance, January 1	298,763	272,007	238,073
Incurred Related To:			
Current year	124,699	118,492	137,155
Prior years	473	482	2,416
Total incurred	125,172	118,974	139,571
Paid Related To:			
Current year	16,517	13,455	9,130
Prior years	105,719	101,989	96,507
Total paid	122,236	115,444	105,637
Gerling commutation	—	23,226	—
Net balance, December 31	301,699	298,763	272,007
Plus reinsurance recoverables	333,419	275,766	168,159
Gross balance, December 31	$ 635,118	574,529	440,166

Incurred Related to Current Year

Our best estimate of reserves for the 2004 year has been determined using historical trends with adjustments added to provide for uncertainties inherent in the claims environment in Florida, including those resulting from significant tort reform initiatives passed by the legislature in 2003 and three constitutional amendments passed by popular initiative in 2004. Because of the uncertainty created by these changes, we believe that booking a more conservative provision in the current year is prudent.

Incurred Related to Prior Years

FPIC’s aggregate loss and LAE reserve estimates reported for years 2003 and prior have not increased significantly, as a group, in 2004. FPIC adopted a new harder claims payment philosophy beginning in 2001. The new claims philosophy, which is now approaching its fourth full year, has had the effect so far of reducing FPIC’s overall loss costs relative to its former claims philosophy. It has also had the effect of changing FPIC’s loss development patterns thereby introducing an additional element of uncertainty into the provisions for the individual prior years. We believe that it is best to treat this element of uncertainty conservatively and thus, have not reduced our prior year reserves, in aggregate, but have increased the provisions in some years and reduced them in others. As further commented upon below, as of December 31, 2004, we have increased our aggregate loss and LAE reserves, net of reinsurance, for the years ended December 31, 2001 and prior as originally reported by $35,174 and have reduced our reserves for claims related to the years ended December 31, 2002 and 2003 by $18,988 and $15,713, respectively.

In 2003, we increased our net reserves for the years 1999 through 2001 primarily in recognition of higher severity than initially assumed, particularly in Missouri. As of December 31, 2004, we increased our net allocated loss adjustment expense (“ALAE”) reserves across all years since 1999, which resulted in additional upward development in reserves for years 1999 through 2001. The higher ALAE reserves are the result of our harder claims philosophy, under which we began taking more cases to trial in 2001. We also experienced some upward development in loss experience on corporate policy endorsements and on business in non-core states and increased our 2000 and 2001 reserves.

Despite higher ALAE and other upward development for years 1999, 2000 and 2001, our loss experience and outlook overall has improved significantly in the most recent years. Improvements in our loss experience resulting from claims and underwriting initiatives we’ve implemented since 2001 have to date essentially met or exceeded our estimates for years since 2002. Accordingly, the upward development in 1999 through 2001 net reserves has been substantially offset by downward development in reserves for years 2002 and 2003 resulting in relatively immaterial net development, for all years prior to 2004 combined.

Given the proximity and status of the years 2000 through 2002, in particular, relative to the timing of the initiation of our harder claims payment philosophy and the implementation of initiatives to control increasing ALAE expenditures attendant to executing that philosophy, it is still reasonably possible that the remaining reserves for these years, in particular, may experience upward or downward development in the future.

As a result of the commutation of our ceded reinsurance to Gerling Global Reinsurance Corporation of America (“Gerling”) during 2003, we now retain the corresponding insured risks and losses and LAE we formerly ceded. We received $23,226 in exchange for the release of Gerling from its reinsurance obligations to us, which we added to our net reserves. No gain or loss was recognized on the transaction.

Refer to Note 8, Reinsurance, for information regarding the Gerling commutation.

(Dollars in thousands, except per share amounts and elsewhere as noted)

8. Reinsurance

FPIC cedes business to other insurance and reinsurance carriers under various reinsurance agreements and fronting programs. These ceded reinsurance agreements do not relieve FPIC from its obligations as primary insurer to its policyholders. To the extent that any reinsurer might be unable to meet its obligations, FPIC nonetheless continues to be liable to its policyholders for the insured losses and LAE.

The effect of reinsurance on premiums written and earned and losses and LAE incurred for the years ended December 31, 2004, 2003 and 2002, was as follows:

	2004		2003		2002	
	Written	Earned	Written	Earned	Written	Earned
Direct and assumed	$ 312,728	313,160	340,741	336,727	344,727	318,068
Ceded	(120,196)	(163,484)	(197,607)	(205,062)	(204,479)	(166,384)
Net	$ 192,532	149,676	143,134	131,665	140,248	151,684

	2004	2003	2002
Losses and LAE incurred	$ 261,413	323,141	253,015
Reinsurance recoveries	(136,241)	(204,167)	(113,444)
Net losses and LAE incurred	$ 125,172	118,974	139,571

In 2004, FPIC reinsured under its primary excess of loss program individual losses incurred in excess of $500. In 2003 and 2002, FPIC reinsured individual losses incurred under this program in excess of $500 (Retention on FPIC's anesthesiology programs was $375 per loss because 25% of that business was ceded to American Professional Assurance, Ltd. ("APAL"), a Cayman Island insurance company of which FPIC owns 9.8%. This program with APAL ended as of December 31, 2003.) The 2002 program also included an annual aggregate deductible, which was 0.58% of subject written premium or approximately $1.35 million.

Based on analysis of our exposure to extra-contractual obligations and claims in excess of policy limits ("ECO/XPL"), FPIC elected not to renew the supplemental awards made ECO/XPL reinsurance that we had carried in addition to the ECO/XPL coverage already included as part of our primary excess of loss reinsurance program. Therefore, this additional layer of excess reinsurance is no longer in effect after April 27, 2004 and we now retain this excess risk.

Net Account Quota Share Reinsurance

Effective July 1, 2002, our largest insurance subsidiary, First Professionals, entered into a net account quota share reinsurance agreement with two insurance companies of the Hannover Re group (“Hannover Re”). The agreement, which called for First Professionals to cede quota share portions of its written premiums, contains adjustable features, including sliding scale ceding commissions and a cap on the amount of losses that may be ceded to the reinsurer. The original agreement also contained a loss corridor on business ceded through March 31, 2003, which was removed along with other modifications made in connection with the amendment and extension of the agreement effective April 1, 2003. The effect of these features is to limit the reinsurers’ aggregate exposure to loss and thereby reduce the ultimate cost to First Professionals as the ceding company. These features also have the effect of reducing the amount of protection relative to the quota share amount of premiums ceded by First Professionals. While First Professionals does not receive pro-rata protection relative to the amount of premiums ceded, the amount of such protection is significant, as determined in accordance with guidance under both statutory accounting practices and GAAP. In addition to ceding a significant portion of its risks to Hannover Re, the agreement also allowed First Professionals to reduce its financial leverage and to realize immediate reimbursement for related up-front acquisition costs, thus adding to its financial capacity.

First Professionals has the option to commute the agreement should the business perform such that the underlying protection proves to be unnecessary, in which case the reinsurance would cease, the underlying reinsurance assets and liabilities would unwind, and any net funds under the agreement, less a 4.2% risk charge to be paid to the reinsurers, would be retained by First Professionals. At December 31, 2004 and 2003, this charge would have been $9,246 and $7,131, respectively. The decision of whether to commute the agreement and the timing of any such commutation will depend on the performance of the underlying business, the need for the agreement based on our capital position and other relevant considerations.

On May 6, 2003, we entered into an amendment to the Hannover Re net account quota share reinsurance agreement that, effective April 1, 2003, extended its expiration date to include policies written and renewed through December 31, 2004. The agreement was also amended to remove the loss corridor on business written and ceded, beginning April 1, 2003, and to reduce the lower end of the sliding scale ceding commission range from 27.5% to 20%. A provision was added that allowed First Professionals to reduce the quota share amount of premiums to be ceded under the agreement in 2004. Cancellation provisions were also added; one that gave First Professionals the option to cancel the agreement on or after January 1, 2004, with 30 days notice, and one that gave Hannover Re the option to cancel the agreement as of the effective date of any decrease in First Professionals’ base rate for its MPL insurance policies that exceeds 5%.

We terminated future cessions under the Hannover Re net account quota share reinsurance agreement, effective July 1, 2004. With this termination, business is no longer ceded under it beginning with business written and renewed in the third quarter of 2004. The business already ceded through June 30, 2004 continues to be subject to the agreement and is in run off.

Reinsurance Recoverable on Paid Losses, Due From Reinsurers on Unpaid Losses and LAE and Ceded Unearned Premiums

As of December 31, 2004, we had reinsurance recoverable on paid losses, due from reinsurers on unpaid losses and ceded unearned premiums in the amounts of $19,140, $333,419 and $28,147, respectively, or $380,706, in aggregate.

The portion of our total aggregate reinsurance recoverables under the excess of loss programs was $135,188 as of December 31, 2004. Of this amount, $111,118 is due from authorized reinsurers under applicable state insurance regulations, and thus, we do not hold collateral for these recoverables. For the amounts due from unauthorized reinsurers, we hold collateral in the form of securities in trust, irrevocable letters of credit or other funds held. Most of the excess of loss reinsurers are rated at least “A-” by the A. M. Best and, in management’s opinion, these recoverables are fully collectible or realizable.

Reinsurance recoverables under the net account quota share reinsurance agreement, totaled $147,644, in aggregate, as of December 31, 2004. The two companies with which we placed this reinsurance are part of the Hannover Ruckversicherungs Group, which is rated “A” by A. M. Best, but these two subsidiaries are not authorized reinsurers under applicable state insurance regulations. Under the terms of the agreement, we have funds withheld in the amount of $132,877. In addition, we hold irrevocable letters of credit totaling $25,565 as collateral for these amounts. Hannover Re also participates in our excess of loss program. We do not hold collateral on balances due from the parent company because it is an authorized reinsurer.

As of December 31, 2004, $84,672 of our aggregate reinsurance recoverables are associated with program business under fronting agreements with related parties and others. Of this amount, $40,216 is due from PRI, the New York insurance reciprocal managed by our subsidiary, AFP, and for which we hold collateral of $45,802 in the form of securities held in trust. Reinsurance recoverables of $20,299 are due from segregated portfolios or cells of APAL (SPC) Ltd., a subsidiary of APAL, and are collateralized by securities in trust, an irrevocable letter of credit and other funds held totaling $18,761.

The remaining portion of our reinsurance recoverables as of December 31, 2004, $13,202, is due from APAL under a 25% quota share reinsurance agreement under which we ceased cessions as of December 31, 2003, and is collateralized by securities in trust, an irrevocable letter of credit and other funds held totaling $13,155.

For additional information on the above transactions that are with related parties, refer to Note 18, Related Party Transactions, which is presented below.

Commutation of Gerling Reinsurance

On November 25, 2003, FPIC received $23,500 in exchange for commuting its reinsurance treaties with Gerling, one of its reinsurers. The amount collected includes payments for commutation of Gerling’s quota share treaty for facultative reinsurance coverage on non-standard risks, Gerling’s portion of the excess of loss reinsurance program and payments for estimated future claims under the Gerling treaties. Gerling participated in our excess of loss reinsurance programs in 2000 at 15%, and in 2001 and 2002 at 20%. We replaced Gerling’s participation in our reinsurance programs, effective with our renewal as of January 1, 2003. No gain or loss was recognized on the commutation transaction. As a result of the commutation, we have no reinsurance recoverable from Gerling as of December 31, 2004 and 2003.

(Dollars in thousands, except per share amounts and elsewhere as noted)

9. Long Term Debt

Our outstanding long term debt, as of December 31, 2004 and 2003, consisted of the following:

		2004	2003
Junior subordinated debentures due May 15, 2033 (callable by FPIC beginning May 15, 2008); uncollateralized and bearing floating rate interest at three-month LIBOR plus 4.1% (6.38% and 5.28% at December 31, 2004 and 2003, respectively)	$	15,464	15,464
Junior subordinated debentures due May 23, 2033 (callable by FPIC beginning May 23, 2008); uncollateralized and bearing floating rate interest at three-month LIBOR plus 4.2% (6.60% and 5.37% at December 31, 2004 and 2003, respectively)		5,155	5,155
Senior notes due May 23, 2033 (callable by FPIC beginning May 23, 2008); uncollateralized and bearing floating rate interest at three-month LIBOR plus 4.2% (6.60% and 5.37% at December 31, 2004 and 2003, respectively)		10,000	10,000
Junior subordinated debentures due October 29, 2033 (callable by FPIC beginning October 29, 2008); uncollateralized and bearing floating rate interest at three-month LIBOR plus 3.85% (5.98% and 5.01% at December 31, 2004 and 2003, respectively)		15,464	15,464
Total	$	46,083	46,083

During 2003, we completed the placement of $10,000 in senior notes and created three trusts that issued 30-year trust preferred securities for which the proceeds from such issuances together with cash previously contributed to the trusts were used to purchase junior subordinated debentures from FPIC totaling $36,083. Issuance costs for all three offerings in the aggregate amount of approximately $1,404 were capitalized and are being amortized over their respective stated maturity periods of thirty years.

We established three wholly owned, but not consolidated, trusts, FPIC Capital Trust I, FPIC Capital Statutory Trust II and FPIC Capital Statutory Trust III, for the sole purpose of issuing the trust preferred securities. The proceeds received by the three trusts were used to purchase junior subordinated debentures from FPIC of the same amounts, maturities and other applicable terms and features. The debentures issued by FPIC, which are reported as long term debt in the consolidated statements of financial position, to the three trusts are subordinated to all senior indebtedness, including the senior notes, and are equal in standing to one another.

(Dollars in thousands, except per share amounts and elsewhere as noted)

The securities are uncollateralized and bear a floating interest rate equal to the three-month LIBOR plus a spread ranging from 3.85% to 4.20% (the total interest rates ranged from 5.98% to 6.60% as of December 31, 2004). The floating interest rate will be adjustable quarterly with changes in the three-month LIBOR, and in the case of the first two offerings, the maximum rate that may be charged under the securities within the first five years is 12.5%. We have also purchased hedging instruments designed to maintain the ultimate floating rate interest cost on all of these securities within a stated range for five years from closing. We have the option to call the trust preferred securities at par or its equivalent beginning five years from closing. The trust preferred securities also contain features that allow us the option, under certain conditions, to defer interest payments for up to 20 quarters and to redeem the securities before the first optional call date in five years. In the case of the potential earlier call date, the redemption or call price payable by us may be different than par. The securities have stated maturities of thirty years and are due in May and October 2033.

Indenture agreements, relating to FPIC's junior subordinated debentures and trust preferred securities contain limitations, under certain circumstances, as to (i) the declaration or payment of dividends, or distributions thereon, or the redemption, purchase, acquisition or liquidation with respect to any capital stock of FPIC or its affiliates; (ii) the payment, in certain circumstances, of principal of, premium or interest on, or the repayment, repurchase or redemption of, debt securities of FPIC or its affiliates that rank in equal standing with or are junior in interest to the debentures; or (iii) the payment, in certain circumstances, under any guarantees of FPIC or its affiliates that rank equal in standing with or junior in interest to capital securities guarantees relating to the issuance of the debentures. Circumstances that would result in such limitations include a continuing event of default, as defined by the indenture agreements, a default with respect to payment of any obligations under capital securities guarantees, or a continuing interest deferral election by FPIC.

For additional information on FPIC's hedging instruments and interest costs, see Note 10, Derivative Financial Instruments.

10. Derivative Financial Instruments

As of December 31, 2004, FPIC had four interest rate collars. The collars are designed to maintain FPIC's ultimate floating rate interest costs on its trust preferred securities and unsecured senior notes within a specified interest range for five years from the closing date of those liabilities. The initial costs of the hedge instruments acquired for this purpose of $1,134, in aggregate, have been capitalized and will be amortized over their respective five year maturity periods.

The interest rate collars and terms as of December 31, 2004 are presented below with their corresponding effects on the floating rate interest costs associated with the trust preferred securities and senior notes.

Notional Amount	Maturity Date	LIBOR Floor [1]	LIBOR Cap [1]	Floor Rate	Cap Rate
$ 15,000	5/15/2008	1.20%	4.40%	5.30%	8.50%
$ 5,000	5/23/2008	1.20%	4.40%	5.40%	8.60%
$ 10,000	5/23/2008	1.20%	4.40%	5.40%	8.60%
$ 15,000	10/29/2008	1.00%	4.65%	4.85%	8.50%

[1] Based on three-month LIBOR

The following is a summary of FPIC's debt interest risk management strategy and the effect of this strategy on FPIC's consolidated financial statements:

The interest rate collars were purchased to effectively place floors and caps on the three-month LIBOR floating interest of approximately 1.00% to 1.20% and 4.40% to 4.65%, respectively, on notional principal corresponding with the principal amounts of each offering, for 5 years. These instruments will effectively serve to hedge our total floating interest rate borrowing costs under the securities to within a range of 4.85% to 8.60% for five years and until such time that we have the right to call the securities.

Under the interest rate collars, when the three-month LIBOR interest rate exceeds the specified cap rate or falls below the specified floor rate, we receive or pay, respectively, the related cash flow equal to the difference in percentage times the notional principal under the respective contracts. The two portions of each contract working together, therefore, form a hedge against the effects of a rising three-month LIBOR rate above the cap or a falling three-month LIBOR rate below the floor. The notional amounts referenced in the interest rate collars equal the related trust preferred securities or senior notes, as applicable. The notional amounts of the contract are not exchanged. Therefore, working together the excess of the interest expense on our securities over the cap rate, or the shortfall in interest expense under the floor, are offset by related receipts of excess interest under the caps, or the payment of the interest shortfall below the floor, respectively. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current interest rates, of the remaining obligations to exchange payments under the terms of the contract.

The interest rate collar instruments are reflected at fair value in FPIC's consolidated statements of financial position and the effective portion of the related gains or losses on the agreements are recognized in shareholders' equity (as a component of accumulated other comprehensive income, net). The net effect of this accounting on FPIC's operating results is that interest expense on the floating interest rate debt being hedged is recorded based on fixed interest rates.

FPIC documents the relationships between the hedging instruments and the underlying long term debt instruments. FPIC also assesses the effectiveness of the hedging instruments on a quarterly basis. If it is determined that the hedging instruments are no longer highly effective, the change in the fair value of the ineffective portion of the swaps would be included in earnings rather than comprehensive income. For the years ended December 31, 2004 and 2003, the net gain or loss on the ineffective portion of the agreements was not material.

11. Fair Value of Financial Instruments

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Quoted market prices are used where available. In other cases, fair values are based on estimates using valuation techniques, such as discounting estimated future cash flows using a rate commensurate with the risks involved or other acceptable methods. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, prepayments, discount rates, estimates of future cash flows, future anticipated loss experience and other factors. Changes in assumptions could significantly affect these estimates. Independent market data may not be available to validate those fair value estimates that are based on internal valuation techniques. Moreover, such fair value estimates may not be indicative of the amounts that could be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the fair values of FPIC's financial instruments may not be comparable to those of other companies.

(Dollars in thousands, except per share amounts and elsewhere as noted)

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of FPIC.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- Fixed maturities, available for sale - Fair value was estimated based on prices from a third party service organization providing administrative services for investments.
- Other invested assets - Carrying value approximates the fair value.
- Cash and cash equivalents - Carrying value approximates the fair value because of the short maturity of these instruments.
- Interest rate collars - Fair value was estimated using quotes from an institutional broker and represents the cash requirement if the existing agreement had been settled at year-end.
- Long term debt - Carrying value approximates the fair value.

The following table presents the carrying values and estimated fair values of FPIC's financial instruments as of December 31, 2004 and 2003.

	December 31, 2004		December 31, 2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Fixed maturities, available for sale	$ 548,543	548,543	528,647	528,647
Other invested assets	7,175	7,175	8,990	8,990
Cash and cash equivalents	128,250	128,250	85,064	85,064
Interest rate collars	498	450	1,051	1,035
Total financial assets	$ 684,466	684,418	623,752	623,736
Financial Liabilities:				
Long term debt	$ 46,083	46,083	46,083	46,083
Total financial liabilities	$ 46,083	46,083	46,083	46,083

12. Stock Option and Employee Stock Purchase Plans

FPIC has a stock option plan for officers and key employees (the "employee plan") and a plan for non-employee directors (the "director plan"). Under the director plan, only non-qualified stock options may be issued. Under the employee plan, both incentive stock options and non-qualified stock options may be granted to the same individual. The option price of an incentive stock option may not be less than 100% of the fair market value of shares on the grant date. The option price of a non-qualified option may not be less than 50% of the fair market value of shares on the grant date. Under the terms of the director plan, 5,000 shares are granted to each director on the date that person becomes a director and on an annual basis as approved by the Board. The plan also provides for discretionary grants at future dates as approved by the Board. Stock option grants made under the director plan are at a price not less than 100% of the fair market value of the underlying stock on the grant date.

(Dollars in thousands, except per share amounts and elsewhere as noted)

During 2000, FPIC offered a stock purchase incentive program (the "incentive plan") to eligible employees, including executive officers. Under the incentive plan, employees who purchased shares of FPIC's common stock in the open market during the term of the incentive plan were granted matching nonqualified stock options on a one-for-one basis, up to the maximum of 5,000 options per employee. The incentive plan began January 2000 and ended April 2000. Option grants under the incentive plan were made as of May 1, 2000 at an exercise price equal to the closing market price of FPIC's common stock on that date. Options granted under the incentive plan vest in three equal annual installments commencing on the one-year anniversary of their grant. Options under this plan were granted under the employee plan.

At December 31, 2004 and 2003, 1,060,492 and 578,380 shares of FPIC's common stock, respectively were reserved for issuance in connection with the stock option plans. A summary of the status of FPIC's stock options is presented below:

	Shares	Weighted-Average Exercise Price	Exercisable	Weighted-Average Exercise Price
Balance, December 31, 2001	1,845,860	$ 17.81	1,131,918	$ 20.65
Granted	327,500	8.49	—	—
Exercised	(23,833)	8.63	—	—
Forfeited	(138,665)	19.91	—	—
Balance, December 31, 2002	2,010,862	$ 16.25	1,355,515	$ 18.93
Granted	291,500	20.70	—	—
Exercised	(355,295)	11.93	—	—
Forfeited	(294,379)	24.11	—	—
Balance, December 31, 2003	1,652,688	$ 16.57	1,091,624	$ 17.10
Granted	70,950	27.54	—	—
Exercised	(214,270)	12.70	—	—
Forfeited	(54,922)	28.22	—	—
Balance, December 31, 2004	1,454,446	$ 17.24	1,105,012	$ 16.72

The following table summarizes information for options outstanding and exercisable at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Prices per Share	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 6.00-11.99	423,830	6.20	$ 8.70	349,665	$ 9.10
$12.00-15.99	472,360	5.90	$ 14.17	417,362	$ 14.32
$16.00-19.99	19,400	5.20	$ 17.44	16,067	$ 17.67
$20.00-35.99	485,281	6.50	$ 24.50	268,343	$ 24.48
$36.00-60.99	53,575	2.90	$ 46.02	53,575	$ 46.02
	1,454,446	6.10	$ 17.24	1,105,012	$ 16.72

(Dollars in thousands, except per share amounts and elsewhere as noted)

The fair value of options granted, which is amortized to expense over the option vesting period in determining the pro-forma information presented in Note 2, Significant Accounting Policies, to the consolidated financial statements about stock-based compensation, is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2004	2003	2002
Expected life of options	5 years	5 years	5 years
Risk free interest rate	3.89%	3.02%	3.31%
Expected volatility of stock	61.65%	53.02%	50.41%

The weighted average fair value of options granted during 2004, 2003 and 2002 are as follows:

		2004	2003	2002
Fair value of options granted	$	15.29	10.14	4.03
Total fair value of all options granted	$	1,085	2,955	1,319
Expected dividends	$	—	—	—
Total number of options granted		70,950	291,500	327,500

In accordance with FAS 123, the weighted average fair value of stock options granted is required to be based on a theoretical statistical model using the preceding Black-Scholes assumptions. In actuality, because FPIC’s incentive stock options are not traded on any exchange, employees and directors can receive no value nor derive any benefit from holding stock options under these plans without an increase in the market price of FPIC’s stock. Such an increase in stock price would also benefit other stockholders.

FPIC also maintains an Employee Stock Purchase Plan that allows employees to purchase FPIC’s common stock at 85% of the market value on the first or last day of the offering period, whichever is lower. At December 31, 2004 and 2003, 102,478 and 26,860, respectively, shares of FPIC’s common Stock were reserved for issuance in connection with this plan.

13. Employee Benefit Plans

FPIC currently sponsors nine post-retirement plans for its employees. The table below lists those plans and the subsidiary of FPIC whose employees are covered by that plan.

- FPIC Defined contribution profit sharing plan
- FPIC Defined benefit plan
- FPIC Excess benefit plan
- FPIC Supplemental executive retirement plan (“SERP”)
- Tenere Defined contribution profit sharing plan and trust
- Tenere Money purchase pension plan
- AFP Defined contribution profit sharing plan
- AFP Defined benefit plan
- EMI Defined contribution profit sharing plan

The FPIC defined contribution profit sharing plan is available to all employees of FPIC after meeting certain eligibility requirements. The plan is comprised of two parts. The first part of the plan is a defined contribution plan that allows employees to contribute up to 12.5% of their annual compensation, subject to IRS limits. FPIC contributes a matching amount equal to 2.5% of the employee's annual compensation. The second part of the plan is a profit sharing plan, whereby FPIC may at its discretion make an additional contribution to the plan up to a maximum of 10% of the employee's annual compensation. FPIC's policy is to fully fund the liability for the matching portion at the end of each year. At December 31, 2004 and 2003, the fair market value of defined contribution profit sharing plan assets was $9,882 and $8,174, respectively. Employer contributions to this plan were approximately $1,034, $960 and $735 in 2004, 2003 and 2002, respectively.

The FPIC defined benefit plan is available to all eligible employees of FPIC who have six months of service and whose ages are twenty and one half years of age or older. The amount of benefits is based on years of service and 0.75% of the employee's average monthly salary not over the Social Security base plus 1.4% of the employee's average monthly salary over the Social Security base. FPIC's policy is to contribute the maximum amount towards funding benefits under the plan subject to IRS limits. At December 31, 2004 and 2003, the fair market value of defined benefit plan assets was $3,464 and $3,281, respectively. FPIC had a net periodic pension cost of $549, $463 and $277 for this plan in 2004, 2003 and 2002, respectively. Employer contributions to this plan were approximately $1,459 and $143 in 2003 and 2002, respectively. We currently anticipate contributing $70 to this plan during the next twelve months.

The FPIC excess benefit plan provides a means of equalizing the benefits of those employees participating in the FPIC defined benefit plan whose funded benefits under the FPIC defined benefit plan are or will be limited by the application of ERISA, the Internal Revenue Service Code, or any applicable law or regulation. The plan is available to all participants under the FPIC defined benefit plan, other than those individuals covered under the SERP, whenever their benefits under the FPIC defined benefit plan exceed applicable limitations. The plan is unfunded. FPIC had a net periodic pension cost of $271 for the year ended December 31, 2004.

FPIC also has a SERP that provides certain executives with income at retirement equal to 60% of pre-retirement base compensation, less qualified pension plan benefits paid by FPIC and all predecessor plans and Social Security benefits. The plan has no vesting prior to age 55. The total liability included in the financial statements for this plan amounted to approximately $2,295 and $1,961 as of December 31, 2004 and 2003, respectively. FPIC had a net periodic pension cost of $562, $192 and $258 under this plan in 2004, 2003 and 2002, respectively.

The Tenere defined contribution profit sharing plan and trust is available to all employees of Tenere upon meeting certain eligibility requirements. The plan is comprised of two parts. The first part is a defined contribution plan that allows employees to contribute a portion of their annual compensation, subject to IRS limits. The second part is a profit sharing plan, whereby Tenere may at its discretion contribute an employer contribution to the plan. At December 31, 2004 and 2003, the fair market value of plan assets was $1,103 and $881, respectively. Employer contributions to this plan were approximately $62, $76 and $62 in 2004, 2003 and 2002, respectively.

The Tenere money purchase plan is available to all employees of Tenere upon meeting certain eligibility requirements. The plan is designed to provide benefits based on length of service, whereby Tenere will make contributions to the plan on behalf of the participants for each year of service until the employee retires. At retirement, the employee will be eligible to receive the value of the contributions made to the plan on the employee's behalf. Tenere contributes on behalf of each participant an amount equal to 6.0% of the employee's annual compensation plus 5.7% of the employee's annual compensation in excess of the Social Security Taxable Wage Base. At December 31, 2004 and 2003, the fair market value of plan assets was $395 and $290, respectively. Employer contributions to this plan were approximately $71, $93 and $89 in 2004, 2003 and 2002, respectively.

The AFP defined contribution and profit sharing and defined benefit plans are available to all eligible employees of AFP. The benefits under these plans are based on years of service and employee compensation. AFP's funding policy is to contribute to the plans an amount sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus any additional amounts determined to be appropriate from time to time. Contributions are intended to be sufficient to cover the costs of benefits earned for service to date and an estimate of those costs for future service. The invested assets of the plans consist of investments in various types and categories of stocks and bonds. At December 31, 2004 and 2003, the fair market value of plan assets was $12,128 and $8,852, respectively. Pension costs for the years 2004, 2003 and 2002 amounted to $2,821, $1,905 and $1,255, respectively. Employer contributions to this plan were approximately $2,900, $2,035 and $1,221 in 2004, 2003 and 2002, respectively. We currently anticipate contributing $2,800 to the AFP defined benefit plan during the next twelve months.

The EMI defined contribution profit sharing plan is available for all employees of EMI upon meeting certain eligibility requirements. Under the plan, employees can contribute up to 16% of their annual salary, subject to IRS limits, of which EMI may, at its discretion, contribute a matching amount of up to 100% of the employee contributions. Historically, EMI has contributed a matching amount equal to approximately 30% of the employee contribution. At December 31, 2004 and 2003, the fair market value of plan assets was $3,279 and $2,653. Employer contributions to this plan were approximately $83, $79 and $83 in 2004, 2003 and 2002, respectively.

(Dollars in thousands, except per share amounts and elsewhere as noted)

The actuarially computed net periodic pension cost for our three defined benefit plans and SERP combined for the years ending December 31, 2004, 2003 and 2002, included the following:

	2004	2003	2002
Service cost of benefits earned during the period	$ 2,266	1,470	1,081
Interest cost on projected benefit obligation	1,349	1,035	826
Expected return on plan assets	(919)	(663)	(548)
Recognized net actuarial loss	1,015	608	235
Net amortization and deferral	490	114	196
Net periodic pension cost	$ 4,201	2,564	1,790

	2004	2003	2002
Actuarial Present Value of Benefit Obligation:			
Accumulated benefit obligations	$ (16,564)	(14,407)	(10,392)
Projected benefit obligations for service rendered to date	$ (26,981)	(20,234)	(15,293)
Plan assets at fair value	15,592	12,133	8,383
Projected benefit obligations in excess of plan assets	(11,389)	(8,101)	(6,910)
Unrecognized net loss from past experience different from that assumed	7,862	6,525	4,302
Prior service cost not yet recognized in net periodic pension cost	851	(57)	235
Unrecognized net obligations at inception recognized over 15.29 years	101	131	169
Accrued pension cost	$ (2,575)	(1,502)	(2,204)

The following tables set forth the status of our three defined benefit plans and SERP combined for the years ending December 31, 2004 and 2003, respectively.

	2004	2003
Change in Benefit Obligation:		
Benefit obligation, January 1	$ 20,579	15,293
Service cost	2,266	1,470
Interest cost	1,349	1,035
Actuarial loss	4,263	2,815
Benefits paid	(1,476)	(379)
Benefit obligation, December 31	$ 26,981	20,234
Change in Plan Assets:		
Fair value of plan assets, January 1	$ 12,133	8,383
Actual return on plan assets	2,035	636
Employer contributions	2,900	3,493
Benefits paid	(1,476)	(379)
Fair value of plan assets, December 31	$ 15,592	12,133

(Dollars in thousands, except per share amounts and elsewhere as noted)

Assumptions used in the accounting for the net periodic pension cost and plan status for our three defined benefit plans and SERP combined for the years ended December 31, 2004, 2003 and 2002, were as follows:

	2004	2003	2002
Discount rates	5.50%	6.14%	6.59%
Rate of increase in compensation levels	5.21%	5.18%	5.04%
Return on assets	7.14%	7.10%	6.76%

Assumptions used in the accounting for the benefit obligation for our three defined benefit plans and SERP combined for the years ended December 31, 2004, 2003 and 2002, were as follows:

	2004	2003	2002
Discount rates	5.50%	5.83%	6.47%
Rate of increase in compensation levels	5.29%	5.17%	5.18%
Return on assets	7.00%	7.14%	6.70%

Both FPIC and AFP maintain a diversified investment strategy in managing its defined benefit plans and consider investment risk and return on assets. This is accomplished by maintaining portfolios of managed pooled separate accounts with their administrator-investment providers, which include investments in equity and debt securities, and to a limited extent real estate. The plans assets are not invested in derivative securities.

As of December 31, 2004, approximately 71%, 28% and 1% of the FPIC defined benefit plan assets were held in debt securities, equity securities and real estate, respectively. AFP's defined benefit plan assets were comprised of 44% equity securities, 38% debt securities and 18% convertible debt securities. We do expect our allocation percentages to change significantly in the near future. Debt securities in both FPIC and AFP include a combination of money market, bond and mortgage backed investments. Equity securities are fairly evenly distributed in a diversified portfolio of large, medium and small cap investments, with a modest international component.

FPIC's and AFP's portfolios are subject to review periodically and rebalanced accordingly, if market conditions change or the portfolio needs to be rebalanced to meet target allocations.

14. Commitments and Contingencies

The future minimum annual rentals under non-cancelable operating leases are as follows:

2005	$ 3,271
2006	2,920
2007	2,613
2008	2,572
2009	1,478
Thereafter	2,903
Total	$ 15,757

Total rental expense was $2,257, $2,636 and $2,581 for 2004, 2003 and 2002, respectively.

FPIC's insurance subsidiaries from time to time become subject to claims for extra-contractual obligations or risks in excess of policy limits in connection with their insurance claims. These claims are sometimes referred to as "bad faith" actions as it is alleged that the insurance company acted in bad faith in the administration of a claim against an insured. Bad faith actions are infrequent and generally occur in instances where a jury verdict exceeds the insured's policy limits. Under such circumstances, it is routinely alleged that the insurance company failed to negotiate a settlement of a claim in good faith within the insured's policy limit. FPIC has evaluated such exposures as of December 31, 2004, and believes its position and defenses are meritorious. However, there can be no absolute assurance as to the outcome of such exposures. FPIC currently maintains insurance for such occurrences, which serves to limit exposure to such claims. In addition, multiple claims for extra contractual obligations in a single year could result in potential exposures materially in excess of insurance coverage or in increased costs of insurance coverage.

Based on analysis of our exposure to extra-contractual obligations and claims in excess of policy limits ("ECO/XPL"), we elected not to renew the supplemental awards made ECO/XPL reinsurance that we had carried in addition to the ECO/XPL coverage already included as part of our primary excess of loss reinsurance program. Therefore, this additional layer of excess reinsurance is no longer in effect after April 27, 2004 and we now retain this excess risk.

FPIC may also become involved in legal actions not involving claims under its insurance policies from time to time. FPIC has evaluated such exposures as of December 31, 2004, and in all cases, believes its position and defenses are meritorious. However, there can be no absolute assurance as to the outcome of such exposures.

FPIC's insurance subsidiaries are subject to assessment by the financial guaranty associations in the states in which they conduct business for the provision of funds necessary for the settlement of covered claims under certain policies of insolvent insurers. Generally, these associations can assess member insurers on the basis of written premiums in their particular states.

In addition to standard assessments, the Florida and Missouri Legislatures may also levy special assessments to settle claims caused by certain catastrophic losses. FPIC would be assessed on the basis of premiums written in the state. No special assessments were made in 2004 and 2003. In addition, FPIC could be subject to additional assessments in the future as a result of damages caused by catastrophic losses, such as a hurricane.

While management has evaluated the incidents and circumstances surrounding the above-mentioned asserted or unasserted legal claims and assessments of which it is aware and believes that these will not have materially adverse effects on FPIC beyond amounts already recognized and accrued, there can be no absolute assurance as to their ultimate outcomes.

Management agreement between AFP and PRI

See Note 18, Related Party Transactions, Management Agreement with PRI and Reinsurance Services, to the consolidated financial statements for information about the management agreement with PRI. FPIC has also issued two irrevocable letters of credit in the amount of $500,000 as collateral under the operating leases for the buildings occupied by AFP in Manhasset and Lake Success, New York.

(Dollars in thousands, except per share amounts and elsewhere as noted)

15. Reconciliation of Basic and Diluted Earnings Per Share

Data with respect to FPIC's basic and diluted earnings per common share are shown below:

		2004	2003	2002
Net Income (Loss):				
Income before cumulative effect of accounting change	$	28,181	16,572	14,876
Cumulative effect of accounting change		—	—	(29,578)
Net income (loss)	$	28,181	16,572	(14,702)
Basic Earnings (Loss) Per Common Share:				
Income before cumulative effect of accounting change	$	2.83	1.75	1.58
Cumulative effect of accounting change		—	—	(3.15)
Net income (loss)	$	2.83	1.75	(1.57)
Diluted Earnings (Loss) Per Common Share:				
Income before cumulative effect of accounting change	$	2.70	1.71	1.58
Cumulative effect of accounting change		—	—	(3.14)
Net income (loss)	$	2.70	1.71	(1.56)
Basic weighted average shares outstanding		9,973	9,483	9,387
Common stock equivalents		447	182	45
Diluted weighted average shares outstanding		10,420	9,665	9,432

(Dollars in thousands, except per share amounts and elsewhere as noted)

16. Segment Information

In accordance with the provisions of FAS 131, “Disclosures about Segments of an Enterprise and Related Information,” FPIC has determined that it has three reportable operating segments: insurance, insurance management and TPA. Our insurance segment specializes in professional liability insurance products and services for physicians, dentists and other healthcare providers. The insurance management segment contains our subsidiary AFP, which serves as the exclusive manager and attorney-in-fact of PRI, an insurance reciprocal in New York. PRI is a major client of ours and our revenues and results of operations are financially sensitive to its revenues and financial condition. We do not own PRI, or have a controlling financial interest in PRI, nor is PRI considered a variable interest entity under FIN 46R and so PRI’s financial statements are not consolidated or included in ours. Instead, PRI is similar to a mutual insurer and the risks and rewards of ownership basically vest with the policyholders of PRI. The insurance management segment also provides brokerage, administration and intermediary services for insurance and reinsurance programs to PRI and FPIC. Our TPA segment provides administrative and claims management services to self-insured employer groups for group accident and health, workers’ compensation and general liability and property insurance plans.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies found in Note 2, Significant Accounting Policies. We evaluate a segment’s performance based on net income or loss and account for intersegment sales and transfers, which are eliminated in the consolidated financial statements, as if the sales or transfers were to a third party. Holding company operations are included within the insurance segment due to its size and prominence and the substantial attention devoted to the segment. We believe that intersegment revenues associated with transactions between the segments would be reasonably approximate with similar products or services that may have been obtained from or provided to unrelated third parties. All segments are managed separately because each respective business is distinct in terms of markets served, products and services, technology and required business resources and strategies.

The following table provides a reconciliation of reportable segment assets to FPIC’s consolidated assets:

	2004	2003	2002
Combined assets for reportable segments	$ 1,556,217	1,430,006	1,262,407
Investments in consolidated investees	(280,582)	(245,098)	(233,069)
Intercompany receivables	(4,329)	(2,152)	(2,907)
Total consolidated assets	$ 1,271,306	1,182,756	1,026,431

(Dollars in thousands, except per share amounts and elsewhere as noted)

Selected financial information by segment follows:

	For the Year Ended December 31, 2004						
		Insurance	Insurance Management	TPA	Total Segments	Intersegment Eliminations	Consolidated
Net premium earned	$	149,676	—	—	149,676	—	149,676
Claims administration and management fees	$	—	39,100	14,146	53,246	—	53,246
Net investment income	$	20,627	126	6	20,759	—	20,759
Total revenue	$	175,093	48,530	16,384	240,007	(3,200)	236,807
Depreciation and amortization	$	2,707	1,526	303	4,536	—	4,536
Interest expense on debt	$	2,564	—	—	2,564	—	2,564
Income tax expense	$	8,262	8,006	673	16,941	—	16,941
Minority interest	$	—	248	—	248	—	248
Income before cumulative effect of accounting change	$	16,272	10,870	1,039	28,181	—	28,181
Net income	$	16,272	10,870	1,039	28,181	—	28,181
Identifiable assets	$	1,225,761	44,520	5,354	1,275,635	(4,329)	1,271,306
Goodwill	$	10,833	8,037	—	18,870	—	18,870

	For the Year Ended December 31, 2003						
		Insurance	Insurance Management	TPA	Total Segments	Intersegment Eliminations	Consolidated
Net premium earned	$	131,665	—	—	131,665	—	131,665
Claims administration and management fees	$	—	26,582	14,313	40,895	—	40,895
Net investment income	$	18,285	116	13	18,414	—	18,414
Total revenue	$	153,231	36,604	16,514	206,349	(4,625)	201,724
Depreciation and amortization	$	1,796	1,194	393	3,383	—	3,383
Interest expense on debt	$	5,886	—	—	5,886	—	5,886
Income tax expense	$	2,389	6,217	711	9,317	—	9,317
Minority interest	$	—	94	—	94	—	94
Income before cumulative effect of accounting change	$	6,803	8,839	930	16,572	—	16,572
Net income	$	6,803	8,839	930	16,572	—	16,572
Identifiable assets	$	1,139,279	39,634	5,995	1,184,908	(2,152)	1,182,756
Goodwill	$	10,833	8,037	—	18,870	—	18,870

	For the Year Ended December 31, 2002						
		Insurance	Insurance Management	TPA	Total Segments	Intersegment Eliminations	Consolidated
Net premium earned	$	151,684	—	—	151,684	—	151,684
Claims administration and management fees	$	—	24,341	12,693	37,034	—	37,034
Net investment income	$	20,793	141	43	20,977	—	20,977
Total revenue	$	178,659	31,678	15,302	225,639	(3,699)	221,940
Depreciation and amortization	$	6,572	885	503	7,960	—	7,960
Interest expense on debt	$	4,762	—	—	4,762	—	4,762
Income tax expense	$	4,162	4,463	209	8,834	—	8,834
Minority interest	$	—	172	—	172	—	172
Income before cumulative effect of accounting change	$	8,287	6,277	312	14,876	—	14,876
Cumulative effect of accounting change	$	—	(24,363)	(5,215)	(29,578)	—	(29,578)
Net income	$	8,287	(18,086)	(4,903)	(14,702)	—	(14,702)
Identifiable assets	$	984,470	38,585	6,283	1,029,338	(2,907)	1,026,431
Goodwill	$	10,833	8,037	—	18,870	—	18,870

(Dollars in thousands, except per share amounts and elsewhere as noted)

17. Statutory Accounting

First Professionals, APAC, Intermed and Interlex are required to file statutory-basis financial statements with state insurance regulatory authorities. The insurance subsidiaries are restricted under the Florida and Missouri Insurance Codes as to the amount of dividends they may pay without regulatory consent. In 2005, and based on the amounts of capital and surplus of our insurance subsidiaries as of December 31, 2004, dividends of $16,024 may be paid to FPIC, the holding company, without regulatory consent.

FPIC's insurance subsidiaries: First Professionals, APAC, Intermed and Interlex prepare financial statements for regulatory purposes on a statutory-basis in conformity with the accounting practices prescribed or permitted by the states of Florida and Missouri. On a consolidated basis and at the subsidiary level, FPIC's statutory capital and surplus exceeded applicable regulatory and risk-based capital requirements.

The restricted net assets for FPIC's insurance subsidiaries at December 31, 2004, 2003 and 2002, are as follows:

	2004	2003	2002
First Professionals	$ 130,862	106,967	99,772
APAC	$ 13,356	13,508	13,151
Intermed	$ 29,333	25,265	24,743
Interlex	$ 7,243	6,117	5,822

The statutory capital and surplus for FPIC's insurance subsidiaries at December 31, 2004, 2003 and 2002, is shown in the table below.

	2004	2003	2002
First Professionals	$ 145,402	118,873	110,858
APAC	14,840	15,009	14,612
Intermed	30,951	26,991	24,743
Interlex	8,048	6,797	6,541
Combined statutory surplus	199,241	167,670	156,754
Less: Intercompany eliminations	(38,999)	(33,788)	(31,284)
Consolidated statutory surplus	$ 160,242	133,882	125,470

For the years ended December 31, 2004, 2003 and 2002, the statutory net income (loss) for FPIC's insurance subsidiaries was as follows:

	2004	2003	2002
First Professionals	$ 9,063	2,524	10,961
APAC	(45)	1,032	569
Intermed	(446)	2,316	1,295
Interlex	1,103	287	99
Total statutory income	$ 9,675	6,159	12,924

(Dollars in thousands, except per share amounts and elsewhere as noted)

18. Related Party Transactions

Following is a summary of the related party transactions of FPIC and its consolidated subsidiaries included in the consolidated financial statements as of December 31, 2004 and 2003, and for the years ended December 31, 2004, 2003 and 2002. Credit balances are presented parenthetically.

		As of	
		Dec 31, 2004	Dec 31, 2003
Statements of Financial Position:			
Other invested assets	$	—	788
Premiums receivable	$	5,374	8,608
Reinsurance recoverable on paid losses	$	2,663	2,738
Reinsurance recoverable on unpaid losses and advance premiums	$	10,538	12,012
Reinsurance recoverable on unpaid losses and advance premiums, fronting arrangements (1)	$	72,224	70,462
Ceded unearned premiums	$	—	3,638
Ceded unearned premiums, fronting arrangements (2)	$	2,550	12,848
Deferred policy acquisition costs	$	3,002	4,035
Deferred policy acquisition costs, fronting arrangements	$	—	(535)
Other assets	$	7,882	4,171
Liability for losses and LAE	$	(25,292)	(20,555)
Unearned premiums	$	(46,575)	(47,240)
Reinsurance payable	$	(248)	(23)
Reinsurance payable, fronting arrangements	$	(4,372)	(11,738)
Other liabilities	$	(7,793)	(8,759)

(1) Corresponding liability for losses and LAE under fronting arrangements was ($73,122) and ($71,620) as of December 31, 2004 and 2003, respectively.

(2) Corresponding unearned premiums under fronting arrangements was ($2,790) and ($12,848) as of December 31, 2004 and 2003, respectively.

		2004	2003	2002
Statements of Income (Loss):				
Net premiums earned	$	(6,059)	(3,478)	(6,921)
Ceded premiums earned, fronting arrangements (1)	$	35,563	45,729	51,736
Claims administration and management fees	$	(39,100)	(26,582)	(24,341)
Finance charge and other income	$	—	(64)	(50)
Net losses and LAE	$	2,885	(2,289)	(1,532)
Ceded losses and LAE, fronting arrangements (2)	$	(22,390)	(44,697)	(27,000)
Other underwriting expenses	$	692	3,804	2,774
Other underwriting expenses, fronting arrangements	$	(4,971)	(6,382)	(4,417)
Other expenses	$	213	213	248

(1) Corresponding direct premiums earned under fronting arrangements were ($35,559), ($45,726) and ($52,079) for the years ended December 31, 2004, 2003 and 2002, respectively.

(2) Corresponding direct losses and LAE incurred under fronting arrangements were $22,338, $44,768 and $27,290 for the years ended December 31, 2004, 2003 and 2002, respectively.

(Dollars in thousands, except per share amounts and elsewhere as noted)

Management Agreements with APA Management, Inc. ("APAM") and Consulting Group of APA, Inc. ("CGA")

Effective June 30, 1998, FPIC entered into a management services agreement with APAM and CGA, to provide FPIC with all necessary insurance management and administrative services for APAC, a wholly owned subsidiary of FPIC. FPIC has an indirect financial interest in APAM through its 9.8% interest in APAL, which owns 100% of APAM. Prior to January 1, 2002, the agreement provided that APAM would receive an annual fee of 14.5% of direct premiums (net of refunds) consisting of an annual 10.5% service fee and 4% claims management fee. Effective January 1, 2002, the agreement was amended to implement a sliding fee scale of 14.5% on the first $8 million of written premiums, 11% on written premiums between $8 million and $10 million, and 10% on all written premiums in excess of $10 million. In addition, the CGA fee was $500 annually. The agreement as it concerns APAM also provided that anesthesiologist business produced by First Professionals or its respective agents would be transferred to APAC upon renewal, assuming the insured agreed, and that APAM would receive an annual 1% service fee on such business.

As of December 31, 2003 the management agreement with APAM and the CGA consulting agreement had expired.

The following table summarizes the related party assets and liabilities as of December 31, 2004 and 2003 and revenues and expenses for the years ended December 31, 2004, 2003 and 2002 resulting from the management agreements with APAM and CGA.

	2004	2003	2002
Amounts Included Within the Statements of Income:			
Net Losses and LAE:			
Claims handling fees incurred	$ —	1,115	951
Other Underwriting Expenses:			
Management fees and consulting fees incurred	$ —	3,407	2,732

FPIC also had two management agreements to provide investment management and information technology support services to APAM, which terminated on December 31, 2003. Total revenues earned by FPIC from these agreements totaled approximately $64 and $50 for the years ended December 31, 2003 and 2002, respectively.

25% Quota Share Reinsurance Agreement with APAL

On July 1, 1998, First Professionals and APAC also entered into quota share reinsurance agreements with APAL whereby these two subsidiaries ceded a 25% quota share portion of all business written by them related to anesthesiologists and certain related specialties to APAL. The agreements were entered into in connection with and at the time of FPIC's acquisition of APAC.

(Dollars in thousands, except per share amounts and elsewhere as noted)

Effective December 31, 2003, FPIC did not renew or extend the quota share reinsurance agreements whereby First Professionals and APAC ceded 25% of their anesthesiologists' MPL business to APAL. As a result, no further written premiums were ceded to APAL, effective January 1, 2004 and business ceded under these agreements through December 31, 2003, has been placed into run off.

The following table summarizes the related party assets and liabilities as of December 31, 2004 and 2003 and revenues and expenses for the years ended December 31, 2004, 2003 and 2002 resulting from the 25% quota share reinsurance agreement with APAL.

		As of Dec 31, 2004	As of Dec 31, 2003
Amounts Included Within the Statements of Financial Position:			
Reinsurance recoverable on paid losses	$	2,663	2,738
Reinsurance recoverable on unpaid losses and advance premiums	$	10,538	12,012
Other assets	$	—	111
Ceded unearned premiums	$	—	3,638
Reinsurance payable	$	(248)	(23)

		2004	2003	2002
Amounts Included Within the Statements of Income:				
Net Premiums Earned:				
Ceded premiums earned	$	3,792	8,210	7,046
Net Losses and LAE:				
Ceded losses and LAE incurred	$	(3,187)	(8,001)	(7,056)
Other Underwriting Expenses:				
Ceding commissions earned	$	(758)	(1,642)	(1,412)

See Note 8, Reinsurance, for additional information on the collateral held under these programs.

Fronting Programs with APAL (SPC) Limited

Effective in 2001, APAL formed a new subsidiary, APAL (SPC) Limited, which was established in accordance with Section 235(1) of the Company Law 2nd Revision of Caymanian Law as a segregated portfolio corporation. FPIC's subsidiary, APAC, had developed alternative risk insurance programs whereby segregated portfolio corporations were formed to assume workers' compensation risks. APAC received a fee for the use of its policy forms and does not retain the underwriting risks or incur the administrative expenses under these programs. Like other reinsurance agreements, APAC does remain liable to the insureds under these programs as the primary insurer in the event APAL (SPC) Limited or other reinsurers under these programs were not to perform. Therefore, APAC maintains collateral in the form of assets in trust and irrevocable letters of credit corresponding with applicable reinsurance recoverable balances.

All of these programs have been terminated as of December 31, 2004 or prior, and have been placed into run off.

(Dollars in thousands, except per share amounts and elsewhere as noted)

The following table summarizes the related party assets and liabilities as of December 31, 2004 and 2003 and revenues and expenses for the years ended December 31, 2004, 2003 and 2002 resulting from the fronting programs with APAL (SPC) Limited. The corresponding direct business with non-related parties is indicated in the footnotes to the table.

		As of Dec 31, 2004	As of Dec 31, 2003
Amounts Included Within the Statements of Financial Position:			
Reinsurance recoverable on unpaid losses and advance premiums [(1)]	$	17,748	14,938
Ceded unearned premiums, fronting arrangements [(2)]	$	2,550	10,866
Reinsurance payable	$	(4,372)	(11,738)

		2004	2003	2002
Amounts Included Within the Statements of Income:				
Net Premiums Earned:				
Ceded premiums earned [(3)]	$	23,479	26,262	17,998
Net Losses and LAE:				
Ceded losses and LAE incurred [(4)]	$	(16,529)	(20,014)	(7,427)
Other Underwriting Expenses:				
Fronting fee income earned	$	(1,709)	(2,020)	(803)

[(1)] Corresponding liability for losses and LAE were ($17,748) and ($14,938) as of December 31, 2004 and 2003, respectively.
[(2)] Corresponding unearned premiums were ($2,790) and ($10,866) as of December 31, 2004 and 2003, respectively.
[(3)] Corresponding direct premiums earned were ($23,479), ($26,262) and ($17,998) for the years ended December 31, 2004, 2003 and 2002, respectively.
[(4)] Corresponding direct losses and LAE incurred were $16,529, $20,014 and $7,427 for the years ended December 31, 2004, 2003 and 2002, respectively.

See Note 8, Reinsurance, for additional information on the collateral held under these programs.

Reinsurance Agreements with PRI

On July 1, 1998, First Professionals began assuming reinsurance from PRI, a writer of medical liability insurance in the state of New York. PRI is managed by an attorney-in-fact, AFP, which is a wholly owned subsidiary of FPIC. Under one contract, which reinsures PRI for policies with limits of $1.0 million in excess of $1.0 million, First Professionals assumed losses only and paid PRI a ceding commission on the premiums assumed. Effective April 1, 2002, the contract was changed to reinsure PRI for policies with limits of $1.0 million in excess of $1.3 million. First Professionals and PRI elected not to renew their excess of loss reinsurance treaty effective July 1, 2004.

(Dollars in thousands, except per share amounts and elsewhere as noted)

During the first quarter of 2002, a former excess of loss reinsurance treaty with PRI relating to losses of $0.25 million in excess of $0.5 million was commuted. As a result of this commutation, during the first quarter of 2002, First Professionals reported approximately $9.3 million of paid losses and LAE with a corresponding reduction in reserves. There was no net income effect from this commutation, due to the prior accrual of such charge.

Effective January 1, 2000, First Professionals entered into a 100% quota share reinsurance agreement with PRI to assume PRI's DD&R risks under its claims-made insurance policies in exchange for cash and investments in the amount of $47.0 million. During 2000, a GAAP valuation of the underlying liability was completed and a deferred credit in the amount of $13.2 million was recognized. The deferred credit, which is being amortized into income over 20 years, represents the difference between the GAAP valuation of the liability and the initial premium received. The liability was calculated using benefit assumptions and elements of pension actuarial models (i.e., mortality, morbidity, retirement, interest and inflation rate assumptions). In connection with the agreement, First Professionals recognized a 5% ceding commission expense, which was deferred and is being amortized as premiums are earned under the agreement.

The following table summarizes the related party assets and liabilities as of December 31, 2004 and 2003 and revenues and expenses for the years ended December 31, 2004, 2003 and 2002 resulting from the reinsurance agreements with PRI.

		As of Dec 31, 2004	**As of Dec 31, 2003**
Amounts Included Within the Statements of Financial Position:			
Premiums receivable	$	5,374	8,608
Deferred policy acquisition costs	$	3,002	4,035
Liability for losses and LAE	$	(25,292)	(20,555)
Unearned premiums	$	(46,575)	(47,240)
Other liabilities (deferred credit)	$	(6,783)	(7,729)

		2004	**2003**	**2002**
Amounts Included Within the Statements of Income:				
Net Premiums Earned:				
Assumed premiums earned	$	(9,852)	(11,689)	(13,966)
Net Losses and LAE:				
Assumed losses and LAE incurred	$	6,072	4,598	4,573
Other Underwriting Expenses:				
Assuming commissions incurred	$	1,889	2,584	2,475
Deferred credit amortization	$	(946)	(1,020)	(1,258)

Management Agreement with PRI and Reinsurance Services

AFP has an exclusive ten-year management agreement with PRI with the current term ending December 31, 2008. During 2002, the management agreement between AFP and PRI was amended to remove the sharing by AFP of 10% of PRI's statutory net income or loss, effective January 1, 2002. Compensation under the agreement as originally in effect was equal to 13% of PRI's direct premiums written, with an adjustment for expected return premiums, plus or minus 10% of PRI's statutory net income or loss. With regard to profit sharing amounts already earned and collected, AFP has agreed pursuant to the amendment, to consider the years 1999, 2000 and 2001 re-open for re-determination and possible adjustment for a period of five years each (expiring 2004, 2005 and 2006, respectively.) Such adjustments would be based primarily on development of and related adjustments, if any, to loss and LAE reserves for those years. There have been no adjustments to date. AFP had previously earned and collected profit sharing amounts under the original agreement totaling $3,548 million for the three years ended December 31, 2001. In accordance with the amended agreement, AFP also agreed to pay 6% annual interest on the 10% profit share amounts previously earned and collected under the original agreement for 1999, 2000 and 2001, while those years remain open for possible future re-determination and adjustment, if any. In addition, AFP is reimbursed for 50% of the costs associated with the risk management department it maintains for PRI insureds. The management agreement and amendment were reviewed and approved by the New York State Insurance Department.

FPIC's revenues and results of operations are financially sensitive to the revenues and results of operations of PRI. We do not own or have a controlling financial interest in PRI, nor is PRI considered a variable interest entity under FIN 46(R) and so PRI's financial statements are not consolidated or included in ours. Instead, PRI is similar to a mutual insurer and the risks and rewards of ownership vest with the policyholders of PRI. PRI, as an MPL insurer, is subject to many of the same types of risks as those of FPIC's insurance subsidiaries. In addition, PRI is regulated by the New York State Insurance Department and files annual and quarterly statements with the department containing its financial statements, prepared on the statutory-basis of accounting, and other data.

(Dollars in thousands, except per share amounts and elsewhere as noted)

The following table summarizes the related party assets as of December 31, 2004 and 2003 and revenues and expenses for the years ended December 31, 2004, 2003 and 2002 resulting from the management agreement with PRI.

	As of Dec 31, 2004	As of Dec 31, 2003	
Amounts Included Within the Statements of Financial Position:			
Other assets	$ 7,227	4,046	
Accrued expenses and other liabilities	$ (1,010)	(1,030)	
	2004	**2003**	**2002**
Amounts Included Within the Statements of Income:			
Claims Administration and Management Fees:			
Management fees	$ (38,152)	(26,582)	(24,341)
Other Expenses:			
Loss sharing	$ —	—	35
Interest expense	$ 213	213	213

In addition to the management agreement with PRI, AFP through its subsidiary FPIC Intermediaries provides brokerage, administration and intermediary services for insurance and reinsurance programs to PRI with the brokerage commissions being paid by the reinsuring company. As a result of its relationship with PRI, FPIC Intermediaries earned brokerage commissions of $1,434, $1,718 and $1,744 for the years ended December 31, 2004, 2003 and 2002 for the placement reinsurance on behalf of PRI with other reinsurance carriers. FPIC Intermediaries also earned brokerage commissions of $432, $1,008 and $952 from First Professionals for the years ended December 31, 2004, 2003 and 2002 for the placement of reinsurance with First Professionals from PRI. The brokerage commissions from First Professionals are eliminated in the consolidated financial statements.

For a summary of all revenues and expenses associated with the PRI management agreement and related brokerage and reinsurance intermediary services performed for it, refer to the selected financial information presented for the insurance management segment in Note 16, Segment Information, preceding.

(Dollars in thousands, except per share amounts and elsewhere as noted)

Management Agreement with PaPRI

Effective July 1, 2004, PRM commenced operations as the administrator and attorney-in-fact of PaPRI. PaPRI is an insurance exchange domiciled in Pennsylvania. It was formed to take the place of the unrelated fronting carrier that has underwritten, and ceded as reinsurance to PRI, medical professional liability insurance program business in Pennsylvania. PaPRI commenced underwriting the Pennsylvania program business effective July 1, 2004. PaPRI is not a subsidiary of PRM, AFP or FPIC. As an insurance exchange, the organization of PaPRI is similar to that of a mutual insurance company. PaPRI is also not a subsidiary of PRI, but has received its initial capitalization in the form of a subordinated surplus note from PRI.

PaPRI cedes 100% of the Pennsylvania program business in the form of reinsurance to PRI. PRM management fees were $0.7 million for the three months ended December 31, 2004. Direct premiums written by PaPRI during the three months ended December 31, 2004 were $3,295.

	As of Dec 31, 2004	As of Dec 31, 2003
Amounts Included Within the Statements of Financial Position:		
Other assets	$ 655	—

	2004	2003	2002
Amounts Included Within the Statements of Income:			
Claims Administration and Management Fees:			
Management fees	$ (948)	—	—

Fronting Program with PRI

Effective July 1, 2000, First Professionals entered into an agreement with PRI whereby First Professionals, through PMA, served as the fronting carrier for an MPL insurance program in Pennsylvania for PRI. Under this program, whereby business was written on First Professionals' policy forms and ceded to PRI under a 100% quota share reinsurance agreement, FPIC received a fronting fee of 7% and PMA received an administration fee of 20% of premiums written, in return for its services to PRI, which include underwriting, claims management and other administrative aspects of this program. PMA also pays all commissions and brokerage to outside agents and brokers for the placement of business under the program. Effective January 1, 2002, the terms of this agreement were amended to cede 100% of the premiums written to PRI. The amendment has been filed with the New York State Insurance Department.

Effective August 1, 2003, PRI engaged an unrelated fronting carrier and no new or renewal business was written on First Professionals' policy forms thereafter.

(Dollars in thousands, except per share amounts and elsewhere as noted)

The following table summarizes the related party assets and liabilities as of December 31, 2004 and 2003 and revenues and expenses for the years ended December 31, 2004, 2003 and 2002 resulting from the fronting program with PRI. The corresponding direct business with non-related parties is indicated in the footnotes to the table.

		As of Dec 31, 2004	As of Dec 31, 2003	
Amounts Included Within the Statements of Financial Position:				
Reinsurance recoverable on unpaid losses and advance premiums [(1)]	$	40,216	37,296	
Ceded unearned premiums[(2)]	$	—	1,982	
Deferred policy acquisition costs	$	—	(535)	
		2004	**2003**	**2002**
Amounts Included Within the Statements of Income:				
Net Premiums Earned:				
Ceded premiums earned [(3)]	$	12,084	16,145	11,418
Net Losses and LAE:				
Ceded losses and LAE incurred [(4)]	$	(9,830)	(21,005)	(10,221)
Other Underwriting Expenses:				
Ceding commissions earned	$	(3,262)	(4,358)	(3,045)

[(1)] Corresponding liability for losses and LAE were ($40,807) and ($38,454) as of December 31, 2004 and 2003, respectively.
[(2)] Corresponding unearned premiums were ($1,982) as of December 31, 2003, respectively.
[(3)] Corresponding direct premiums earned were ($12,080), ($16,143) and ($11,762) for the years ended December 30, 2004, 2003 and 2002, respectively.
[(4)] Corresponding direct losses and LAE incurred were $9,779, $21,076 and $10,511 for the years ended December 31, 2004, 2003 and 2002, respectively.

See Note 8, Reinsurance, for additional information on the collateral held under these programs.

Fronting Program with American Physicians Insurance Exchange ("APIE")

FPIC had an insurance program with APIE, a Texas medical professional liability insurance exchange, whereby, through December 31, 2002, business was written on First Professionals' policy forms and substantially all the underlying insurance risks and premiums were ceded to APIE for a fronting fee. We owned 20% of the outstanding common stock of APS, which serves as the exclusive management company for APIE, until October 1, 2003, at which time we sold our 20% investment to the majority (80%) owner for $2,050 in cash. A small gain was recognized on this transaction. One of our senior officers also served on the APS board of directors. This program was terminated effective December 31, 2002.

(Dollars in thousands, except per share amounts and elsewhere as noted)

The APIE fronting program expired December 31, 2002, at which time we ceased writing business for APIE on our policy forms and placed the existing business in run off.

The following table summarizes the related party assets and liabilities as of December 31, 2004 and 2003 and revenues and expenses for the years ended December 31, 2004, 2003 and 2002 resulting from the fronting program with APIE. The corresponding direct business with non-related parties is indicated in the footnotes to the table.

		As of Dec 31, 2004	As of Dec 31, 2003
Amounts Included Within the Statements of Financial Position:			
Reinsurance recoverable on unpaid losses and advance premiums [1]	$	14,260	18,228

		2004	2003	2002
Amounts Included Within the Statements of Income:				
Net Premiums Earned:				
Ceded premiums earned [2]	$	—	3,321	22,319
Net Losses and LAE:				
Ceded losses and LAE incurred [3]	$	3,969	(3,678)	(9,352)
Other Underwriting Expenses:				
Fronting fee income	$	—	(3)	(569)

[1] Corresponding liability for losses and LAE were ($14,567) and ($18,228) as of December 31, 2004 and 2003, respectively.
[2] Corresponding direct premiums earned were ($3,321) and ($22,319) for the years ended December 31, 2003 and 2002, respectively.
[3] Corresponding direct losses and LAE incurred were ($3,969), $3,678 and $9,352 for the years ended December 31, 2004, 2003 and 2002, respectively.

See Note 8, Reinsurance, for additional information on the collateral held under these programs.

Other Related Party Transactions

The principal owner of one of FPIC's insurance agents and brokers serves as a director of FPIC. This director's firm also acts as FPIC's agent in purchasing its internal insurance. The commissions paid by FPIC to the director's firm were approximately $343, $338 and $227 during the years ended December 31, 2004, 2003 and 2002, respectively. In addition, FPIC obtains corporate legal services from time to time from an outside law firm, a partner of which is also a director of FPIC. Costs incurred during the years ended December 31, 2004, 2003 and 2002 by FPIC with respect to these legal services were $165, $136 and $11, respectively.

(Dollars in thousands, except per share amounts and elsewhere as noted)

19. Unaudited Quarterly Results of Operations

The following is a summary of our unaudited quarterly consolidated results of operations for the years ended December 31, 2004, 2003 and 2002:

2004		First	Second	Third	Fourth
Direct and assumed premiums written	$	98,604	77,102	77,179	59,843
Net premium written	$	43,604	33,327	65,118	50,483
Net premiums earned	$	35,012	31,668	38,873	44,123
Net investment income	$	5,621	4,564	5,039	5,535
Total revenues	$	57,563	52,065	60,655	66,524
Net income	$	7,010	6,457	7,529	7,185
Basic earnings per share	$	0.71	0.65	0.75	0.72
Diluted earnings per share	$	0.68	0.62	0.72	0.68

2003		First	Second	Third	Fourth
Direct and assumed premiums written	$	104,535	84,395	87,808	64,003
Net premium written	$	38,996	35,871	46,624	21,643
Net premiums earned	$	28,908	31,870	40,895	29,992
Net investment income	$	4,503	4,719	4,680	4,512
Total revenues	$	44,129	49,141	60,093	48,361
Net income	$	2,760	3,498	5,381	4,933
Basic earnings per share	$	0.29	0.37	0.56	0.53
Diluted earnings per share	$	0.29	0.37	0.56	0.49

2002		First	Second	Third	Fourth
Direct and assumed premiums written	$	89,258	90,426	90,856	74,187
Net premium written	$	56,196	57,164	(6,448)	33,336
Net premiums earned	$	39,342	47,560	30,435	34,347
Net investment income	$	4,888	5,813	5,688	4,588
Total revenues	$	53,416	62,775	50,407	55,342
Income before cumulative effect of accounting change	$	2,865	2,609	4,415	4,987
Cumulative effect of accounting change, net of an income tax benefit	$	(29,578)	—	—	—
Net (loss) income	$	(26,713)	2,609	4,415	4,987
Basic (loss) earnings per share	$	(2.85)	0.28	0.47	0.53
Diluted (loss) earnings per share	$	(2.82)	0.26	0.47	0.53

20. Subsequent Event

In January 2005, FPIC signed a definitive agreement with WebTPA, Inc. ("WebTPA") to sell the TPA segment's employee benefits administration business for approximately $0.5 million. Due to continuing competitiveness issues in the employee benefits administration marketplace, FPIC determined that its TPA segment would continue to be significantly challenged in this line and that a sale represented the most orderly transition of the business. Closing and final purchase price determination is subject to certain terms and conditions, including obtaining required customer consents to assign related administrative contracts. In accordance with FAS 144, "Accounting for the Impairment and Disposal of Long-Lived Assets", the results of the employee benefits administration business will be reported as a discontinued operation beginning in the first quarter of 2005. As of December 31, 2004, the assets and liabilities related to this operation included in our consolidated statements of financial position were $0.8 million and $0.5 million, respectively.

SCHEDULE I

FPIC Insurance Group, Inc.
Summary of Investments Other Than Investments in Related Parties
As of December 31, 2004
(in thousands)

	Cost or Amortized Cost	Fair Value	Amount in Statement of Financial Position
Fixed Maturities, Available for Sale:			
Corporate securities	$ 131,128	131,941	131,941
United States Government agencies and authorities	80,512	81,256	81,256
States, municipalities and political subdivisions	251,274	254,246	254,246
Mortgage-backed securities	81,382	81,100	81,100
Total Fixed Maturities, Available for Sale	544,296	548,543	548,543
Other invested assets	7,175	7,175	7,175
Total Investments	$ 551,471	555,718	555,718

See Accompanying Report of Independent Registered Certified Public Accounting Firm.

SCHEDULE II

FPIC Insurance Group, Inc.
Condensed Financial Information of Registrant
FPIC Insurance Group, Inc. (Parent Only)
Condensed Statements of Financial Position
As of December 31, 2004 and 2003
(in thousands, except common share data)

		2004	2003
Assets			
Investments in subsidiaries*	$	245,200	214,298
Other invested assets		1,083	1,871
Total investments		246,283	216,169
Cash and cash equivalents		6,984	10,248
Property and equipment, net		1,604	1,536
Due from subsidiaries, net*		6,919	1,630
Deferred income taxes		4,035	2,825
Other assets		6,951	6,669
Total assets	$	272,776	239,077
Liabilities and Shareholders' Equity			
Long term debt	$	46,083	46,083
Accrued expenses and other liabilities		9,573	6,337
Total liabilities		55,656	52,420
Common stock, $.10 par value, 50,000,000 shares authorized 10,069,532 and 9,770,843 shares issued and outstanding at December 31, 2004 and 2003, respectively		1,007	977
Additional paid-in capital		47,871	43,705
Retained earnings		165,880	137,699
Accumulated other comprehensive income, net		2,362	4,276
Total shareholders' equity		217,120	186,657
Total liabilities and shareholders' equity	$	272,776	239,077

*Eliminated in consolidation

See Accompanying Report of Independent Registered Certified Public Accounting Firm.

SCHEDULE II

FPIC Insurance Group, Inc.
Condensed Financial Information of Registrant
FPIC Insurance Group, Inc. (Parent Only)
Condensed Statements of Earnings (Losses)
For the Years Ended December 31, 2004, 2003 and 2002
(in thousands)

	2004	2003	2002
Revenues			
Management fees from subsidiaries, net*	$ 28,757	25,288	21,577
Net investment loss	(663)	(404)	(19)
Net realized investment loss	(787)	(4,539)	—
Other income	1	92	54
Total revenues	27,308	20,437	21,612
Expenses			
Management fees due to subsidiaries*	15	30	30
Other underwriting expenses	24,447	20,199	17,488
Interest expense on debt	2,564	5,886	4,762
Other expenses	—	22	174
Total expenses	27,026	26,137	22,454
Income (loss) before income taxes	282	(5,700)	(842)
Less: Income tax expense (benefit)	1,144	(2,143)	209
Loss before equity in undistributed earnings of subsidiaries	(862)	(3,557)	(1,051)
Equity in undistributed earnings (loss) of subsidiaries*	29,043	20,129	(13,651)
Net income (loss)	$ 28,181	16,572	(14,702)

*Eliminated in consolidation

See Accompanying Report of Independent Registered Certified Public Accounting Firm.

SCHEDULE II

FPIC Insurance Group, Inc.
Condensed Financial Information of Registrant
FPIC Insurance Group, Inc. (Parent Only)
Condensed Statements of Cash Flows
For the Years Ended December 31, 2004, 2003 and 2002
(in thousands)

	2004	2003	2002
Cash Flows From Operating Activities:			
Net income	$ 28,181	16,572	(14,702)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Equity in undistributed earnings of subsidiaries*	(29,043)	(20,560)	13,326
Common stock dividend from subsidiaries*	2,224	3,650	6,590
Return of capital from subsidiaries*	10,881	8,550	8,260
Capital contribution to subsidiaries*	(16,000)	(4,200)	(10,860)
Depreciation and amortization	905	509	942
Realized loss on investments	787	4,629	—
Realized loss on sale of property and equipment	—	—	—
Net gain from equity investments	—	(195)	(222)
Deferred income tax benefit	(1,107)	(1,253)	(1,047)
Other Changes in Assets and Liabilities:			
Due from subsidiaries*	(5,516)	138	(2,217)
Other assets	(760)	(3,804)	8,870
Other liabilities	3,651	1,389	325
Net cash (used in) provided by operating activities	(5,797)	5,425	9,265
Cash Flows From Investing Activities:			
Proceeds from sale of other invested assets	—	2,266	—
Purchase of other invested assets	—	(1,083)	—
Purchase of property and equipment	(684)	(753)	(607)
Net cash (used in) provided by investing activities	(684)	430	(607)
Cash Flows From Financing Activities:			
Receipt of long term debt	—	46,083	—
Payment of revolving credit facility	—	(47,208)	(5,833)
Purchase of derivative financial instrument	—	(1,134)	—
Settlement of derivative financial instrument	—	(2,493)	—
Issuance of common stock	3,217	4,423	438
Net cash provided by (used in) financing activities	3,217	(329)	(5,395)
Net (decrease) increase in cash and cash equivalents	(3,264)	5,526	3,263
Cash and cash equivalents at beginning of period	10,248	4,722	1,459
Cash and cash equivalents at end of period	$ 6,984	10,248	4,722
Supplemental Disclosure of Cash Flow Information:			
Interest paid on debt	$ 2,524	3,363	4,718
Federal income taxes paid	$ 12,950	9,450	6,293
Federal income tax refunds received	$ —	346	4,958

* Eliminated in consolidation

See Accompanying Report of Independent Registered Certified Public Accounting Firm.

SCHEDULE III

FPIC Insurance Group, Inc.
Consolidated Supplementary Insurance Information
For the Years Ended December 31, 2004, 2003 and 2002
(in thousands)

Segment		Deferred Policy Acquisition Costs (“DPAC”)	Loss Reserves	Unearned Premiums	Premium Revenue	Net Investment Income	Loss Expenses	Amortization of DPAC	Other Expenses	Net Written Premiums
2004										
Medical professional and other liability	$	11,280	635,118	177,003	149,676	20,627	125,172	8,417	11,542	192,532
2003										
Medical professional and other liability	$	6,209	574,529	177,435	131,665	18,285	118,974	6,008	8,880	143,134
2002										
Medical professional and other liability	$	4,452	440,166	173,421	151,684	20,793	139,571	9,952	8,511	140,248

See Accompanying Report of Independent Registered Certified Public Accounting Firm.

SCHEDULE IV

FPIC Insurance Group, Inc.
Reinsurance
For the Years Ended December 31, 2004, 2003 and 2002
(in thousands)

Type of Insurance		Gross Premiums Amount	Ceded Premiums Earned to Other Companies	Assumed Premiums Earned From Other Companies	Net Premiums Earned	Percentage of Assumed to Net
2004						
Medical professional and other liability	$	303,308	163,484	9,852	149,676	7%
2003						
Medical professional and other liability	$	325,039	205,062	11,688	131,665	9%
2002						
Medical professional and other liability	$	302,845	166,384	15,223	151,684	10%

See Accompanying Report of Independent Registered Certified Public Accounting Firm.

SCHEDULE V

FPIC Insurance Group, Inc.
Valuation and Qualifying Accounts
For the Years Ended December 31, 2004, 2003 and 2002
(in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
December 31, 2004				
Allowance for doubtful accounts	$ 400	43	43	400
December 31, 2003				
Allowance for doubtful accounts	$ 400	95	95	400
December 31, 2002				
Allowance for doubtful accounts	$ 734	668	1,002	400

See Accompanying Report of Independent Registered Certified Public Accounting Firm.

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Agreement"), made as of December 28, 2004, by and between **FPIC INSURANCE GROUP, INC.**, a Florida corporation (the "Company"), and **BECKY THACKERY,** a director and/or officer of the Company (the "Indemnitee").

W I T N E S S E T H T H A T:

WHEREAS, the Company desires to retain and attract as directors and officers the most capable persons available; and

WHEREAS, the Company and Indemnitee recognize that Indemnitee is unable to acquire adequate or reliable advance knowledge or guidance with respect to the legal risks and potential civil liabilities to which she may become personally exposed as a result of performing her duties in good faith for the Company; and

WHEREAS, the Company and Indemnitee recognize that the cost of defending against such lawsuits, whether or not meritorious, is typically beyond the financial resources of most individuals; and

WHEREAS, the Articles of Incorporation and Bylaws of the Company permit the Company to indemnify its officers and directors to the fullest extent permitted by law; and

WHEREAS, Section 607.0850 of the Florida Statutes sets forth certain provisions relating to the indemnification of officers and directors of a Florida corporation by such corporation; and

WHEREAS, the Company desires to have Indemnitee continue to serve as an officer and/or director of the Company free from any undue concern, from unpredictable, inappropriate or unreasonable civil risks and personal civil liabilities, by reason of acting in good faith in the performance of her duties to the Company and Indemnitee desires to continue to serve as an officer and/or director of the Company; provided, on the express condition, that she is furnished with the indemnity set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements below and based on the premises set forth above, the Company and Indemnitee do hereby agree as follows:

1. Definitions. As used in the Agreement:

(a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought in the name of the Company or otherwise and whether of civil, administrative or investigative nature, including, but not limited to, actions, suits, or proceedings brought under and/or predicated upon the Securities Act of 1933, as amended, and/or the Securities Exchange Act of 1934, as amended, and/or their respective state counterparts and/or any rule or regulation promulgated thereunder, in which Indemnitee may be or may have been involved as a party or otherwise, by reason of any action taken by her or any inaction on her part while acting as such director and/or officer or by reason of the fact that she is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether or not she is serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement can be provided under this Agreement. The term "Proceeding" shall not include any criminal action or proceeding.

(b) The term "Expenses" includes, without limitation thereto, expenses of investigations, judicial or administrative proceedings or appeals, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under Paragraph 7 of this Agreement, but shall not include the amount of judgments, fines or penalties actually levied against Indemnitee and shall not include any Expenses incurred in connection with any criminal Proceeding.

(c) References to "other enterprise" shall include employee benefit plans; references to "fines" shall include an excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; references to "employee benefit plans" shall include, and not be limited to, stock option plans, stock award plans, stock purchase plans, 401(k) plans, pension plans, health and welfare plans, and retirement plans; and a person who acts in good faith and in a manner she reasonably believes to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

2. Agreement to Serve. Indemnitee agrees to serve or continue to serve as a director and/or officer of the Company at the will of the Company or under separate contract, as the case may be, for so long as she is duly elected or appointed or until such time as she tenders her resignation in writing.

3. Indemnity in Third Party Proceedings. The Company shall indemnify Indemnitee in accordance with the provisions of this section if Indemnitee is a party to or threatened to be made a party to or otherwise involved in any Proceeding (other than a Proceeding by or in the name of the Company to procure a judgment in its favor), by reason of the fact that Indemnitee is or was a director and/or officer of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all Expenses, judgments, fines and penalties, actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such Proceeding, provided it is determined pursuant to Paragraph 7 of this Agreement or by the court before which such action was brought, that Indemnitee acted in good faith and in a manner which she reasonably believed to be in good faith and in a manner she believed to be in or not opposed to the best interests of the Company.

4. Indemnity in Proceedings By or in the Name of the Company. The Company shall indemnify Indemnitee in accordance with the provisions of this section if Indemnitee is a party to or threatened to be made a party to or otherwise involved in any Proceeding by or in the name of the Company to procure a judgment in its favor by reason of the fact that Indemnitee was or is a director and/or officer of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against all Expenses actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such Proceeding, but only if she acted in good faith and in a manner which she reasonably believed to be in or not opposed to the best interests of the Company, except that no indemnification for Expenses shall be made under this Paragraph 4 in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company, unless and only to the extent that any court in which such Proceeding is brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses as such court shall deem proper.

5. Indemnification of Expenses of Successful Party. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise, in defense of any Proceeding or in defense of any claim, issue or matter therein, including the dismissal of an action without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

6. Advances of Expenses. The Expenses incurred by Indemnitee pursuant to Paragraphs 3 and 4 in any Proceeding shall be paid by the Company in advance at the written request of Indemnitee, if Indemnitee shall undertake to repay such amount to the extent that it is ultimately determined that Indemnitee is not entitled to indemnification.

7. Right of Indemnitee to Indemnification Upon Application; Procedure Upon Application. Any indemnification or advance under Paragraphs 3, 4, and/or 6 hereof shall be made no later than 45 days after receipt of the written request of Indemnitee, unless a determination is made within such 45 day period by (a) the Board of Directors of the Company by a majority vote of a quorum thereof consisting of directors who were not parties to such Proceedings, or (b) independent legal counsel in a written opinion (which counsel shall be appointed if such a quorum is not obtainable), that Indemnitee has not met the relevant standards for indemnification set forth in Paragraphs 3 and 4.

The right to indemnification or advances as provided by this Agreement shall be enforceable by Indemnitee in any court of competent jurisdiction. The burden of proving that indemnification or advances are not appropriate shall be on the Company. Neither the failure of the Company (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification or advances are proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including its Board of Directors or independent legal counsel) that Indemnitee has met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct. Indemnitee's Expenses incurred in connection with successfully establishing her right to indemnification or advances, in whole or in part, in any such Proceeding shall also be indemnified by the Company.

8. Indemnification Hereunder Not Exclusive. The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under the Company's Articles of Incorporation, Bylaws, or another capacity while holding such office. The indemnification under this Agreement shall continue as to Indemnitee even though she may have ceased to be a director and/or officer of the Company and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

9. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines or penalties actually and reasonably incurred by her in the investigation, defense, appeal or settlement of any Proceeding but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses, judgments, fines or penalties to which Indemnitee is entitled.

10. Presumption of Indemnification. For purposes of this Agreement, determination of any Proceeding, suit or proceeding by any means shall not create a presumption that Indemnitee did not meet any particular standard of conduct; act in the best interests of the Company; have any particular belief; or that a court has determined that indemnification is not permitted by applicable law.

11. Liability Insurance. To the extent that Company maintains an insurance policy or policies providing directors' and officers' liability insurnce, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any director and/or officer of the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

FPIC INSURANCE GROUP, INC.

By: /s/ John R. Byers

John R. Byers, President and Chief Executive Officer

INDEMNITEE:

By: /s/ Becky Thackery

Becky Thackery

Exhibit 10(aaaa)

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Agreement"), made as of December 28, 2004, by and between **FPIC INSURANCE GROUP, INC.**, a Florida corporation (the "Company"), and **PAMELA E. TRIPP,** a director and/or officer of the Company (the "Indemnitee").

W I T N E S S E T H T H A T:

WHEREAS, the Company desires to retain and attract as directors and officers the most capable persons available; and

WHEREAS, the Company and Indemnitee recognize that Indemnitee is unable to acquire adequate or reliable advance knowledge or guidance with respect to the legal risks and potential civil liabilities to which she may become personally exposed as a result of performing her duties in good faith for the Company; and

WHEREAS, the Company and Indemnitee recognize that the cost of defending against such lawsuits, whether or not meritorious, is typically beyond the financial resources of most individuals; and

WHEREAS, the Articles of Incorporation and Bylaws of the Company permit the Company to indemnify its officers and directors to the fullest extent permitted by law; and

WHEREAS, Section 607.0850 of the Florida Statutes sets forth certain provisions relating to the indemnification of officers and directors of a Florida corporation by such corporation; and

WHEREAS, the Company desires to have Indemnitee continue to serve as an officer and/or director of the Company free from any undue concern, from unpredictable, inappropriate or unreasonable civil risks and personal civil liabilities, by reason of acting in good faith in the performance of her duties to the Company and Indemnitee desires to continue to serve as an officer and/or director of the Company; provided, on the express condition, that she is furnished with the indemnity set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements below and based on the premises set forth above, the Company and Indemnitee do hereby agree as follows:

1. Definitions. As used in the Agreement:

(a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought in the name of the Company or otherwise and whether of civil, administrative or investigative nature, including, but not limited to, actions, suits, or proceedings brought under and/or predicated upon the Securities Act of 1933, as amended, and/or the Securities Exchange Act of 1934, as amended, and/or their respective state counterparts and/or any rule or regulation promulgated thereunder, in which Indemnitee may be or may have been involved as a party or otherwise, by reason of any action taken by her or any inaction on her part while acting as such director and/or officer or by reason of the fact that she is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether or not she is serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement can be provided under this Agreement. The term "Proceeding" shall not include any criminal action or proceeding.

(b) The term "Expenses" includes, without limitation thereto, expenses of investigations, judicial or administrative proceedings or appeals, amounts paid in settlement by or on behalf of Indemnitee, attorneys' fees and disbursements and any expenses of establishing a right to indemnification under Paragraph 7 of this Agreement, but shall not include the amount of judgments, fines or penalties actually levied against Indemnitee and shall not include any Expenses incurred in connection with any criminal Proceeding.

(c) References to "other enterprise" shall include employee benefit plans; references to "fines" shall include an excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; references to "employee benefit plans" shall include, and not be limited to, stock option plans, stock award plans, stock purchase plans, 401(k) plans, pension plans, health and welfare plans, and retirement plans; and a person who acts in good faith and in a manner she reasonably believes to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

2. Agreement to Serve. Indemnitee agrees to serve or continue to serve as a director and/or officer of the Company at the will of the Company or under separate contract, as the case may be, for so long as she is duly elected or appointed or until such time as she tenders her resignation in writing.

3. Indemnity in Third Party Proceedings. The Company shall indemnify Indemnitee in accordance with the provisions of this section if Indemnitee is a party to or threatened to be made a party to or otherwise involved in any Proceeding (other than a Proceeding by or in the name of the Company to procure a judgment in its favor), by reason of the fact that Indemnitee is or was a director and/or officer of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all Expenses, judgments, fines and penalties, actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such Proceeding, provided it is determined pursuant to Paragraph 7 of this Agreement or by the court before which such action was brought, that Indemnitee acted in good faith and in a manner which she reasonably believed to be in good faith and in a manner she believed to be in or not opposed to the best interests of the Company.

4. Indemnity in Proceedings By or in the Name of the Company. The Company shall indemnify Indemnitee in accordance with the provisions of this section if Indemnitee is a party to or threatened to be made a party to or otherwise involved in any Proceeding by or in the name of the Company to procure a judgment in its favor by reason of the fact that Indemnitee was or is a director and/or officer of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against all Expenses actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such Proceeding, but only if she acted in good faith and in a manner which she reasonably believed to be in or not opposed to the best interests of the Company, except that no indemnification for Expenses shall be made under this Paragraph 4 in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Company, unless and only to the extent that any court in which such Proceeding is brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses as such court shall deem proper.

5. Indemnification of Expenses of Successful Party. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise, in defense of any Proceeding or in defense of any claim, issue or matter therein, including the dismissal of an action without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

6. Advances of Expenses. The Expenses incurred by Indemnitee pursuant to Paragraphs 3 and 4 in any Proceeding shall be paid by the Company in advance at the written request of Indemnitee, if Indemnitee shall undertake to repay such amount to the extent that it is ultimately determined that Indemnitee is not entitled to indemnification.

7. Right of Indemnitee to Indemnification Upon Application; Procedure Upon Application. Any indemnification or advance under Paragraphs 3, 4, and/or 6 hereof shall be made no later than 45 days after receipt of the written request of Indemnitee, unless a determination is made within such 45 day period by (a) the Board of Directors of the Company by a majority vote of a quorum thereof consisting of directors who were not parties to such Proceedings, or (b) independent legal counsel in a written opinion (which counsel shall be appointed if such a quorum is not obtainable), that Indemnitee has not met the relevant standards for indemnification set forth in Paragraphs 3 and 4.

The right to indemnification or advances as provided by this Agreement shall be enforceable by Indemnitee in any court of competent jurisdiction. The burden of proving that indemnification or advances are not appropriate shall be on the Company. Neither the failure of the Company (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification or advances are proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including its Board of Directors or independent legal counsel) that Indemnitee has met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct. Indemnitee's Expenses incurred in connection with successfully establishing her right to indemnification or advances, in whole or in part, in any such Proceeding shall also be indemnified by the Company.

8. Indemnification Hereunder Not Exclusive. The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under the Company's Articles of Incorporation, Bylaws, or another capacity while holding such office. The indemnification under this Agreement shall continue as to Indemnitee even though she may have ceased to be a director and/or officer of the Company and shall inure to the benefit of the heirs and personal representatives of Indemnitee.

9. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines or penalties actually and reasonably incurred by her in the investigation, defense, appeal or settlement of any Proceeding but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses, judgments, fines or penalties to which Indemnitee is entitled.

10. Presumption of Indemnification. For purposes of this Agreement, determination of any Proceeding, suit or proceeding by any means shall not create a presumption that Indemnitee did not meet any particular standard of conduct; act in the best interests of the Company; have any particular belief; or that a court has determined that indemnification is not permitted by applicable law.

11. Liability Insurance. To the extent that Company maintains an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any director and/or officer of the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

FPIC INSURANCE GROUP, INC.

By: /s/ John R. Byers

John R. Byers, President and Chief Executive Officer

INDEMNITEE:

By: /s/ Pamela E. Tripp

Pamela E. Tripp

Exhibit 10(bbbb)

FPIC INSURANCE GROUP, INC.
OMNIBUS INCENTIVE PLAN STOCK OPTION AGREEMENT

THIS AGREEMENT, made as of______, ____ is by and between FPIC Insurance Group, Inc., a Florida corporation (the "Company"), and ________ (the "Optionee").

WITNESSETH:

WHEREAS, the Company maintains the Omnibus Incentive Plan (the "Plan") for the benefit of its officers and key employees and the officers and key employees of the Subsidiaries; and

WHEREAS, the Company wishes to grant to the Optionee Options under the Plan, on the terms and conditions set forth in the Plan and as hereinafter provided;

NOW, THEREFORE, in consideration of the premises, it is agreed as follows:

1. Definitions

Terms used in this Agreement that are defined in the Plan shall have the same meaning as set forth in the Plan.

2. Grant of Options

The Company hereby grants to Optionee _____ Options to purchase _____ Shares at an Option Price per Share of $_____. Of these Options, _____ will be Incentive Stock Options pursuant to Section 422 of the Code, and _____ will be Nonqualified Stock Options.

3. Stock Option Terms and Exercise Period

a. Options awarded under this Agreement may not be exercised by the Optionee at any time until such Options are vested as provided in paragraph 4 of this Agreement.

b. This Agreement and the Options issued pursuant thereto shall terminate on the earlier of (i) the tenth anniversary of the date of this Agreement, (ii) the date such Options are fully exercised, or (iii) the date determined pursuant to Section 5 hereof following the Optionee's termination of employment.

4. Vesting

Subject to Section 10 hereof and the other provisions of this Section 4, one-third (rounded up to a whole number) of the Options set forth in paragraph 2 shall vest on the one year anniversary of the date of this Agreement, with an additional one-third of the Options vesting on each of the next two anniversaries of this Agreement, provided the Optionee has remained in the employ of the Company or a Parent or Subsidiary thereof through the applicable vesting date, such vesting maximizing Incentive Stock Options pursuant to Section 422 of the Code, as follows:

			Options Exercisable	
Grant Date	**Grant Type**	**Options Granted**	**Number Exercisable**	**Date Exercisable**

The Optionee shall be 100% vested in all Options awarded under this Agreement (i) if the Optionee's termination of employment from the Company is as a result of the death, Permanent and Total Disability (as that term is defined in Code § 22(e)(3)), or retirement at or after age 65 of the Optionee and/or (ii) as provided in the Optionee's employment, severance or other agreement (if applicable). The Optionee shall forfeit any unvested Options (i) upon termination of employment for any reason other than the death, Permanent and Total Disability (as that term is defined in Code § 22(e)(3)) or retirement at or after age 65 of the Optionee or (ii) except as otherwise provided in the Optionee's employment, severance or other agreement (if applicable).

5. Termination of Employment

a. In the event the employment of the Optionee is terminated, the Nonqualified Stock Options hereunder that are vested as of the date of termination of employment will terminate upon the earlier of (i) the full exercise of the Option, (ii) the tenth anniversary of the date of this Agreement, or (iii) three years following the date of termination of employment, and the Incentive Stock Options hereunder that are vested as of the date of termination of employment will terminate upon the earlier of (i) the full exercise of the Option, (ii) the tenth anniversary of the date of this Agreement, or (iii) three months following the date of termination of employment.

b. Notwithstanding the above, in the event the employment of the Optionee is terminated as a result of death or Permanent and Total Disability (as that term is defined in Code § 22 (e)(3)) prior to the termination of an Option, such Option may be exercised to the extent permitted under Section 7.4(c) of the Plan.

c. Any portion of the Options hereunder that is unvested on the date of termination of employment (and that do not become vested on the date of termination of employment pursuant to Section 4 hereof), shall expire as of the date of termination of employment.

6. Transferability of Options

Except as provided in the following sentence, this Agreement and the Options granted hereunder shall not be transferable otherwise than by will or by the laws of descent and distribution, and shall be exercised, during the lifetime of the Optionee, only by the Optionee. Notwithstanding the preceding sentence, the Nonqualified Stock Options granted hereunder may be transferred by the Optionee during his or her lifetime to any member of his or her immediate family or a trust established for the exclusive benefit of one or more members of his or her immediate family or to a former spouse pursuant to a domestic relations order. For purposes of this Section, the term "immediate family" is defined as the Optionee's spouse, children, stepchildren, grandchildren (including relationships arising from legal adoption), and parents.

7. Exercise of Options

a. Options shall become exercisable at such time as may be provided herein and shall be exercisable by written notice of such exercise, in the form prescribed by the Committee, to the Secretary or President of the Company, at its principal office. The notice shall specify the number of Options that are being exercised.

b. Shares purchased pursuant to this Agreement shall be paid for in full at the time of such purchase in cash, in Shares, including Shares acquired pursuant to the Plan, or part in cash and part in Shares. Shares transferred in payment of the Option Price shall be valued as of the date of transfer based on Fair Market Value. Subject to prior approval of the Company, and subject to such restrictions or conditions as the Company may prescribe, Options may also be exercised with the assistance of a broker.

c. The Committee may establish rules regarding the types of Shares the Optionee may transfer in payment of the Option Price in order to avoid adverse accounting treatment.

8. Regulation by the Committee

This Agreement and the Options granted hereunder shall be subject to the administrative procedures and rules as the Committee may adopt. All decisions of the Committee upon any question arising under the Plan or under this Agreement shall be conclusive and binding upon the Optionee and any person or persons to whom Options hereunder have been transferred by will or by laws of descent and distribution.

9. Rights as a Shareholder

The Optionee shall have no rights as a Shareholder with respect to Options granted hereunder until certificates for Shares of common stock are issued to the Optionee.

10. Change in Control

a. Upon a Change in Control, all Options granted hereunder shall automatically vest as of the date of such Change in Control and all restrictions or contingencies will be deemed to have been satisfied.

b. Upon a Change in Control, the Options shall remain exercisable until the tenth anniversary of this Agreement, notwithstanding any termination of employment occurring prior thereto.

11. Plan Terms

The terms of the Plan are incorporated herein by reference.

12. Governing Law and Severability.

To the extent not preempted by Federal law, this Agreement will be governed by and construed in accordance with the laws of the State of Florida, without regard to conflicts of law provisions. In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining part of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

13. Effective Date of Grant

Each Option granted under this Agreement shall be effective as of the date of this Agreement written above.

ATTEST:

FPIC INSURANCE GROUP, INC.

____

By: ______________________________
Roberta Goes Cown
Senior Vice President and Corporate Counsel

WITNESS:

____

____
, Optionee

Exhibit 10(cccc)

FPIC INSURANCE GROUP, INC.

OMNIBUS INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

[Date]

[Name]
[Address]

In accordance with the terms of the Omnibus Incentive Plan (the "Plan") maintained by FPIC Insurance Group, Inc. (the "Company"), pursuant to action of the Budget and Compensation Committee of the Company's Board of Directors (acting as the "Committee" as defined in the Plan), the Company hereby grants to you (the "Participant"), subject to the terms and conditions set forth in this Restricted Stock Award Agreement (including Annex A hereto and all documents incorporated herein by reference), an award of restricted shares of Company common stock (the "Restricted Stock"), as set forth below:

Date of Grant:	________________________
Number of Shares of Restricted Stock:	________________________
Period of Restriction:	Date of Grant through ____________
Performance Goal:	N/A
Vesting Schedule:	The Shares of Restricted Stock subject to this Award shall vest as follows: 1/3 shall vest on ______________; 1/3 shall vest on ______________; and 1/3 shall vest on ______________; provided, that the Participant remains employed through each such vesting date.

THESE SHARES OF RESTRICTED STOCK ARE SUBJECT TO FORFEITURE AS PROVIDED IN ANNEX A HERETO AND THE PLAN.

Further terms and conditions of the Award are set forth in Annex A hereto, which is an integral part of this Restricted Stock Award Agreement.

All terms, provisions and conditions applicable to the Award set forth in the Plan and not set forth herein are hereby incorporated by reference herein. To the extent any provision hereof is inconsistent with the Plan, the Plan will govern. The Participant hereby acknowledges receipt of a copy of this Restricted Stock Award Agreement including Annex A hereto and a copy of the Plan and agrees to be bound by all the terms and provisions hereof and thereof.

FPIC INSURANCE GROUP, INC.

By:______________________________

Agreed:

____

Attachment: Annex A

ANNEX A

TO

FPIC INSURANCE GROUP, INC.

OMNIBUS INCENTIVE PLAN

RESTRICTED STOCK AWARD AGREEMENT

It is understood and agreed that the Award of Restricted Stock evidenced by the Restricted Stock Award Agreement to which this is annexed and a part is subject to the following additional terms and conditions:

1. Forfeiture and Transfer Restrictions.

A. Forfeiture Restrictions. Except as provided otherwise in the Participant's employment, severance or other agreement (if applicable) (any such applicable provisions of which being referred to herein as the "Applicable Provisions") and except as otherwise provided in Section 2 of this Annex A, if the Participant's employment is terminated during the Period of Restriction (as set forth in the Restricted Stock Award Agreement), any unvested portion of this Restricted Stock Award shall be forfeited as of the date of termination. Any Applicable Provisions shall be deemed incorporated into and a part of the Restricted Stock Award Agreement.

B. Transfer Restrictions. The Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated prior to vesting.

2. Termination of Employment due to Death or Permanent and Total Disability. If the Participant's employment is terminated due to the Participant's death or Permanent and Total Disability (as that term is defined in Code § 22(e)(3)), any unvested portion of this Restricted Stock Award shall immediately vest as of the date of such termination of employment.

3. Change in Control. Upon a Change in Control, as defined in the Plan, any unvested portion of the Restricted Stock Award will immediately vest as of the date of the Change in Control. For purposes of clarity, this provision shall not apply to the Restricted Stock Award if the Restricted Stock Award was forfeited prior to the date of the Change in Control.

4. Vesting of Restricted Stock. Except as provided otherwise in Sections 1, 2 and 3 of this Annex A, the Restricted Stock shall vest in accordance with the Vesting Schedule set forth in the Restricted Stock Award Agreement. Any Shares that do not vest shall be forfeited.

5. Voting Rights, Dividends and Custody. The Participant shall be entitled to vote and receive regular cash dividends paid with respect to the Shares subject to this Award prior to vesting; provided, however, that in no event shall the Participant vote or receive dividends paid with respect to any forfeited Shares on or after the date of forfeiture. The Shares subject to this Award shall be registered in the name of the Participant and held in the Company's custody prior to vesting. The Participant shall, if so requested by the Company, execute and return to the Company a stock power form respecting the Shares subject to this Award.

6. Tax Withholding. The Company may make such provisions as are necessary for the withholding of all applicable taxes on the Restricted Stock, in accordance with Article 15 of the Plan. With respect to the minimum statutory tax withholding required with respect to the Restricted Stock, the Participant may elect to satisfy such withholding requirement by having the Company withhold Shares from this Award.

7. Ratification of Actions. By accepting this Award or other benefit under the Plan, the Participant and each person claiming under or through him shall be conclusively deemed to have indicated the Participant's acceptance and ratification of, and consent to, any action taken under the Plan or the Award by the Company.

8. Notices. Any notice hereunder to the Company shall be addressed to its office at One Enterprise Center, 225 Water St., Suite 1400, Jacksonville, FL 32202; Attention: Corporate Secretary, and any notice hereunder to the Participant shall be addressed to the Participant at the address specified on the Restricted Stock Award Agreement, subject to the right of either party to designate at any time hereafter in writing some other address.

9. Definitions. Capitalized terms not otherwise defined herein shall have the meanings given them in the Plan.

10. Governing Law and Severability. To the extent not preempted by Federal law, the Restricted Stock Award Agreement will be governed by and construed in accordance with the laws of the State of Florida, without regard to conflicts of law provisions. In the event any provision of the Restricted Stock Award Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Restricted Stock Award Agreement, and the Restricted Stock Award Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

Exhibit 10(dddd.1)

ATTORNEY-IN-FACT AGREEMENT

This Attorney-in-Fact Agreement (this “Agreement”) is made and entered into by and between Pennsylvania Physicians Reciprocal Insurers (the “Exchange”), a reciprocal insurance exchange organized under Article X of the Insurance Company Law of the Commonwealth of Pennsylvania with its principal office located at 2 North Second Street, 7th Floor, Harrisburg, PA, and Physicians Reciprocal Managers, Inc. (the “Company”), a Pennsylvania corporation with its principal office located at 2 North Second Street, 7th Floor, Harrisburg, PA.

WITNESSETH:

WHEREAS, the subscribers will, pursuant to subscriber agreements, appoint the Company to act as their Attorney-in-Fact with power to exchange reciprocal insurance contracts among the subscribers to the Exchange and to manage and conduct the business of the Exchange; and

WHEREAS, the Company and the Exchange desire to set forth the terms and conditions upon which the Company will accept its appointment as Attorney-in-Fact for the subscribers to exchange their reciprocal insurance contracts and to manage and conduct the business of the Exchange;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the Company and the Exchange agree as follows:

1. Acceptance of Appointment as Attorney-in-Fact. The Company hereby accepts its appointment as Attorney-in-Fact in subscriber agreements to be executed by subscribers to the Exchange and agrees, as Attorney-in-Fact, to exchange reciprocal insurance contracts among the subscribers as provided in the subscriber agreements.

2. Management Services. The Company agrees to provide sufficient personnel and supplies so that it can perform or provide for the performance of all necessary and appropriate management services to the Exchange. It is understood that all such management services shall be performed in accordance with such policies and standards as may be established from time to time by the Attorney-in-Fact, as well as in accordance with sound insurance and actuarial practices and procedures and any applicable laws. Those management services include, without limitation by reason of specification, the following functions:

2.1 The administration and management of the day-to-day insurance business of the Exchange including, without limitation, underwriting and the administration of claims;

2.2 The underwriting of applications for insurance, including passing upon the desirability of risks, the issuance of premium quotes and policies or binders, all in accordance with sound insurance underwriting guidelines and practices established by the Company;

2.3 The establishment and maintenance for the Exchange of complete and accurate records of all reciprocal insurance contracts exchanged by the Exchange, as well as all financial and business records, consistent with sound business practices and in compliance with regulatory requirements; the supervision of outside consultants and professionals retained at the expense of the Exchange to provide all accounting, actuarial and auditing services, including, but not limited to the establishment and monitoring of loss reserves, compiling financial statements and the preparation of all reports required by governmental and nongovernmental regulatory and supervisory authorities;

2.4 The collection, receipt and processing of all funds received as payments of insurance premiums, contributions to surplus and other receipts of the Exchange, and the timely deposit of all such funds in a bank or banks in the name of the Exchange; the maintenance of all funds of the Exchange and the investment of the Exchange's investable assets in accordance with the advice or instructions of any investment advisors retained by the Attorney-in-Fact on behalf of the Exchange;

2.5 The placement of reinsurance, the payment of reinsurance premiums at the expense of the Exchange, the maintenance of all records in connection with such reinsurance, and the taking of all actions or the making of any claims required or permitted by such reinsurance;

2.6 The provision and maintenance, including through a third party claims administrator, of claims supervision and facilities for the timely processing of all claims, notices and proofs of loss against the Exchange and for the timely payment of claims on behalf of and at the expense of the Exchange, including the employment of personnel to handle claims on behalf of the Exchange, it being understood that all unallocated claims expenses shall be borne by the Attorney-in-Fact and all allocated claims expenses shall be borne by the Exchange. Allocated and unallocated claims expenses shall have the meanings assigned thereto in the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual;*

2.7 The retention of investment advisors for and on behalf of the Exchange at the expense of the Exchange;

2.8 The preparation of promotional material for and on behalf of the Exchange;

2.9 The monitoring of the legal affairs of the Exchange, including the making of required filings with the Insurance Department of the Commonwealth of Pennsylvania and all other governmental authorities having jurisdiction over the Exchange;

2.10 The appointment, supervision and termination of agents on behalf of the Exchange, and the payment to them of commissions at the expense of the Exchange, for insurance coverages placed with the Exchange in such amounts as shall be determined by the Attorney-in-Fact;

2.11 The commencement and defense, at the expense of the Exchange, of legal and administrative proceedings brought by or against the Exchange including acceptance of service of process on behalf of the Exchange, entering legal appearances on behalf of the Exchange and the compromise, prosecution, defense and settlement of losses and claims; and

2.12 The taking of all such other actions and things as the Attorney-in-Fact shall determine to be necessary, convenient, advisable, or proper in order to discharge properly and in good faith the responsibilities and duties of the Attorney-in-Fact under the Declaration of Organization of the Exchange and this Attorney-in-Fact Agreement.

3. Management Fee. As compensation for the management services to be performed by the Company as Attorney-in-Fact on behalf of the Exchange as set forth in Section 2 hereof, the Exchange agrees that the Company shall retain a percentage of the Exchange's gross direct written premiums, less return premiums, not to exceed *21%* (the "Retention Percentage"), and that, in consideration thereof, the Company shall pay all costs of providing such management services including, without limitation by reason of specification, the salaries and benefit expenses of the Company's employees, rent and other occupancy expenses, supplies and data processing.

4. Payment of Expenses of Exchange. The Company, on behalf of the Exchange, shall utilize the funds of the Exchange to pay all of the expenses of the Exchange including, without limitation by reason of specification, losses, allocated loss adjustment expenses, commissions to producers, investment expenses, damages, legal expenses, court costs, taxes, assessments, license fees, the fees of attorneys, actuaries, accountants and investment and other advisors, governmental fines and penalties, the establishment and maintenance of loss and unearned premium reserves and surplus, reinsurance premiums and costs, audit fees, and guaranty fund assessments.

5. Records; Right to Audit. The Company shall keep sufficient records for the express purpose of recording therein the nature and details of the management services and financial transactions undertaken for the Exchange pursuant to this Attorney-in-Fact Agreement. All books and records maintained by the Company that pertain to the management services performed by the Company as Attorney-in-Fact for the subscribers to the Exchange pursuant to this Agreement shall be owned by the Company, but such books and records shall be maintained in a fiduciary capacity for the Exchange. The Exchange, and any regulatory authority having jurisdiction over the Exchange, shall have the right to examine and audit, at the offices of the Company, at all reasonable times, all books and records of the Company that pertain to the management services performed by the Company as Attorney-in-Fact for the subscribers to the Exchange pursuant to this Agreement. This right of examination and audit shall survive the termination of this Agreement and shall remain in effect for so long as either the Company or the Exchange has any rights or obligations under this Agreement.

6. Term and Termination. This Agreement shall become effective as of the effective date of the approval of the Declaration of Organization of the Exchange and shall continue in effect for an indefinite term thereafter, subject only to the right of the Exchange and the Company to terminate this Agreement by mutual agreement.

7. Arbitration. In the event of any dispute or difference of opinion hereafter arising with respect to this Agreement, the Company and the Exchange agree that any dispute or difference of opinion shall be submitted to arbitration before a panel of three arbitrators, each of whom shall be an active or retired disinterested officer of a property and casualty insurance company. One such arbitrator shall be chosen by the Company, one such arbitrator shall be chosen by the Exchange and the third arbitrator shall be chosen by the other two arbitrators. In the event any party hereto refuses or neglects to appoint an arbitrator within 60 days after the other party requests it to do so, or if the two arbitrators selected by the Company and the Exchange fail to agree upon a third arbitrator within 30 days of the appointment of the second arbitrator to be appointed, such arbitrator or arbitrators, as the case may be, shall, upon the application of any party, be appointed by the Philadelphia office of the American Arbitration Association and the arbitrators shall thereupon proceed. The arbitrators shall consider this Agreement as an honorable engagement rather than merely as a legal obligation and they are relieved of all judicial formalities and may abstain from following the strict rules of law. The decision of the majority of the arbitrators shall be final and binding on all parties. Each party shall bear the expense of its own arbitrator and shall bear one-half of the expenses of the third arbitrator and of the arbitration. Any such arbitration shall take place in Philadelphia, Pennsylvania unless otherwise agreed by the parties hereto.

8. Indemnification.

(a) The Exchange shall indemnify, defend and hold harmless the Company and each director, officer, employee, member of an advisory committee, if any and agent thereof (each an "Indemnified Party"), from and against all claims, losses, damages, liabilities and expenses (including, without limitation, settlement costs and any reasonable legal fees and expenses or other expenses for investigation and defending any actions or threatened actions) incurred by such Indemnified Party as a result of any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Exchange, relating to or arising out of the services provided by the Company hereunder, except to the extent the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted the willful misconduct or recklessness of the Indemnified Party. The foregoing indemnification right shall be in addition to the indemnification provided for in the Exchange's Declaration of Organization (the "Declaration") as filed with the Pennsylvania Insurance Department and such indemnification provision is hereby made a part of and incorporated into this Agreement and can be enforced hereunder.

(b) The Exchange shall pay expenses incurred by an Indemnified Party in defending any action or proceeding referred to in this Section 8 in advance of the final disposition of such action or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Exchange.

(c) As soon as practicable after receipt by any Indemnified Party of notice of the commencement of any action, suit or proceeding specified in Section 8(a), such person shall, if a claim with respect thereto may be made against the Exchange under this Section 8, notify the Exchange in writing of the commencement or the threat thereof; however, the omission to so notify the Exchange shall not relieve the Exchange of any liability under this Section 8 unless the Exchange shall have been prejudiced thereby or from any other liability which it may have to such person other than under this Section 8. With respect to any such action as to which such person notifies the Exchange of the commencement or threat thereof, the Exchange may participate therein at its own expense and, except as otherwise provided herein to the extent that it desires, the Exchange, jointly with any other indemnifying party similarly notified, shall be entitled to assume the defense thereof, with counsel selected by the Exchange to the reasonable satisfaction of such person. After notice from the Exchange to such person of its election to assume the defense, the Exchange shall not be liable to such person under this Section 8 for any legal or other expenses subsequently incurred by such person in connection with the defense thereof otherwise than as provided herein. Such person shall have the right to employ his own counsel in such action, but the fees and expenses of such counsel incurred after notice from the Exchange of its assumption of the defense thereof shall be at the expense of such person unless: (i) the employment of counsel by such person shall have been authorized by the Exchange, (ii) such person shall have reasonably concluded that there may be a conflict of interest between the Exchange and such person in the conduct of the defense of such proceeding or (iii) the Exchange shall not in fact have employed counsel to assume the defense of any proceeding brought by or on behalf of the Exchange or as to which such person shall have reasonably concluded that there may be a conflict of interest. If indemnification under this Section 8 is not paid or made by the Exchange, or on its behalf, within 90 days after a written claim for indemnification has been received by the Exchange, such person may, at any time thereafter, bring suit against the Exchange to recover the unpaid amount of the claim. The right to indemnification and the right to advancement of expenses provided hereunder shall be enforceable by such person in any court of competent jurisdiction. The burden of proving that indemnification is not appropriate shall be on the Exchange. Expenses reasonably incurred by such person in connection with successfully establishing the right to indemnification or advancement of expenses, in whole or in part, shall also be indemnified by the Exchange.

(d) Additional Rights. The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 8 shall not be deemed exclusive of any other rights to which an Indemnified Party may be entitled under any bylaw, agreement, contract or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. It is the policy of the Exchange that indemnification of, and advancement of expenses to, an Indemnified Party shall be made to the fullest extent permitted by law. To this end, the provisions of this Section 8 shall be deemed to have been amended for the benefit of an Indemnified Party effective immediately upon any modification of the BCL or the Pennsylvania Insurance Company Law or any modifications or adoption of any other law that expands or enlarges the power or obligation of companies governed by the BCL to indemnify or advance expenses to any Indemnified Party, including directors and officers of the Attorney-in-Fact.

9. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to its conflicts of law principles.

(b) The Company is authorized, at the Company's expense, from time to time in its discretion to contract with others for the performance of the management services the Company has agreed to provide to the Exchange under this Agreement, provided, however, that the Company shall remain responsible to the Exchange for the proper and timely performance of all management services contemplated by this Agreement.

(c) The headings in this Agreement are for convenience of reference only, and should not be referred to in connection with the interpretation of this Agreement.

(d) This Agreement may not be amended or supplemented except by means of a written agreement executed on behalf of each of the parties to this Agreement.

(e) Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any one or more of the provisions or a portion of any of the provisions of this Agreement shall be deemed to be contrary to law, invalid, illegal, unenforceable or unreasonable in any respect by any governmental authority, court of law or arbitrator having competent jurisdiction over the subject matter of and over the parties to this Agreement, the remaining provisions, portions of such provisions or reasonable scope of such provisions shall be severable and enforceable in accordance with their terms.

(f) No failure on the part of any party to this Agreement to exercise any right or remedy under this Agreement, and no delay on the part of any party to this Agreement in exercising any right or remedy under this Agreement, shall constitute a wavier of such right or remedy, and no single or partial exercise of any such right or remedy shall preclude any other or further exercise of such right or remedy or of any other right or remedy.

(g) No party to this Agreement may assign any of its rights or delegate any of its obligations under this agreement by contract, operation of law or otherwise without the prior written consent of the other party. This Agreement shall be binding upon and except as otherwise provided in this Agreement, shall inure to the benefit of the parties to this Agreement and their respective permitted successors and assigns, if any.

(h) This Agreement may be executed in counterparts, including by means of telefaxed signatures, each of which shall constitute an original and all of which, when taken together, shall constitute the Agreement.

(i) In the event that any provision of this Agreement is inconsistent with any provision of the Declaration, the Declaration's subject provision shall prevail.

IN WITNESS WHEREOF, the parties hereto have executed this Attorney-in-Fact Agreement on the day and year first above written by the undersigned thereunto duly authorized.

PHYSICIANS RECIPROCAL MANAGERS, INC.

By: /s/ Anthony J. Bonomo

PENNSYLVANIA PHYSICIANS RECIPROCAL INSURERS

BY IT'S ATTORNEY-IN-FACT,
PHYSICIANS RECIPROCAL MANAGERS, INC.

By: /s/ Gerald Dolman

Exhibit 10(dddd.2)

PHYSICIANS' RECIPROCAL MANAGERS, INC.
(Hereinafter called the "Company")

PROGRAM MANAGER'S AGREEMENT

with

PROFESSIONAL MEDICAL ADMINISTRATORS, L.L.C.
(Hereinafter called the "Manager")

PROGRAM MANAGER'S AGREEMENT

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PROGRAM MANAGER'S AGREEMENT

This AGREEMENT is made between Professional Medical Administrators, L.L.C., with offices located at 111 East Shore Road, Manhasset, New York 11030, (hereinafter referred to as "Manager"), and Physicians' Reciprocal Managers, Inc. with offices located at 2 North Second Street, 7th Floor, Harrisburg, Pennsylvania 17101-1604 (hereinafter referred to as the "Company").

Manager and the Company agree as follows:

ARTICLE I

TERM OF AGREEMENT

This Agreement shall have an effective date of January 1, 2004. It will continue until terminated under the provisions of Article XIII.

ARTICLE II

APPOINTMENT OF MANAGER; LINES OF AUTHORITY

The Company appoints Manager for the Company as follows:

A. Lines of Authority: Manager's appointment and authority extends to the classes of business, policies of insurance, including all endorsements (the "Policies"); and lines and limits of insurance described in Exhibit A attached to this Agreement (the "Business").

B. Territory: Manager's appointment and authority extends to risks principally located in the United States.

C. Exclusions: Manager's appointment and authority is subject to any exclusions set forth in Exhibit A.

D. Reinsurance Availability: Manager's appointment and authority for Business written under this Agreement is subject to the following:

1. That the Company is able to obtain and maintain in force at all times reinsurance satisfactory to the Company for the Business, and such reinsurance shall be satisfactory if consistent with its customary or usual standards.

2. Obtaining reinsurance is the sole responsibility of the Company. When the Company obtains satisfactory reinsurance for all or some of the Business, the Company will notify Manager, in writing, that Manager may write and bind those classes of business, policies, and lines and limits of insurance for which reinsurance has been obtained.

3. If reinsurance is terminated or no longer in full force and effect for all or any part of the Business, Manager 's authority for the Business affected shall be suspended, or limited immediately upon notice to Manager from the Company, and until further notice.

4. The Company will use its best efforts to maintain satisfactory reinsurance.

ARTICLE III

MANAGER'S DUTIES AND RESPONSIBILITIES

Manager will faithfully perform all of its duties consistent with industry standards. The Manager's duties include the following:

A. Solicitation: To solicit risks and classes of risk at limits and for lines of insurance authorized in Exhibit A, that in their pricing and insurability meet or exceed that underwriting and pricing standards from time to time established by the Company in writing.

B. Binding of Risks: To bind risks only in accordance with Exhibit A and any other underwriting and pricing standards from time to time established by the Company in writing, and to forward to the Company for acceptance all other risks.

C. Policy Issuance: To timely and properly issue, deliver and execute or countersign Policies, certificates, endorsements, and binders on forms approved by the Company and appropriate regulatory authorities, as required by law, for the Business described in Exhibit A, and to make, as may be required and in a timely manner, notice of, certify or provide evidence of coverage of Policies to the appropriate governmental agencies.

D. Risks Bound: To give the Company written notice for each risk or Policy bound or written under this Agreement as part of reporting to the Company as described in Article III (H).

E. Premium Rates: To quote accurate and adequate premiums and rates for Policies bound or written under this Agreement in compliance with the approved and applicable rating manuals or rating plans of the Company.

F. Compliance with Manuals: To comply fully, timely and promptly with all manuals, rules, regulations, guidelines, instructions and directions issued in writing by the Company and provided to Manager relating to the Business covered by this Agreement.

G. Premiums: To bill for and collect all premiums due on all Policies bound or written under this Agreement, and payments shall be sent to and made payable to Pennsylvania Physicians' Reciprocal Insurers and its reinsurer as their interests appear.

H. Accounting: To timely account for the Business as follows:

1. Manager shall prepare, in a form acceptable to the Company, and forward to the Company on a monthly basis, within fifteen (15) days of the end of each calendar month, a detailed bordereau and statement of account for the period (the "Account"), which Account will include all business written during the prior month. The Account shall include for each authorized line of insurance such information as the Company may request, including but not limited to the following:

   a. Gross Written Premium;
   b. Net Written Premium;
   c. Policies issued or bound;
   d. Policies cancelled;
   e. Premium adjustments due to endorsements or audits;
   f. Commissions payable to Manager, and
   g. Net Balance Due;
   h. Losses Paid;
   i. Loss Adjustment Expenses Paid;
   j. Case Reserves.

2. Manager shall pay the Company balances due within forty-five (45) days of the end of each calendar month to correspond to bordereau required in Article III (H)(1) above.

3. Cumulative reports from the beginning of each calendar year shall also be made on a monthly basis, within fifteen (15) days of the end of each such respective period.

4. The Company may offset any balance or balances due from the Manager under this Agreement with any balance the Company holds due the Manager.

I. Fiduciary Capacity: To deposit and hold all premiums and other amounts received by the Manager on behalf of the Company in a fiduciary capacity in accordance with applicable statutes and regulations and in a separate bank account or accounts clearly identifiable by name as for funds so held. The Company may, at its sole discretion, grant the Manager permission, where allowable by law, to commingle fiduciary funds held by the Manager for or on behalf of the Company with funds so held by the Manager on behalf of other insurers, provided that a separate, accurate and verifiable accounting is maintained on the books of the Manager. Provided the Manager has, in accordance with the terms of this Agreement, accounted for and paid to the Company all premiums and other monies legally due and owing, any investment income produced from the fiduciary funds held on behalf of the Company by the Manager shall vest and become the property of the Manager.

J. Credit Extensions: To assume the obligation for any extensions of credit to insureds and policyholders, and to be fully responsible for the full amount of the premium due the Company on risks or Policies written or bound under this Agreement whether or not Manager has collected the premium due from Policyholder and/or its authorized representative.

K. Company Property: To safeguard, maintain and account for all the Company Policies, forms, manuals, equipment, supplies or anything else furnished to Manager by the Company, all of which shall remain the property of the Company. Manager will return all property to the Company promptly upon demand.

L. Manager Expenses: To pay, assume the obligation for and to be fully responsible for costs and expenses associated with the Manager's performance of conducting its business under this Agreement, including: travel expense, employee and clerical salaries, benefits and expenses, fees, countersignature fees and expenses, policy printing, postage, advertising, exchanges, license fees, etc.

M. Legal Compliance: Manager shall use all reasonable effort to monitor and enforce full compliance of such qualified and designated subagents and brokers with all laws, regulations, rules and requirements applicable to Manager's activities, and, in addition, all written instructions provided from time to time by the Company concerning underwriting requirements and regulatory compliance in general; provided, however, that such written instructions shall not unreasonably alter or amend the terms of this Agreement.

N. Governmental Contacts: To promptly notify the Company in writing of all contacts and correspondence received from insurance regulatory and other governmental authorities by Manager or its designated subagents or brokers, to forward promptly upon receipt all summonses, complaints, subpoenas or other court documents, and to cooperate fully with the Company in making any responses.

O. Claim Notification: To immediately notify the Company in writing of all claims, suits and losses and to cooperate fully with the Company to facilitate the investigation, adjustment, settlement and payment of each and all claims and to assist the Company in the collection of deductible due and salvage or subrogation.

P. Premium Financing: To promptly and appropriately respond to all correspondence and notices related to financing or proposed financing of premiums on Policies issued under this Agreement, and forward copies to the Company. The Manager shall not accept premium financing on policies for which the premium is provisional, deposit, minimum, or otherwise adjustable. The Manager is not and shall not hold itself out as the agent of the Company for the purpose of obtaining premium financing. The Company reserves the right to refund premiums directly to the premium finance company upon cancellation of a policy(ies). The Manager shall refund applicable commission to the premium finance company in the event of a cancellation of a policy(ies). The Manager is responsible for collecting the gross written premium of any financed policy(ies) regardless of the financing of the premium.

Q. Competent Staff: To maintain sufficient supplies and equipment and a staff of competent and trained personnel, to produce, develop, underwrite, and supervise the Business covered by this Agreement.

R. Company Interests: To promote and safeguard the best interests and good name of the Company.

S. Accurate Records: To keep and maintain separate, identifiable, orderly, accurate, complete and timely records and accounts of all business and transactions pertaining to Policies bound or written under the Agreement, including complete underwriting and rate files. Such records and files may be copied by the Manager at the Manager's expense, but shall at all times remain the property of the Company. Manager shall also implement a "Disaster Plan" to ensure that copies of said records and files would be available in the event of a disaster and shall provide a copy of said Plan to the Company within thirty (30) days of the execution of this Agreement.

T. Audit: To permit the Company during the term of this Agreement and as long as the Company considers necessary, to visit, inspect, examine, audit and verify, at Manager's offices or elsewhere, at such times and as often as the Company may deem appropriate, with or without prior notice, any of the properties, accounts, files, documents, books, reports, work papers and other records belonging to or in the possession or control of Manager or of any person relating to the Business covered by this Agreement. The Company shall also be entitled to audit such records and accounts of manager so as to determine Manager's financial worth. The Company may make copies and extracts as may be reasonably necessary. The Company may conduct any audit through any person or persons it may designate. Manager shall, at the Company's request, promptly provide the Company with statements of Manager's financial worth prepared by a certified public accountant. However, if this Agreement has been terminated, forty-eight (48) hours notice is required by the Company to Manager, and the information obtained on such audit shall not be used by the Company in competition with Manager.

U. Services: To provide for all usual and customary services to Insureds, Policyholders and sub-producers including, but not limited to, delivery of Policies, return of premiums due Insureds or Policyholders, if such premiums are in possession of Manager, and timely, appropriate responses to complaints, except as specified in Article III (N), above.

V. Licenses: To obtain and provide the Company, upon request, with copies of all licenses and permits required by Manager for the proper conduct of its duties under this Agreement. In the event the Manager will comply with licensing laws by utilizing the license of a principal director, officer or employee, then Manager promises, warrants and guarantees that the licensee will comply with all requirements of this Agreement and specifically with this Paragraph. In the event that any license the Manager utilizes to fulfill the requirements of the Agreement expires, terminates or is suspended for any reason, this Agreement terminates automatically and the Company may avail itself of any rights provided under Article XIII of this Agreement. The Manager shall be responsible to assure that all business is properly countersigned. The Manager shall be responsible for and pay any necessary counter-signature expense. The Company shall not be responsible for payment of any countersignature expense.

W. Policy Cancellation: To cancel or otherwise terminate risks or Policies bound or written by or through Manager as required by applicable underwriting standards and consistent with applicable regulatory and Policy conditions. The Company shall always retain the right to direct the termination of Policies by direct notice to the Insured or Policy holders. Manager shall not make, permit, or cause general or indiscriminate cancellations, terminations or replacements of Policies. Manager shall be responsible for notifying governmental agencies or other persons for whom Manager has certified coverage or provided evidence of insurance. No cancelled or terminated policy may be reinstated without the prior written approval of the Company.

X. Sub-Producers:

1. To accept proposals for insurance from other duly licensed agents or brokers. Manager shall determine the compensation payable to such other agents or brokers on proposals it accepts. The parties agree that any amounts paid such other agents or brokers will come from the compensation payable to Manager pursuant to Article V. Manager is responsible for the billing and collection of premium whether collectible or not, and payment of compensation for all such insurance placed with the Company by such agents or brokers.

2. To use the facilities of properly licensed agents, brokers or solicitors to conduct business in all jurisdictions in which it intends to solicit or write the Business.

Y. Manager's Data Base:

1. Within thirty (30) days from the execution of this Agreement, Manager shall provide to the Company, at the expense of the Manager, copies of the Manager's Data Base in form and content satisfactory to the Company. Said Data Base shall be utilized by the Company only in the event Manager's copy is unavailable or inaccessible and/or in performing any services relating to the Business in the event of termination of this Agreement. The term "Data Base" for purposes of this Agreement shall consist of a record or records, of information relating to the Business maintained by Manager or Manager's computer containing at a minimum, but without limitation, the following information:

    a. Name of Insured, address, policy number, effective and expiration dates.

    b. By policy number, limits and coverages.

2. Manager's Data Base so provided shall be updated not less frequently than quarterly, within twenty-five (25) days after the end of each quarter. Such updates shall include supplemental Data Base information of transactions relating to the Business since the last such update of Data Base information.

3. Manager shall take the necessary steps to enable the Company to use any computer software utilized by Manager to monitor the Business, underwriting or otherwise service the Business or perform any other services under this Agreement ("the software"), including but not limited to obtaining a license, pursuant to this provision.

Z. Catastrophe Funds:

Determine applicability to the business of the Program of any state-mandated catastrophe or other special assessment fund, including, but not limited to state guaranty funds. If applicable, the Manager shall determine premium surcharges, collect funds from the insureds, and regularly remit all such funds directly to the catastrophe or other special assessment fund and shall send the Company a report detailing premium surcharge calculations and indicating amounts payable to the applicable state(s).

ARTICLE IV

CLAIMS SETTLEMENT

Manager has no authority to adjust, compromise, settle or pay any claim made on the risks or Policies written or bound under this Agreement. However, the Manager shall act as a claims consultant without fee to assist the Company.

The Manager will not be reimbursed by the Company for the salaries, office expenses or any other expenses incurred in the handling of claims unless otherwise expressly agreed to in writing by the Company.

ARTICLE V

MANAGER’S COMPENSATION

The Company will pay the Manager as full compensation for all of its duties and responsibilities under this Agreement as follows:

A. Production and Administration Commission: Manager shall be entitled to receive a production and administration commission of 14% of Net Written Premium received by the Company on Policies bound or written under this Agreement. (Net = Gross less D.D.R. reserve).

B. Unearned Commissions: Manager shall promptly refund pro-rata to the Company Production and Administration Commissions (including commissions paid to sub-producers) on cancellations, refunds and return premiums. Alternatively, the Company and Manager, at the option of the Company, may make premium adjustments by debits of monies due Manager.

ARTICLE VI

ADVERTISING

Manager will not refer to the Company or the Business covered by this Agreement in any advertisement, letter, circular, pamphlet or other publications or written statement without the prior written consent of the Company. Whether or not the Company gives its consent, the Company will not be responsible for any advertising expense.

ARTICLE VII

REPRESENTATION WITH RESPECT TO POLICIES

Manager will not make, and will make a good faith effort not to allow any other person to make, any written representation to applicants, Insureds, Policyholders or claimants as to the existence or extent of coverage either available from the Company or under a Policy that is not consistent with the terms and conditions of coverages available from the Company or of a Policy.

ARTICLE VIII

INSURANCE OF MANAGER

Manager will maintain for as long as this Agreement remains in force with insurers and on forms acceptable to the Company:

A. Professional Errors and Omissions policy in an amount of $2,000,000;

B. Comprehensive General Liability policy in an amount of $1,000,000;

C. Blanket Employee Dishonesty bond covering all employees of Manager in an amount of $500,000.

The Company may require certificates of insurance or other evidence that the insurance required by this Article is in force.

ARTICLE IX

INDEMNIFICATION

A. Manager shall be responsible to the Company and shall indemnify, save, defend and hold the Company, including its affiliates, and all officers, directors and employees, harmless against any and all claims, suits, hearings, actions, damages of any kind, liability, fines, penalties, loss or expense, including attorney's fees caused by or resulting from any allegation of any misconduct, error, omission, or other act; or breach of this Agreement by Manager, or Manager's employees, or representatives, unless the conduct giving rise to the allegation was performed at the specific direction of the Company, provided Manager has not contributed to or compounded the act alleged. Manager shall also indemnify the Company for any surplus lines taxes which may be owed by any insured of the Company or an appointed surplus lines broker of such insured on Business which has not been paid in compliance with applicable law.

B. The Company shall be responsible to Manager and shall indemnify, save, defend and hold Manager harmless against any and all claims, suits, hearings, actions, damages of any kind, liability, fines, penalties loss or expense, including attorney's fees caused by or resulting from any allegation of any misconduct, error, omission or other act; or breach of this Agreement by the Company, or the Company's employees, or representatives, unless the conduct giving rise to the allegation was performed at the specific direction of Manager, provided the Company has not contributed to or compounded the act alleged.

ARTICLE X

FLAT CANCELLATION

A. If a policy is cancelled flat (back to the date of inception of the Policy), the originals of the cancelled Policy or a Lost Policy Release shall be promptly forwarded by Manager to the Company. Manager will not cancel flat a Policy after it has been in effect for more than thirty (30) days without the prior written consent of the Company, unless cancellation is requested by the insured or required by state law.

B. An appropriate premium charge shall be made for any Policy in force for a period in excess of thirty (30) days.

ARTICLE XI

OWNERSHIP OF EXPIRATIONS

A. Records of Insureds, Policyholders and Policies and their use and control for solicitation of Business written or bound by or through Manager ("expirations"), as between Manager and the Company, shall be the sole and exclusive property of Manager except:

1. Underwriting Records and Files: As described in Article III (T) above.

2. Account and Payment Delinquency: If Manager's authority under this Agreement is suspended or terminated in part or in full for a material breach of this Agreement, or Manager fails to render all accounts due or pay any amounts due to the Company except minor accounting differences, and Manager fails to cure the breach on five (5) days notice from the Company to Manager, the Company will be entitled to solicit, write and to sell insurance to any and all existing Insureds or Policyholders written by or through Manager. The expirations will vest in and become the sole and exclusive property of the Company.

3. Limited License: If the Manager's authority is suspended or terminated under this Agreement, and if any applicable insurance law or regulation prohibits the Company from terminating any Policies or obligates the Company to continue or to renew, directly or through another producer of the Company, any Policies, or Insured or Policyholders previously bound or written under this Agreement, then the Company shall be permitted and is hereby granted by Manager a limited license in, and a right to use the expirations of those Policies, Insured and Policyholders to permit the Company to comply within its reasonable discretion and in good faith.

4. Default: If this Agreement is terminated by the Company for a reason that permits immediate notice of termination to Manager under Article XIII, the expiration will vest in and become the sole and exclusive property of the Company.

B. Upon the occurrence of any event which gives rise to the vesting of the ownership of expirations in the Company, the Company make take immediate possession of all records relating to those expirations and Manager shall upon request immediately gather such records together at Manager's principal place of business and allow the Company access to take possession of those records. The Company may service those expirations directly or dispose of them in any commercially reasonable manner. The Company may collect premiums directly from any Insured or Policyholder who has not made payment to Manager.

C. If, in disposing of Manager's records and expirations, the Company does not realize sufficient money to discharge in full any and all of Manager's indebtedness to the Company (including reasonable costs incurred by the Company in connection with its recovery and disposal of the records and expirations), Manager will remain liable to the Company for the balance of the Manager's indebtedness to the Company. Manager shall have no right to or interest in any commissions which may be generated as a result of the Company's servicing those expirations.

D. If there is any excess over the Manager's indebtedness to the Company (including any cost incurred by the Company in connection with its recovery and disposal of records and expirations) realized by the Company, it shall be remitted to Manager.

ARTICLE XII

SUSPENSION OF MANAGER'S AUTHORITY

The Company may, by immediate notice to Manager, suspend any part or all of Manager's authority under this Agreement for such time as the Company may deem necessary to protect its interests or reputation if any of the following occur:

A. An administrative allegation of violation of insurance law or regulation against Manager or any of Manager's executive officers by an insurance regulatory agency;

B. The Manager or any of Manager's executive officers is indicted for a criminal offense, the conviction of which would permit termination of Manager under this Agreement; or

C. The default of Manager under this Agreement, or delinquency by Manager in timely remitting accounts and monies to the Company, Insureds or Policyholders.

ARTICLE XIII

TERMINATION OF AGREEMENT

A. The Company may terminate this Agreement as follows:

1. Immediately upon notice to Manager in the event of:

   a. License Suspension or Revocation: An order of suspension or revocation of Manager's license by any insurance regulatory authority; or

   b. Ownership Change: A significant change in the ownership or management or in the event of the execution of an agreement of sale, transfer or merger of Manager without prior notice and consent of the Company; or

   c. Misapplication of Funds: A misapplication, misdirection, or misappropriation by Manager of funds or property of the Company or funds received for it or Policyholders by Manager, or in the event of failure by Manager to remit to the Company or Policyholders, funds due promptly after written demand therefore by the Company; or

   d. Default: A material default under this Agreement by Manager or Manager's failure to timely and fully comply with the Company's directives, rules, regulations or manuals in connection with this program; or

   e. Conviction: A charge brought against Manager or any of Manager's executive officers of violation of the insurance laws or regulations of any jurisdiction or of any law constituting a felony in the jurisdiction in which committed, or of any law whose violation reflects adversely upon the honesty or integrity of Manager or any of Manager's executive officers whether or not classified as a felony; or

   f. Bankruptcy: Bankruptcy, receivership or common law composition of creditors whether by the Manager voluntarily or involuntarily.

2. Upon thirty (30) days' notice to Manager in the event of:

   a. Excessive Complaints: The number of complaints received by the Company relating to Manager's performance and service to Insureds, Policyholders, sub-producers or members of the public is excessive, as may be determined by the Company in its sole discretion; or

b. Adverse Legislation: Enactment of legislation which in the opinion of the Company would adversely affect the Company's rights under this Agreement or liabilities under the Policies; or

c. Conflict with Law: As provided for in Article XVII (c).

d. Breach of Agreement: This Agreement may be terminated at any time by either party by written notice if the other party materially breaches this Agreement (and such breach is not cured within the time specified below for cure) and provided the party seeking to terminate this Agreement has given the other party ten (10) days' prior written notice of the nature of the claimed breach and its intent to terminate if the claimed breach is not cured within such ten (10) day period.

B. Either the Company or Manager may terminate this Agreement at any time upon one hundred-eighty (180) days prior written notice to the other.

C. Manager may terminate this Agreement immediately in the event:

1. The Company is subject to a regulatory order that has a material impact on the Company's ability to perform.

ARTICLE XIV

CONTINUING DUTIES OF MANAGER AFTER TERMINATION

A. If the Company elects upon termination of this Agreement, and for as long as the Company elects, Manager will perform all of the duties necessary for the proper servicing of all risks or Policies bound or written under this Agreement until all those Policies shall have expired or been terminated. These services shall include, but are not limited to, canceling, issuing mandatory endorsements, and collecting and returning premiums due the Company.

B. So long as the Manager continues to perform duties in accordance with this Article, the Manager shall continue to receive the Production and Administration Commission set forth in Article V (A), and the Company will not unreasonably preclude Manager from performing the duties referred to herein.

C. Should Manager not continue to perform any duties for any reason the Company shall discontinue payment of any Production and Administration Commission set forth in Article V (A).

D. If this Agreement is terminated by the Company for any reason under Article XIII for which immediate notice may be given, and the Company is required to renew any policies under the law of any jurisdiction, the Manager will not be entitled to any Production and Administration Commission with respect to that renewal business.

ARTICLE XV

WAIVER OF STATUTORY TERMINATION RIGHTS OF MANAGER

Both Manager and the Company are aware that there are or may be laws or regulations in the various jurisdictions served by Manager that may be interpreted to provide Manager with certain rights of notice, "run-off", continuation of business written through Manager, prevention of termination and regulatory review and possible disapproval of the termination of this Agreement. Because this Agreement has been mutually entered into for a special purpose, and places responsibilities, duties and obligations upon Manager both beyond those and different from those of a normal soliciting agent, Manager acknowledges that this therefore involves and necessitates a different relationship. Manager hereby specifically waives any and all rights with respect to termination of this Agreement that may now or hereafter be provided Manager by such statute or regulation in recognition of that different relationship, and agrees not to impose upon or require compliance by the Company of any obligations relating to termination of this Agreement other than those provided for specifically in this Agreement.

ARTICLE XVI

DISPUTE RESOLUTION

If a dispute between the Company and the Manager should arise concerning a provision of this Agreement or concerning its interpretation or validity (whether arising before or after the termination of this Agreement) the parties agree to attempt in good faith to resolve such dispute by non-binding mediation. The mediation shall be held in Harrisburg, Pennsylvania and will be completed within ninety (90) days of the date on which both parties have been notified. However, nothing in this clause will preclude either party from thereafter pursuing any means of dispute resolution, including but not limited to litigation, should mediation fail to result in a mutually acceptable solution to the dispute.

ARTICLE XVII

OTHER TERMS AND CONDITIONS

A. Waiver and Estoppel: The failure of the Company or Manager to insist on strict compliance with this Agreement, or to exercise any right or remedy shall not constitute a waiver of any rights provided under this Agreement, nor estop the parties from thereafter demanding full and complete compliance nor prevent the parties from exercising such a remedy in the future.

B. Notice and Cure: Whenever there is a default under this Agreement, either party shall be entitled to written notice of default and have the right to cure such default within ten (10) days from notice of such default.

C. Conflict with Law: If any provision of this Agreement should be declared invalid by a court of general jurisdiction and superseded by specific law or regulation, such law or regulation shall control to the extent of such conflict without affecting the remaining provisions of this Agreement.

D. Assignment: Neither this Agreement nor any rights or obligations under this Agreement may be assigned or delegated by Manager without the prior written consent of the Company.

E. Headings: The headings preceding the text of the Articles and paragraphs of the Agreement are intended and inserted solely for the convenience of reference and shall not affect the meaning, construction or effect of this Agreement.

F. Governing Law: This Agreement shall be governed as to performance, administration and interpretation by the laws of the State of Pennsylvania.

G. Honorable Undertaking: This Agreement shall be considered as an honorable undertaking made in good faith and shall be subject to a liberal construction for the purpose of giving effect to the good faith and honorable intentions of Manager and the Company.

H. Promptly: Unless the context and circumstances require action sooner, the term "promptly" in this Agreement shall be defined to mean "within five (5) business days."

I. Notices: Wherever notice is required under this Agreement, it shall be in writing, sent by certified mail, or reputable overnight carrier, and addressed:

A. If to the Company:

Anthony Bonomo
President
Physicians Reciprocal Managers, Inc.
2 North Second Street, 7th Floor
Harrisburg, PA 17101-1604

B. If to Manager:

Steven Ostrer
President
Professional Medical Administrators, L.L.C.
111 East Shore Road
Manhasset, NY 11030

J. Independent Contractor: This Agreement is not a contract of employment and nothing contained in this Agreement shall be construed to create the relationship of joint venture, partnership, or employer and employee between the Company and Manager. Manager is an independent contractor and shall be free, subject to the terms and conditions of this Agreement, to exercise judgment and discretion with regard to the conduct of business.

K. Negotiated Agreement: This Agreement has been negotiated by the parties and the fact that the initial and final draft shall have been prepared by a particular party shall not be used in any forum in the construction or interpretation of this Agreement of any of its provisions.

L. Entire Agreement: This Agreement supersedes all previous agreements, whether written or oral, between the Company and Manager, or their predecessors with respect to the Business to be written under this Agreement.

1. This Agreement may be amended, altered or modified only in writing signed by both parties.

2. Manuals, rules, regulations, guidelines, instructions and directions issued in writing by the Company from time to time as provided in this Agreement, shall bind the parties as though a part of this Agreement.

M. Third Party Beneficiary: Nothing in this Agreement, except as expressly stated herein, is intended to create any benefit for any third party not a party hereto.

N. Confidentiality: Each party shall treat as confidential any and all information received from the other party pursuant to this Agreement, and shall not disclose any such information to any third party without the prior written consent of the other party. Each party shall not disclose directly or indirectly to any third party any term or provision of this Agreement without the prior written consent of the other party. These obligations of confidentiality shall survive termination of this Agreement.

The Manager and the Company, intending to be bound, have executed this Agreement in duplicate, each of which shall serve as an original:

PHYSICIANS' RECIPROCAL MANAGERS, INC.

/s/ Anthony J. Bonomo
Anthony Bonomo
President
Physicians Reciprocal Managers, Inc.

PROFESSIONAL MEDICAL ADMINISTRATORS, L.L.C.

/s/ Steven Ostrer
Steven Ostrer
President
Professional Medical Administrators, L.L.C.

PROGRAM MANAGER'S AGREEMENT

(The Business)

EXHIBIT A

The Company extends underwriting authority to the Manager as follows:

Professional Liability for physicians and surgeons, nurse practitioners, nurse anesthetists, physician assistants, nurse midwives and any other healthcare professionals as per the Rates, Rules, Underwriting Guidelines and forms filed with the Pennsylvania Insurance Departments and other state regulatory departments as agreed from time to time which shall be part of and is hereby incorporated into this Agreement.

PROGRAM MANAGER'S AGREEMENT

(Claims Authority)

EXHIBIT B

____ extends claims authority to the Manager as follows:

All claims shall be administered by Administrators for the Professions, Inc. ("AFP") on behalf of the Manager.

It is agreed that Manager shall be responsible for and administer claims arising under the ____ policies which constitute the Business, subject to the requirements and limitations set forth below:

A. All subject claims shall be handled by Manager until their final disposition, except as otherwise indicated in this Agreement, and in compliance with all applicable laws, regulations and guidelines. The Manager shall establish and maintain claim files on each claim reported and advise the insured of procedures to be followed when a claim arises.

B. Reporting Requirements

   1. The Manager must report all claims on monthly bordereaux which reflect the status and change of status for each claim. Each claim so reported will reflect an individual ____ claim number assigned by Manager and in a format acceptable to ____. Such bordereaux will be provided to ____ as specified in Section F., Monthly Reporting, subsection - Claims Bordereaux. Additionally, Manager shall prepare detailed written reports on any particular claim as may be requested by ____.

   2. All claims involving any one of the following criteria outlined below will be considered a "Catastrophic Occurrence."

      a. Incidents involving a fatality.

      b. Brain damage injuries (skull fracture, concussion, loss of consciousness, etc.)

      c. Spinal injury with potential for paraplegia or quadriplegia.

      d. Dismemberment or other serious disfigurement potential.

      e. Injuries involving nerve damage.

      f. Burn injuries.

g. Injuries involving a fracture or multiple fractures.

h. Serious vision and/or hearing impairment injuries.

i. Environmental claims.

j. Any claim involving extra contractual obligations, excess, or direct claims against the company or State Insurance Department inquiries.

k. Any claims or loss involving class actions.

l. Any claim alleging sexual abuse or molestation.

m. Any claim valued in excess of $500,000 indemnity.

3. All Catastrophic Occurrences, as defined in Section A(2), will be subject to the following additional reporting requirements:

   a. The Manager will report such claims to ____ immediately upon notice or receipt by Manager and on a monthly basis, as described in Section F.

   b. The Manager will report these claims, regardless of its opinion as to likelihood of liability for each such Catastrophic Occurrence.

   c. The Manager will also provide a written report concerning the development of these Catastrophic Occurrence Claims on a regular basis, at intervals not to exceed 90 days or sooner upon notice of material development.

C. Manager's Authority

1. All claims shall be autonomously handled by the Manager. AFP shall have authority to initiate or transact a settlement or compromise, or make full payment of the indemnity demands for such claims.

2. Manager shall provide immediate written notice to ____ of any claim in which coverage is denied to an Insured without the advice of outside counsel. A complete copy of the claim file shall accompany such notice and all subsequent received or produced information shall immediately be forwarded to ____.

3. Manager shall provide immediate written notice to ____ of any claim immediately upon Manager reasonably determining that the expected indemnity value will equal or exceed $500,000. A complete copy of the claim file shall be sent to ____ upon their request.

4. Manager is authorized to incur such reasonable expenses allocable to individual claims as are necessary for the proper administration of this Agreement.

D. Indemnity Payments

Manager shall arrange for and make indemnity payments, in compliance with Section C., above, and in conformance with the following:

1. Claim payments do not require written authority and approval from ____.

2. Indemnity payments will be made by ____ at the request of Manager within 48 hours of receipt from the reinsurer of the indemnity amount requested.

E. Expense Payments

Manager shall arrange for and make payment of expenses reasonably incurred by it, pursuant to Section C. of this Agreement, and in conformance with the following restrictions:

1. Expenses not incurred directly by Manager:

    a. Expense payments do not require written authority and approval from ____.

    b. Expenses directly incurred by Manager.

    c. Expense payments will be made by the Manager from the fiduciary account and such payments will be deducted from the monthly premium remitted to ____ and the reinsurer as their interests appear. If, however, expense payments are more than the premium for the month, ____ will remit to the Manager the additional amount required within 48 hours of receiving payment from the reinsurer.

2. Expenses Directly Incurred by Manager.

    a. Labor Expenses of Manager:

       $750.00 per claim file per year, or if open for part of a year, prorated from the first day of the month of opening to the first day of the month following the month of closing. Payment shall be made monthly and in advance, the first payment to include the month of opening and the month that follows.

b. Other Manager Expenses:

The Manager shall be entitled to reimbursement by ____ and its reinsurer as their interests appear for the cost of the following internal expenses incurred by its employees:

i. Fees to obtain records, x-rays and study models;
ii. Fees for copying records, x-rays and study models;
iii. Fees for expert review of file;
iv. Fees for clinical examination of plaintiff/claimant;
v. Fees for outside investigator for background investigation, i.e., fraud, criminal;
vi. Fees for service of legal papers or subpoenas;
vii. Court reporter bills for deposition and/or trial transcripts;
viii. Fees to obtain prior transcripts for experts, both ours and our adversary's;
ix. Fees to obtain material related to investigation, i.e., legal research and/or medical research;
x. Fees to obtain information from governmental agencies related to Insured or claimants;
xi. Fees to Insureds for attendance at trial as provided for under the policy, and
xii. Any other specific expenses approved, in writing, by ____.

F. Monthly Reporting

1. Claims Bordereau

a. The Manager shall provide a separate Inception-to-Date and a Month-to-Date Claims Bordereaux, on a diskette (on a format agreed upon by Manager and ____) as well as a hard copy by the 25th of every calendar month or the last prior working day. Such Claims Bordereaux shall include the following information:

1. Inception-to-Date Claims Bordereau

a. PMA Claim Number
b. ____ Claim Number
c. Policy Number
d. Named Insured
e. Policy Effective Date
f. Policy Expiration Date
g. Retroactive Date
h. Status of Claim (open/closed)
i. Claimant Name
j. Date of Loss
k. Report Date of Loss
l. ITD Balance of Outstanding Reserves

m. ITD Balance of Losses Paid
n. ITD Balances of Expenses Paid (Outside)
o. ITD Balances of Expenses Paid (Inside)
p. ITD Subrogation Recoveries
q. ITD Subrogation Expenses
r. ITD Amount of Claim (sum of l-r)

2. Month-to-Date Claims Bordereau

a. PMA Claim Number
b. ____ Claim Number
c. Policy Number
d. Named Insured
e. Policy Effective Date
f. Policy Expiration Date
g. Retroactive Date
h. Status of Claim (open/closed/changed)
i. Claimant Name
j. Date of Loss
k. Report Date of Loss
l. MTD Outstanding Reserves
m. MTD Losses paid
n. MTD Expenses Paid (Outside)
o. MTD Expenses Paid (Inside)
p. MTD Subrogation Recoveries
q. MTD Subrogation Expenses
r. MTD Amount of Claim (sum of l-r)

G. Recovery

The Manager shall diligently pursue all avenues of possible recovery, i.e., subrogation or recovery or recoupment of loss or expense paid. All recoveries must be made payable to ____ and its reinsurer as their interests appear. The amount of the Recovery paid shall be included in the bordereaux which reflects activity for the month that the Recovery was received by the Manager. Manager shall provide any additional details concerning a recovery as may be requested by ____.

H. Service of Suit

____ hereby appoints the Manager agent for service of process on any suit or proceeding involving a claim or loss arising out of a policy issued by the Manager on behalf of ____.

I. Compensation

Manager's full compensation for rendering claims services for the Business as provided herein shall be its direct incurred labor expenses detailed in Section E.2.a., above.

The Manager and ____, intending to be bound, have executed this Claims Authority, Exhibit B, to the Agreement in duplicate, each of which shall serve as an original:

First Professionals Insurance Company, Inc.

____

Robert E. White
Senior Vice President - Administration
First Professionals Insurance Company, Inc.

Professional Medical Administrators, L.L.C.

____

Anthony Bonomo
President
Professional Medical Administrators, L.L.C.

Administrators for the Professions, Inc.

____

Anthony Bonomo
Chief Executive Officer/President
Administrators for the Professions, Inc.

CLAIMS ADMINISTRATION AGREEMENT

(Hereinafter called the "Agreement")

between

ADMINISTRATORS FOR THE PROFESSIONS, INC.

(Hereinafter called "AFP")

and

PHYSICIANS' RECIPROCAL MANAGERS, INC.

(Hereinafter called the "Company")

The Company extends claims authority to AFP as follows:

All claims shall be administered by Administrators for the Professions, Inc. ("AFP") on behalf of the Company.

It is agreed that AFP shall be responsible for and administer claims arising under the Company's policies which constitute the Business, subject to the requirements and limitations set forth below:

A. All subject claims shall be handled by AFP until their final disposition, except as otherwise indicated in this Agreement, and in compliance with all applicable laws, regulations and guidelines. AFP shall establish and maintain claim files on each claim reported and advise the insured of procedures to be followed when a claim arises.

B. Reporting Requirements

1. AFP must report all claims on monthly bordereaux which reflect the status and change of status for each claim. Each claim so reported will reflect an individual Company claim number assigned by AFP and in a format acceptable to the Company. Such bordereaux will be provided to the Company as specified in Section F., Monthly Reporting, subsection - Claims Bordereaux. Additionally, AFP shall prepare detailed written reports on any particular claim as may be requested by the Company.

2. All claims involving any one of the following criteria outlined below will be considered a "Catastrophic Occurrence."

   a. Incidents involving a fatality.

   b. Brain damage injuries (skull fracture, concussion, loss of consciousness, etc.)

   c. Spinal injury with potential for paraplegia or quadriplegia.

   d. Dismemberment or other serious disfigurement potential.

   e. Injuries involving nerve damage.

   f. Burn injuries.

   g. Injuries involving a fracture or multiple fractures.

   h. Serious vision and/or hearing impairment injuries.

   i. Environmental claims.

   j. Any claim involving extra contractual obligations, excess, or direct claims against the company or State Insurance Department inquiries.

   k. Any claims or loss involving class actions.

   l. Any claim alleging sexual abuse or molestation.

   m. Any claim valued in excess of $500,000 indemnity.

3. All Catastrophic Occurrences, as defined in Section A(2), will be subject to the following additional reporting requirements:

   a. AFP will report such claims to the Company immediately upon notice or receipt by AFP and on a monthly basis, as described in Section F.

   b. AFP will report these claims, regardless of its opinion as to likelihood of liability for each such Catastrophic Occurrence.

   c. AFP will also provide a written report concerning the development of these Catastrophic Occurrence Claims on a regular basis, at intervals not to exceed 90 days or sooner upon notice of material development.

C. AFP's Authority

1. All claims shall be autonomously handled by AFP and shall have authority to initiate or transact a settlement or compromise, or make full payment of the indemnity demands for such claims.

2. AFP shall provide immediate written notice to the Company of any claim in which coverage is denied to an Insured without the advice of outside counsel. A complete copy of the claim file shall accompany such notice and all subsequent correspondence received or produced information shall immediately be forwarded to the Company.

3. AFP shall provide immediate written notice to the Company of any claim immediately upon AFP reasonably determining that the expected indemnity value will equal or exceed $500,000. A complete copy of the claim file shall be sent to the Company upon their request.

4. AFP is authorized to incur such reasonable expenses allocable to individual claims as are necessary for the proper administration of this Agreement.

D. Indemnity Payments

AFP shall arrange for and make indemnity payments, in compliance with Section C., above, and in conformance with the following:

1. Claim payments do not require written authority and approval from the Company.

2. Indemnity payments will be made by the Company at the request of AFP within 48 hours of receipt from the reinsurer of the indemnity amount requested.

E. Expense Payments

AFP shall arrange for and make payment of expenses reasonably incurred by it, pursuant to Section C. of this Agreement, and in conformance with the following restrictions:

1. Expenses not incurred directly by AFP:

    a. Expense payments do not require written authority and approval from the Company.

    b. Expenses directly incurred by AFP.

c. Expense payments will be made by AFP from the fiduciary account and such payments will be deducted from the monthly premium remitted to the Company and the reinsurer as their interests appear. If, however, expense payments are more than the premium for the month, the Company will remit to AFP the additional amount required within 48 hours of receiving payment from the reinsurer.

2. Expenses Directly Incurred by AFP.

a. Labor Expenses of AFP:

$750.00 per claim file per year, or if open for part of a year, prorated from the first day of the month of opening to the first day of the month following the month of closing. Payment shall be made monthly and in advance, the first payment to include the month of opening and the month that follows.

b. Other AFP Expenses:

AFP shall be entitled to reimbursement by the Company and its reinsurer as their interests appear for the cost of the following internal expenses incurred by its employees:

i. Fees to obtain records, x-rays and study models;
ii. Fees for copying records, x-rays and study models;
iii. Fees for expert review of file;
iv. Fees for clinical examination of plaintiff/claimant;
v. Fees for outside investigator for background investigation, i.e., fraud, criminal;
vi. Fees for service of legal papers or subpoenas;
vii. Court reporter bills for deposition and/or trial transcripts;
viii. Fees to obtain prior transcripts for experts, both ours and our adversary's;
ix. Fees to obtain material related to investigation, i.e., legal research and/or medical research;
x. Fees to obtain information from governmental agencies related to Insured or claimants;
xi. Fees to Insureds for attendance at trial as provided for under the policy, and
xii. Any other specific expenses approved, in writing, by the Company.

F. Monthly Reporting

1. Claims Bordereau

a. AFP shall provide a separate Inception-to-Date and a Month-to-Date Claims Bordereaux, on a diskette (on a format agreed upon by AFP and the Company) as well as a hard copy by the 25th of every calendar month or the last prior working day. Such Claims Bordereaux shall include the following information:

1. Inception-to-Date Claims Bordereau

a. AFP Claim Number
b. Company Claim Number
c. Policy Number
d. Named Insured
e. Policy Effective Date
f. Policy Expiration Date
g. Retroactive Date
h. Status of Claim (open/closed)
i. Claimant Name
j. Date of Loss
k. Report Date of Loss
l. ITD Balance of Outstanding Reserves
m. ITD Balance of Losses Paid
n. ITD Balances of Expenses Paid (Outside)
o. ITD Balances of Expenses Paid (Inside)
p. ITD Subrogation Recoveries
q. ITD Subrogation Expenses
r. ITD Amount of Claim (sum of l-r)

2. Month-to-Date Claims Bordereau

a. AFP Claim Number
b. Company Claim Number
c. Policy Number
d. Named Insured
e. Policy Effective Date
f. Policy Expiration Date
g. Retroactive Date
h. Status of Claim (open/closed/changed)
i. Claimant Name
j. Date of Loss
k. Report Date of Loss

l. MTD Outstanding Reserves
m. MTD Losses paid
n. MTD Expenses Paid (Outside)
o. MTD Expenses Paid (Inside)
p. MTD Subrogation Recoveries
q. MTD Subrogation Expenses
r. MTD Amount of Claim (sum of l-r)

G. Recovery

AFP shall diligently pursue all avenues of possible recovery, i.e., subrogation or recovery or recoupment of loss or expense paid. All recoveries must be made payable to the Company and its reinsurer as their interests appear. The amount of the Recovery paid shall be included in the bordereaux which reflects activity for the month that the Recovery was received by AFP. AFP shall provide any additional details concerning a recovery as may be requested by the Company.

H. Service of Suit

The Company hereby appoints AFP agent for service of process on any suit or proceeding involving a claim or loss arising out of a policy issued by Professional Medical Administrators, L.L.C. on behalf of the Company.

I. Compensation

AFP's full compensation for rendering claims services for the Business as provided herein shall be its direct incurred labor expenses detailed in Section E.2.a., above.

AFP and the Company, intending to be bound, have executed this Claims Administration Agreement in duplicate, each of which shall serve as an original:

Physicians' Reciprocal Managers, Inc.

/s/ Ronald K. Schnurr
Ronald K. Schnurr
Executive Vice President
Physicians' Reciprocal Managers, Inc.

Administrators for the Professions, Inc.

/s/ Anthony Bonomo
Anthony Bonomo
Chief Executive Officer/President
Administrators for the Professions, Inc.

FPIC Insurance Group, Inc.

Executive Incentive Compensation Plan

2005 Implementation Guide

Executive Incentive Compensation Plan

Introduction

Linking compensation to corporate strategy and performance is a challenge facing every business. As officers of the organization, it is critically important that the key strategies necessary to achieving the organization's objectives are identified, measured and rewarded. This plan will provide an additional measure of linkage to our corporate strategy.

Plan Description

Under this plan, the Budget and Compensation Committee of the holding company board will establish performance measures and goal weightings for each year based on synergies and desired focus. The performance measures will be both quantitative and qualitative in nature.

Corporate financial measures will be based on corporate relevant metrics and operating subsidiary (SBU) measures will be based on SBU relevant metrics. SBU's with a high degree of synergy will have goals weighted more toward overall corporate performance, and those with a lower degree will be weighted more towards individual SBU performance. Each participant will be measured on both business and individual performance.

[The Budget and Compensation Committee will consider, as appropriate, business and individual performance weightings.]

Specific targets will be established on an annual basis for each performance component and will be evaluated on a sliding scale ranging from 50% of the bonus opportunity to 150% of the bonus opportunity. Any measure falling below the 50% level will reduce the related bonus opportunity to 0%.

Individual performance expectations will also be measured and an individual performance factor assigned. To facilitate the evaluation process, an Executive Performance Appraisal process will be utilized. Each officer will be evaluated based on individual performance objectives, as well as common core competencies. The performance appraisal should support the individual performance factor assigned.

At the discretion of the holding company CEO, an individual who achieves results far beyond expectations may be awarded an individual performance factor in excess of 150%. The sponsoring business leader must submit a formal request documenting the specific results, how the Company was benefited and the requested award. It is understood that such awards must be based on truly exemplary performance above and beyond that already comprehended within the plan (e.g., up to 150%) and, thus, will be few in number.

2005 Corporate Targets

Targets are separated into financial and strategic. **Financial targets** represent the key expectations with respect to operating performance of the Company. **Strategic targets** are those projects, initiatives and actions that have been identified as critical to the continued success of the organization. The strategic targets will carry a combined weight of 40% for the officers of the holding company. For officers of the Company's operating subsidiaries, the corporate component will be comprised only of financial targets.

[The Budget and Compensation Committee will annually approve the appropriate corporate targets and weightings.]

The applicable bonus will be based on the actual results achieved.

2005 Subsidiary Targets
The target weightings are based on the importance of each individual target to the organization's success.

[The Budget and Compensation Committee will annually approve the appropriate operating subsidiary targets and weightings.]

Other Events
The financial targets provided herein are for the year 2005. The evaluation of actual performance will take into account extraordinary and unanticipated developments during the year (e.g., significant adverse development on prior years).

Implementation and Timing
The plan will be implemented for the year 2005 and will be administered at the holding company. The operating subsidiaries are responsible for establishing individual bonus targets for each officer and promptly notifying the holding company of any changes, additions or deletions. Additionally, individual performance ratings are due from each subsidiary by the end of each year. Once the final operating results and individual performance ratings are compiled, 2005 bonuses will be calculated and presented to the Board of Directors of FPIC for approval. The resulting approved bonuses will be funded and paid at each operating subsidiary and will be paid on or before March 15th of the following year. Pro-forma bonus results should be calculated and accruals revised throughout the year, as necessary.

For 2006 and beyond, the financial targets will initially be set by the holding company as part of the fall planning process, with each operating subsidiary's plans measured against these expectations. The resulting agreed-upon plan will then determine the level of bonuses available. Stated differently, if the holding company requires a certain target and the subsidiary plan provides a lower target, then the bonus opportunity will be adjusted accordingly.

Exhibit 21

The following is a list of wholly owned subsidiaries, unless otherwise noted, of FPIC Insurance Group, Inc. as of December 31, 2004:

Name of Subsidiary	State of Incorporation
First Professionals Insurance Company, Inc. (First Professionals)	Florida
Anesthesiologists Professional Assurance Company	Florida
FPIC Insurance Agency, Inc.	Florida
Employers Mutual, Inc. (EMI)	Florida
FPIC Services, Inc. (87.5% owned by EMI)	Florida
Professional Strategy Options, Inc. (100% owned by EMI)	Florida
Administrators For The Professions, Inc. (AFP)	New York
Group Data Corporation (100% owned by AFP)	New York
FPIC Intermediaries, Inc. (100% owned by AFP)	New York
Physicians Reciprocal Managers, Inc. (100% owned by AFP)	Pennsylvania
The Tenere Group, Inc. (Tenere) (100% owned by First Professionals)	Missouri
Intermed Insurance Company (Intermed) (100% owned by Tenere)	Missouri
Trout Insurance Services, Inc. (100% owned by Intermed)	Missouri
Interlex Insurance Company (100% owned by Intermed)	Missouri
Insurance Services, Inc. (100% owned by Intermed)	Missouri

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-116495, No. 333-116495-01, No. 333-115352, No. 333-115352-01, No. 333-115352-02 and No. 333-83835) and on Form S-8 (No. 333-72601, No. 333-72599, No. 333-09365 and No. 333-09375) of FPIC Insurance Group, Inc. of our report dated March 15, 2005 relating to the financial statements, financial statement schedules, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Jacksonville, Florida
March 15, 2005

Exhibit 31.1

Certification

I, John R. Byers, President and Chief Executive Officer of FPIC Insurance Group, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of FPIC Insurance Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 15, 2005

By: /s/ John R. Byers

John R. Byers
President and Chief Executive Officer

Exhibit 31.2

Certification

I, Kim D. Thorpe, Executive Vice President and Chief Financial Officer of FPIC Insurance Group, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of FPIC Insurance Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 15, 2005

By: /s/ Kim D. Thorpe

Kim D. Thorpe
Executive Vice President and Chief Financial Officer

Exhibit 32

**Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of FPIC Insurance Group, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John R. Byers, President and Chief Executive Officer and, I, Kim D. Thorpe, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 15, 2005

By: /s/ John R. Byers

John R. Byers
President and Chief Executive Officer

By: /s/ Kim D. Thorpe

Kim D. Thorpe
Executive Vice President and Chief Financial Officer