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

(Mark One)
☒Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2005 or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transaction 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)

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

As of November 1, 2005, there were 10,372,576 shares of the registrant's common stock outstanding.

FPIC Insurance Group, Inc.
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Part I
FINANCIAL INFORMATION

Item 1. Financial Statements.

The information required by Rule 10-01 of Regulation S-X is presented as follows:

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

For purposes of this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), FPIC Insurance Group, Inc. together with its subsidiaries is hereinafter referred to as FPIC unless the context requires otherwise. The following discussion and analysis of financial condition, changes in financial condition, liquidity and capital resources and results of operations and other matters should be read in conjunction with the accompanying condensed consolidated financial statements for the three months and nine months ended September 30, 2005, included in Part I, Item 1, as well as the audited, consolidated financial statements and notes included in FPIC's Annual Report on Form 10-K for the year ended December 31, 2004, which was filed with the United States Securities and Exchange Commission (the "SEC") on March 15, 2005.

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)	Risk 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 PRI's premium rate adequacy, claims experience, policyholder retention, financial position and overall market and regulatory environment 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)	The rates we charge for our products and services 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-Q for the quarter ended September 30, 2005 and within our Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC on March 15, 2005.

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

Our discussion and analysis of financial condition and results of operations are based upon the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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. On an on-going basis, we evaluate our estimates, including those related to the liability for losses and loss adjustment expenses ("LAE") and related reinsurance assets, the carrying amounts or potential impairments of certain assets, and loss contingencies. We base our estimates on historical experience or other appropriate assumptions that we believe are reasonable and relevant under the circumstances. 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 following critical accounting policies, which are described below and in the corresponding MD&A section and Note 2, Significant Accounting Policies, to the consolidated financial statements, included in our most recently filed Annual Report on Form 10-K, affect our more significant judgments and estimates used in the preparation of the condensed consolidated financial statements.

Investments

Our invested assets comprise our largest single asset class and consist primarily of investment securities in the form of fixed maturity investments in bonds and notes. Our fixed maturity investments are carried at their fair values and accounted for $619.4 million or 92% of our total investments and 48% of our total assets as of September 30, 2005 compared to $548.5 million or 99% of our total investments and 43% of our total assets as of December 31, 2004. Fair values for fixed maturity investments are based on quoted market prices. Unrealized gains or losses in their fair values are recorded directly to shareholders' equity, net of tax effects, as a component of accumulated other comprehensive (loss) income. Gross unrealized investment gains were $3.1 million and gross unrealized investment losses were $7.9 million as of September 30, 2005.

Generally accepted accounting principles require that the book value of investments be written down to fair value when declines in value are considered other-than-temporary. When such impairments occur, the decrease in value is reported in net income as a realized investment loss and a new cost basis is established.

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, the related reinsurance recoverable amounts and our exposure will be correspondingly adjusted.

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.

Liability for Losses and LAE

Liability for losses and LAE, also referred to hereinafter 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 $616.4 million and $610.6 million, or 97% and 96%, of our total consolidated liability for losses and LAE as of September 30, 2005 and December 31, 2004, 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. This 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. FPIC has historically settled its claims for amounts that are less than their individually estimated case reserves in aggregate; therefore this provision serves to offset the other loss and LAE reserve components.

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 (the number 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 in developing our estimates periodically 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. Of necessity, such evaluations may be less in scope for purposes of preparing interim financial statements. For example, we do not perform a complete reserve study every quarter, and instead, rely on other analytical procedures.

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, 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 September 30, 2005, would result in an after-tax reduction or addition in reported net income of approximately $2.1 million, or 9%, of our consolidated income from continuing operations for the nine months ended September 30, 2005. 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.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. (“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 and non-employee directors to be accounted for as compensation expense and recorded at fair value. Consistent with the provisions of the SEC Release No. 2005-57, we intend to adopt FAS 123(R) in the first quarter of 2006. 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 can be found in Note 1, Organization and Basis of Presentation, to the condensed consolidated financial statements within this Form 10-Q. A number of technical implementation issues are yet to be resolved, including the selection and use of an appropriate valuation model, and thus, the ultimate impact of adopting FAS 123(R) is not yet known.

Management's Discussion and Analysis of Financial Condition and Liquidity and Capital Resources: September 30, 2005 Compared to December 31, 2004

INVESTMENTS AND CASH AND CASH EQUIVALENTS increased $73.8 million to $757.8 million as of September 30, 2005 from $684.0 million as of December 31, 2004. The increase is primarily the result of net cash flows from operating activities. In addition, we received cash proceeds of $3.9 million from the disposition of our third party administration ("TPA") segment.

PREMIUMS RECEIVABLE increased $10.3 million to $104.6 million as of September 30, 2005 from $94.3 million as of December 31, 2004. The increase in premiums receivable reflects our policy renewal cycle whereby most of our policies are renewed in the first half of the calendar year. Thus, premiums receivable are expected to be lower as of the prior year end.

REINSURANCE RECOVERABLE ON PAID LOSSES decreased $7.3 million to $11.8 million as of September 30, 2005 from $19.1 million as of December 31, 2004. The decrease is primarily due to the receipt of amounts recoverable under our primary excess of loss reinsurance treaty and the commutation of the quota share agreement with American Professional Assurance, Ltd. ("APAL"), whereby we received $2.6 million for paid losses recoverable.

DUE FROM REINSURERS ON UNPAID LOSSES decreased $40.7 million to $292.7 million as of September 30, 2005 from $333.4 million as of December 31, 2004. The decrease is primarily due to a decrease of $19.3 million in ceded loss and LAE reserves under the Hannover Re net account quota share agreement as a result of the termination of further cessions under the agreement effective July 1, 2004. Also contributing to the decrease was the commutation of the quota share agreement with APAL, whereby $10.2 million of loss and LAE reserves and corresponding funds were received from APAL. The remainder of the decrease is due to the reduction of $12.8 million of ceded loss and LAE reserves under our former fronting programs, which are all now in run-off.

CEDED UNEARNED PREMIUMS decreased $12.1 million to $16.0 million as of September 30, 2005 from $28.1 million as of December 31, 2004. Approximately $9.0 million of the reduction is due to a decrease in ceded unearned premiums under the Hannover Re net account quota share reinsurance agreement, which was terminated and placed into run-off. The remainder of the decrease is primarily due to the reduction of ceded premiums under former fronting programs.

OTHER ASSETS decreased $12.4 million to $88.7 million as of September 30, 2005 from $101.1 million as of December 31, 2004. The decrease is due in part to a reduction in the amount due from PRI of $5.3 million. In addition, other assets as of December 31, 2004 included an amount due from broker of $4.1 million related to investment sale transactions entered into prior to December 31, 2004 and settled during January 2005. Other assets at December 31, 2004 also included $3.5 million of assets held by our previously owned TPA segment.

The LIABILITY FOR LOSSES AND LAE decreased $1.2 million to $633.9 million as of September 30, 2005 from $635.1 million as of December 31, 2004. The decrease is primarily attributable to reductions in loss and LAE reserves on former fronting programs of approximately $13.0 million, all of which have been terminated and placed into run-off. Partially offsetting the decrease was growth in our core MPL insurance business.

UNEARNED PREMIUMS increased $27.6 million to $204.6 million as of September 30, 2005 from $177.0 million as of December 31, 2004. The increase reflects the policy renewal cycle where the highest number of policies are renewed with an effective date of January 1. Thus, unearned premiums are generally lower as of the end of each fiscal year.

REINSURANCE PAYABLE decreased $22.5 million to $112.1 million as of September 30, 2005 from $134.6 million as of December 31, 2004. The decrease is primarily the result of a $21.2 million reduction in the funds withheld balance under the Hannover Re net account quota share reinsurance agreement.

PAID IN ADVANCE AND UNPROCESSED PREMIUMS decreased $6.7 million to $7.0 million as of September 30, 2005 from $13.7 million as of December 31, 2004. The decline reflects the policy renewal cycle where the highest number of policies are renewed with an effective date of January 1. Thus, paid in advance and unprocessed premiums are expected to be higher as of December 31.

OTHER LIABILITIES decreased $8.1 million to $39.4 million as of September 30, 2005 from $47.5 million as of December 31, 2004. Our liabilities for premium taxes, certain employee benefits and amounts due to broker for investment purchase transactions that had not settled as of each period end all decreased as of September 30, 2005. In addition, as of September 30, 2005 deferred ceding commissions were fully amortized from $1.2 million as of December 31, 2004. Other liabilities at December 31, 2004 also included $1.4 million of liabilities payable by our previously owned TPA segment. Partially offsetting these decreases was an in increase in commissions payable.

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 ongoing liquidity requirements are the premiums collected for the insurance sold by our insurance subsidiaries, income on the investment of those funds, and insurance 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 condensed consolidated statements of cash flows, net cash provided by operating activities was $81.3 million for the nine months ended September 30, 2005 compared with net cash provided by operating activities of $34.1 million for the nine months ended September 30, 2004. The majority of the increase in net cash provided by operating activities for the nine months ended September 30, 2005 is attributable to higher reinsurance recoveries and higher retention of our insurance business due to lower reinsurance ceded when compared with the same period in 2004. Also contributing to the increase were proceeds from the commutation of the former 25% quota share reinsurance ceded agreement with APAL and collection of amounts due from PRI.

As of September 30, 2005, we had cash and investments of $757.8 million. Included within cash and investments were cash and cash equivalents of $83.1 million and fixed maturity securities, available for sale, with a fair value of approximately $39.6 million that have scheduled maturities during the next twelve months. In addition, we had short term investment securities of $48.4 million, which have scheduled maturities of less than twelve months. We believe that our cash and investments as of September 30, 2005, 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.

Holding Company Sources of Liquidity

The sources of liquidity to FPIC, the holding company, for the payment of operating expenses, income taxes and debt-related charges are management fees, return of capital, dividends and overhead expense allocations to our subsidiaries.

FPIC has management agreements with First Professionals Insurance Company, Inc. (“First Professionals”) and Anesthesiologists Professional Assurance Company, Inc. (“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.

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

LONG TERM DEBT

During 2003, we completed the placement of $10.0 million in 30-year 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. The debentures issued by FPIC, which are reported as long term debt in the condensed consolidated statements of financial position, 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 equal to the three-month LIBOR plus spreads ranging from 3.85% to 4.20% (the interest rates ranged from 7.53% to 8.07% as of September 30, 2005). The floating interest rates are adjustable quarterly with changes in the three-month LIBOR. We have also purchased hedging instruments designed to maintain the maximum floating rate interest cost on these securities to 8.50% and 8.60% for five years from closing. For information regarding the hedging instruments, refer to Note 10, Derivative Financial Instruments, to the consolidated financial statements included in our most recently filed Annual Report on Form 10-K. 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 30 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.

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 the three months ended September 30, 2005 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 included in our most recently filed Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in our contractual obligations, commitments and off-balance sheet arrangements described in the applicable section of the MD&A included in our most recently filed Annual Report on Form 10-K.

Management's Discussion and Analysis of Results of Operations:

Three Months and Nine Months Ended September 30, 2005 Compared to Three Months and Nine Months Ended September 30, 2004

CONSOLIDATED INCOME FROM CONTINUING OPERATIONS for the three months ended September 30, 2005 was $8.6 million, or $0.80 per diluted share, an increase of 21% and 18%, respectively, when compared with income from continuing operations of $7.1 million, or $0.68 per diluted share, for the three months ended September 30, 2004. Consolidated income from continuing operations for the nine months ended September 30, 2005 was $23.6 million, or $2.20 per diluted share, an increase of 18% and 15%, respectively, when compared with income from continuing operations of $20.1 million, or $1.91 per diluted share, for the nine months ended September 30, 2004. Income from continuing operations increased primarily as a result of increases in underwriting profits on higher net premiums earned and higher net investment income at the insurance segment. Partially offsetting these increases were net realized investment losses in the current year as compared with net realized investment gains in the prior year and higher interest expense on debt. Commission income in the insurance management segment was also lower in the current year when compared with the prior year.

CONSOLIDATED NET INCOME for the three months ended September 30, 2005 was $8.6 million, or $0.80 per diluted share, an increase of 14% and 11%, respectively, when compared with net income of $7.5 million, or $0.72 per diluted share, for the three months ended September 30, 2004. Consolidated net income for the nine months ended September 30, 2005 was $25.7 million, or $2.40 per diluted share, an increase of 22% and 20%, respectively, when compared with net income of $21.0 million, or $2.00 per diluted share, for the nine months ended September 30, 2004. Included in consolidated net income for the three months ended September 30, 2004 were discontinued operations of $0.4 million related to the sale of our previously owned TPA segment. Consolidated net income for the nine months ended September 30, 2005 and 2004 included discontinued operations of $2.1 million and $0.9 million, respectively. Other changes in net income are due to the factors discussed in the paragraph above with regard to consolidated income from continuing operations.

CONSOLIDATED REVENUES for the three months ended September 30, 2005 increased $19.0 million, or 34%, to $75.4 million from $56.4 million for the three months ended September 30, 2004. Consolidated revenues for the nine months ended September 30, 2005 increased $55.5 million, or 35%, to $213.5 million from $158.0 million for the nine months ended September 30, 2004. The increase in consolidated revenues is primarily due to higher net premiums earned at our insurance segment as a result of lower ceded premiums following the termination of the Hannover Re net account quota share reinsurance agreement as of June 30, 2004, higher net investment income and higher insurance management fees. The growth in consolidated revenues for the nine months ended September 30, 2005 was offset to some extent by net realized investment losses, compared with net realized investment gains for the nine months ended September 20, 2004, and a decline in commission income at our insurance management segment.

CONSOLIDATED EXPENSES for the three months ended September 30, 2005 increased $17.7 million, or 39%, to $62.9 million from $45.2 million for the three months ended September 30, 2004. Consolidated expenses for the nine months ended September 30, 2005 increased $52.8 million, or 42%, to $178.5 million from $125.7 million for the nine months ended September 30, 2004. The increase in consolidated expenses is mainly the result of increases in net losses and LAE incurred and other underwriting expenses at our insurance segment. The improvement in net losses and LAE incurred relative to net premiums earned reflects pricing and other improvements in our underwriting results. The growth in other underwriting expenses is primarily the result of corresponding growth in net premiums earned, a decrease in ceding commissions resulting from the elimination of cessions under the Hannover Re net account quota share reinsurance agreement and lower fronting fees, net of related expenses. In addition, other underwriting expenses for the nine months ended September 30, 2005 include a one-time reduction of $1.7 million, which represents proceeds from the settlement of litigation. Interest expense on debt increased as a result of an increase in the three-month LIBOR rate, which is the base rate used to determine FPIC’s interest on its long term debt.

Insurance Segment

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. Financial and selected other data of our insurance segment for the three and nine months ended September 30, 2005 and 2004 is summarized in the table below. Dollar amounts are in thousands.

	Three Months Ended			Nine Months Ended		
	Sept 30, 2005	Percentage Change	Sept 30, 2004	Sept 30, 2005	Percentage Change	Sept 30, 2004
Direct and assumed premiums written	$ 78,937	2%	$ 77,179	$ 230,235	-9%	$ 252,884
Net premiums written	$ 69,369	7%	$ 65,118	$ 201,762	42%	$ 142,049
Net premiums earned	$ 57,981	49%	$ 38,873	$ 162,058	54%	$ 105,552
Net investment income	6,223	24%	5,002	18,141	20%	15,139
Net realized investment (losses) gains	(139)	-26%	(110)	(179)	-105%	3,363
Other income	181	-7%	194	487	-3%	501
Intersegment revenues	(12)	-117%	71	65	-70%	214
Total revenues	64,234	46%	44,030	180,572	45%	124,769
Net losses and LAE incurred	42,014	28%	32,801	121,540	36%	89,434
Other underwriting expenses	10,074	276%	2,676	25,680	272%	6,894
Interest expense on debt	898	37%	656	2,494	35%	1,852
Other expenses	1,675	-16%	1,985	5,327	-3%	5,514
Intersegment expenses	131	-84%	828	390	-85%	2,675
Total expenses	54,792	41%	38,946	155,431	46%	106,369
Income from continuing operations before income taxes	9,442	86%	5,084	25,141	37%	18,400
Less: Income tax expense	2,767	80%	1,539	7,325	18%	6,220
Income from continuing operations	6,675	88%	3,545	17,816	46%	12,180
Discontinued operations (net of income taxes)	—	0%	—	—	0%	—
Net income	$ 6,675	88%	$ 3,545	$ 17,816	46%	$ 12,180

Selected Direct Professional Liability Claims Information

	Three Months Ended			Nine Months Ended		
	Sept 30, 2005	Percentage Change	Sept 30, 2004	Sept 30, 2005	Percentage Change	Sept 30, 2004
Net paid losses and LAE on professional liability claims [1]	$ 33,054	26%	$ 26,203	$ 85,635	-3%	$ 88,726
Total professional liability claims with indemnity payment	118	90%	62	302	20%	251
Total professional liability claims and incidents closed without indemnity payment	698	56%	448	1,624	6%	1,525
Professional Liability Claims and Incidents Reported During the Period:						
Total professional liability claims reported during the period	278	24%	225	781	-4%	815
Total professional liability incidents reported during the period	214	-21%	270	711	-20%	888
Total professional liability claims and incidents reported during the period	492	-1%	495	1,492	-12%	1,703

	As of		
	Sept 30, 2005	Percentage Change	Sept 30, 2004
Total professional liability claims and incidents that remained open	4,724	-13%	5,418
Professional liability policyholders (excluding fronting arrangements) [2]	14,199	0%	14,171
Professional liability policyholders under fronting arrangements [2]	—	-100%	126

(1) For the purpose of period over period comparison, net paid losses do not take into account $10,180 received in connection with the APAL ceded reinsurance commutation during the second quarter of 2005, which would be a reduction to reported net paid losses.
(2) Professional liability policyholders (excluding fronting arrangements) includes policyholders whose individual insurance is 90% reinsured under facultative reinsurance agreements. For the period ended September 30, 2004, 112 such policyholders previously reported under fronting arrangements have been reclassified to professional liability policyholders (excluding fronting arrangements).

INSURANCE NET INCOME increased 88% to $6.7 million for the three months ended September 30, 2005 from $3.5 million for the three months ended September 30, 2004. Insurance net income increased 46% to $17.8 million for the nine months ended September 30, 2005 from $12.2 million for the nine months ended September 30, 2004. The increase in net income was primarily due to increases in underwriting and operating profits on higher net premiums earned and higher net investment income. The improvement in our net losses and LAE incurred relative to net premiums earned is primarily the result of rate increases and other improvements in our underwriting results. The increases in underwriting profit were partially offset by higher other underwriting expenses due mainly to a reduction in ceding commissions earned and to a lesser extent, lower fees, net of related expenses, under former fronting programs. The decrease in ceding commissions resulted primarily from the elimination of further cessions under the Hannover Re net account quota share reinsurance agreement effective July 1, 2004. Partially offsetting the increases in net income were net realized investment losses in the current year, compared with net realized investment gains for the first nine months of 2004, and higher interest expense on debt.

During May 2005, First Professionals and APAC entered into agreements to commute their 25% quota share reinsurance ceded with APAL. Under the terms of the agreements, the two companies assumed policy liabilities previously ceded under the contracts of approximately $10.2 million and received a comparable amount of assets in the form of cash and investments, resulting in no material gain or loss on the transaction.

DIRECT and ASSUMED PREMIUMS WRITTEN increased 2% to $78.9 million for the three months ended September 30, 2005 from $77.2 million for the three months ended September 30, 2004. Direct and assumed premiums written decreased 9% to $230.2 million for the nine months ended September 30, 2005 from $252.9 million for the nine months ended September 30, 2004. The increase in direct and assumed premiums written for the three months ended September 30, 2005 reflects pricing improvements and an increase in the number of policyholders in our core MPL business. The decrease in direct and assumed premiums written for the nine months ended September 30, 2005 is primarily attributable to our planned exits from fronting programs and non-core states. We began exiting our fronting programs in 2002 to create capacity for our core MPL business. All of these programs are now in run-off. The decrease was partially offset by the effects of pricing improvements and the increase in the number of policyholders.

NET PREMIUMS WRITTEN increased 7% to $69.4 million for the three months ended September 30, 2005 from $65.1 million for the three months ended September 30, 2004. Net premiums written increased 42% to $201.8 million for the nine months ended September 30, 2005 from $142.0 million for the nine months ended September 30, 2004. The increase for the three months ended September 30, 2005 reflects pricing improvements and an increase in the number of policyholders in our core MPL business over the comparable period in the prior year. The increase for the nine months ended September 30, 2005 additionally reflects the termination of cessions under the Hannover Re net account quota share reinsurance agreement, effective July 1, 2004, which resulted in a decrease in ceded written premiums of $51.3 million and a corresponding increase in net premiums written for the nine months ended September 30, 2005, when compared with the same period in 2004. As cessions under the Hannover Re net account quota share reinsurance agreement were terminated effective July 1, 2004, it did not have a significant impact on third quarter 2005 and 2004 net premiums written and will not have a significant impact in future quarters.

NET PREMIUMS EARNED increased 49% to $58.0 million for the three months ended September 30, 2005 from $38.9 million for the three months ended September 30, 2004. Net premiums earned increased 54% to $162.1 million for the nine months ended September 30, 2005 from $105.6 million for the nine months ended September 30, 2004. These increases are primarily the result of the termination of cessions under the Hannover Re net account quota share reinsurance agreement, effective July 1, 2004, which had the effect of decreasing ceded earned premiums by $18.6 million and $52.4 million with corresponding increases in net premiums earned for the three and nine months ended September 30, 2005, respectively, when compared with the same periods in 2004. Termination of the agreement is expected to result in increases in net premiums earned during the remainder of 2005 when compared with the corresponding periods in 2004 and to a lesser extent relatively higher net premiums earned during the first half of 2006 as compared with net premiums earned on the corresponding business for the first half of 2005. Partially offsetting the increase in net premiums earned was the non-renewal, effective July 1, 2004, of the excess of loss reinsurance treaty under which First Professionals had previously assumed reinsurance from PRI.

Our investment revenues, which are comprised of NET INVESTMENT INCOME and NET REALIZED INVESTMENT (LOSSES) GAINS, increased 24% to $6.1 million for the three months ended September 30, 2005 from $4.9 million for the three months ended September 30, 2004. Investment revenues decreased 3% to $18.0 million for the nine months ended September 30, 2005 from $18.5 million for the nine months ended September 30, 2004. Net investment income increased during the three and nine months ended September 30, 2005, when compared with the same periods in 2004, primarily as a result of growth in our investment portfolio corresponding with increases in our insurance business and to a lesser extent an increase in our overall average yield. Offsetting the increase in net investment income for the nine months ended September 30, 2005 were net realized investment losses, compared with net realized investment gains for the nine months ended September 30, 2004. The net realized investment gains for the nine months ended September 30, 2004 were generated primarily in the process of repositioning our portfolio to increase our mix of tax-exempt investments. Also included in net realized investment gains for the nine months ended September 30, 2004 was a gain of $2.1 million related to the sale of an investment in a limited partnership.

NET LOSSES and LAE INCURRED increased 28% to $42.0 million for the three months ended September 30, 2005 from $32.8 million for the three months ended September 30, 2004. Net losses and LAE incurred increased 36% to $121.5 million for the nine months ended September 30, 2005 from $89.4 million for the nine months ended September 30, 2004. The lower increase in our net losses and LAE incurred relative to the increase in net premiums earned and corresponding decrease in our loss ratio primarily reflect 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 72% and 84% for the three months ended September 30, 2005 and 2004, respectively, and 75% and 85% for the nine months ended September 30, 2005 and 2004, respectively. The improvement in our loss and LAE ratio during the three months ended September 30, 2005 also reflects a downward adjustment to our current year provision as the result of favorable claims results to date, mainly lower numbers of newly reported claims and incidents.

SELECTED DIRECT PROFESSIONAL LIABILITY INSURANCE CLAIMS DATA

Net paid losses and LAE on professional liability claims increased 26% to $33.1 million for the three months ended September 30, 2005 from $26.2 million for the three months ended September 30, 2004 and decreased 3% to $85.6 million for the nine months ended September 30, 2005 from $88.7 million for the nine months ended September 30, 2004. The number of professional liability claims closed with indemnity payment (“CWIP”) increased 90% to 118 for the three months ended September 30, 2005 from 62 for the three months ended September 30, 2004. The number of CWIP increased 20% to 302 for the nine months ended September 30, 2005 from 251 for the nine months ended September 30, 2004. The percentage of CWIP to all closed claims for the nine months ended September 30, 2005 was 16%, compared to 14% for the full year and first nine months of 2004.

The higher closed claim measures reported for the three months ended September 30, 2005, including net paid losses and LAE on professional liability claims, claims and incidents closed with indemnity payments, and claims and incidents closed without indemnity payments, are all primarily the result of an increase in the number of claims that were processed and closed that were already in inventory, as opposed to adverse loss experience. Comparable closed claims measures for the three months ended September 30, 2004 were significantly lower than normal, adding to the significance of the increases in the third quarter of 2005. Such fluctuations among periods are not unusual and although the current CWIP percentage is higher, it remains within a reasonable range of outcomes for the period relative to our carried reserves.

Newly reported claims and incidents were down 1% for the three months ended September 30, 2005 when compared with the three months ended September 30, 2004. Newly reported claims and incidents were down 12% for the nine months ended September 30, 2005 when compared with the nine months ended September 30, 2004. This decrease continues a trend of lower frequency in newly reported claims and incidents that began in the fourth quarter of 2003.

OTHER UNDERWRITING EXPENSES increased 276% to $10.1 million for the three months ended September 30, 2005 from $2.7 million for the three months ended September 30, 2004. Other underwriting expenses increased 272% to $25.7 million for the nine months ended September 30, 2005 from $6.9 million for the nine months ended September 30, 2004. These increases in other underwriting expenses are primarily the result of decreases in ceding commissions of $5.8 million and $15.6 million for the three and nine months ended September 30, 2005, respectively, compared to the corresponding periods in 2004, resulting from the termination of the Hannover Re net account quota share reinsurance agreement. In addition, the exit of our fronting programs has resulted in lower fronting fees, net of related expenses, resulting in a corresponding increase in other underwriting expenses of $0.2 million and $1.6 million for the three and nine months ended September 30, 2005, respectively, compared to the corresponding periods in 2004. Other underwriting expenses for the nine months ended September 30, 2005 includes a one-time reduction of $1.7 million, which represents the proceeds from the settlement of litigation.

INTEREST EXPENSE ON DEBT increased 37% to $0.9 million for the three months ended September 30, 2005 from $0.7 million for the three months ended September 30, 2004. Interest expense on debt increased 35% to $2.5 million for the nine months ended September 30, 2005 from $1.9 million for the nine months ended September 30, 2004. The increase is due to increases in the three-month LIBOR, which is the base rate used to determine FPIC’s interest on its long-term debt. The interest rates on our long-term debt ranged from 7.53% to 8.07% as of September 30, 2005. We have hedging instruments in place that limit the maximum floating rate interest cost on our long-term debt to within a range of 8.50% to 8.60% should the three-month LIBOR continue to increase. These hedging instruments are effective for five years from the closing date of the securities.

INCOME TAXES increased 80% to $2.8 million for the three months ended September 30, 2005 from $1.5 million for the three months ended September 30, 2004. Income taxes increased 18% to $7.3 million for the nine months ended September 30, 2005 from $6.2 million for the nine months ended September 30, 2004. The increase in income tax expense reflects our higher income from continuing operations before income taxes. Our effective income tax rates were 29% and 30% for the three months ended September 30, 2005 and 2004, respectively, and 29% and 34% for the nine months ended September 30, 2005 and 2004, respectively. The decrease in our effective income tax rate for the nine months ended September 30, 2005 is primarily due to an increase in tax-exempt investment income and non-recurrence of a $0.75 million provision for income tax contingencies identified in an Internal Revenue Service (“IRS”) examination that was included in income tax expense for the nine months ended September 30, 2004.

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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. Cessions under the agreement ceased effective July 1, 2004. Amounts ceded under the Hannover Re net account quota share reinsurance agreement are summarized in the table below. Dollar amounts are in thousands.

	Three Months Ended			Nine Months Ended		
	Sept 30, 2005	Percentage Change	Sept 30, 2004	Sept 30, 2005	Percentage Change	Sept 30, 2004
Ceded premiums written	$ 67	-86%	$ 488	$ 387	101%	$ (50,947)
Ceded premiums earned	67	100%	(18,563)	(8,646)	86%	(61,054)
Ceded losses and LAE incurred	(50)	-100%	13,963	6,043	-87%	46,559
Ceded other underwriting expenses	(21)	-100%	5,640	2,989	-84%	18,276
Net (decrease) increase in underwriting margin	(4)	-100%	1,040	386	-90%	3,781
Other expenses	(1,618)	16%	(1,918)	(5,136)	3%	(5,305)
Net decrease in income from continuing operations before income taxes	(1,622)	-85%	(878)	(4,750)	-212%	(1,524)
Net decrease in net income	$ (997)	-85%	$ (539)	$ (2,918)	-212%	$ (936)

Insurance Management Segment

Our insurance management segment is made up of FPIC's New York subsidiaries, Administrators For The Professions, Inc. ("AFP"), Physicians Reciprocal Managers, Inc. ("PRM"), and FPIC Intermediaries, Inc., all of which are wholly owned, and Professional Medical Administrators, LLC ("PMA"), which is 80% owned. Financial and selected other data for the insurance management segment for the three months and nine months ended September 30, 2005 and 2004 is summarized in the table below. Dollar amounts are in thousands.

	Three Months Ended			Nine Months Ended		
	Sept 30, 2005	Percentage Change	Sept 30, 2004	Sept 30, 2005	Percentage Change	Sept 30, 2004
Insurance management fees	$ 10,642	2%	$ 10,389	$ 31,209	12%	$ 27,881
Net investment income	67	123%	30	171	116%	79
Commission income	432	-78%	1,932	1,546	-71%	5,275
Other income	28	-74%	108	84	-48%	163
Intersegment revenues	143	-83%	841	427	-84%	2,712
Total revenues	11,312	-15%	13,300	33,437	-7%	36,110
Insurance management expenses	8,225	17%	7,039	23,361	7%	21,811
Other expenses	37	-30%	53	93	-42%	160
Total expenses	8,262	16%	7,092	23,454	7%	21,971
Income from continuing operations before income taxes and minority interest	3,050	-51%	6,208	9,983	-29%	14,139
Less: Income tax expense	1,191	-53%	2,541	4,212	-26%	5,703
Income from continuing operations before minority interest	1,859	-49%	3,667	5,771	-32%	8,436
Minority interest	(56)	-315%	26	(128)	-142%	303
Income from continuing operations	1,915	-47%	3,641	5,899	-27%	8,133
Discontinued operations (net of income taxes)	—	—	—	—	—	—
Net income	$ 1,915	-47%	$ 3,641	$ 5,899	-27%	$ 8,133

INSURANCE MANAGEMENT NET INCOME decreased 47% to $1.9 million for the three months ended September 30, 2005 from $3.6 million for the three months ended September 30, 2004. Insurance management net income decreased 27% to $5.9 million for the nine months ended September 30, 2005 from $8.1 million for the nine months ended September 30, 2004. The decrease is primarily due to lower commission income earned for the placement of insurance premiums and an increase in claims administration and management expenses. Partially offsetting this decrease were higher management fees as a result of growth in premiums written at PRI and management fees earned by PRM for the administration of Pennsylvania Physicians' Reciprocal Insurers ("PaPRI"). PRM began managing PaPRI, and therefore earning management fees, beginning with the third quarter of 2004.

INSURANCE MANAGEMENT FEES earned by the insurance management segment are entirely comprised of management fees from PRI and PaPRI. Under the management agreement between AFP and PRI, AFP receives a management fee equal to 13% of PRI's direct premiums written, and under the management agreement between PRM and PaPRI, PRM receives a management fee equal to 21% of PaPRI's direct premiums written. As such, changes in the direct premiums written by PRI and PaPRI result in corresponding changes in management fees earned by our insurance management segment. Insurance management fees increased 2% to $10.6 million for the three months ended September 30, 2005 from $10.4 million for the three months ended September 30, 2004. Insurance management fees increased 12% to $31.2 million for the nine months ended September 30, 2005 from $27.9 million for the nine months ended September 30, 2004. The increases are primarily due to an increase in premiums written by PRI and management fees on premiums written by PaPRI, which commenced operations effective July 1, 2004.

COMMISSION INCOME decreased 78% to $0.4 million for the three months ended September 30, 2005 from $1.9 million for the three months ended September 30, 2004. Commission income decreased 71% to $1.5 million for the nine months ended September 30, 2005 from $5.3 million for the nine months ended September 30, 2004. The decline in commission income is due to the decrease in insurance premiums placed by PMA with a third party carrier under a former PRI professional liability insurance program in Pennsylvania. Commission income also declined due to decreases in brokerage commissions earned by FPIC Intermediaries, Inc. for the placement of reinsurance. The need for reinsurance and the terms and conditions of the reinsurance agreements of FPIC and PRI are reviewed on an annual basis, which can result in fluctuations in the amount of commission income earned from period to period.

TPA Segment (Discontinued Operations)

Our TPA segment was comprised of our former wholly owned subsidiary, Employers Mutual, Inc. ("EMI"). On May 9, 2005, EMI's employee benefits administration business was sold to WebTPA, effective April 30, 2005. As consideration for the sale, FPIC received $0.6 million, comprised of $0.4 million in cash and a $0.2 million interest bearing note receivable. A pre-tax gain of $0.4 million was recognized on the sale. On May 31, 2005, the remaining TPA segment operations were sold to a private investor. FPIC received $3.5 million as consideration for the sale. A pre-tax gain of $1.0 million was recognized on the sale. The results of operations and gain on sale of the former TPA segment are reported as discontinued operations. See Note 10, Discontinued Operations, to the accompanying condensed consolidated financial statements for additional information about the sale of our TPA segment. Financial data for the TPA segment for the three months and nine months ended September 30, 2005 and 2004 is summarized in the table below. Dollar amounts are in thousands.

	Three Months Ended			Nine Months Ended		
	Sept 30, 2005	Percentage Change	Sept 30, 2004	Sept 30, 2005	Percentage Change	Sept 30, 2004
Income from continuing operations	$ —	0%	$ —	$ —	0%	$ —
Discontinued Operations						
Income from discontinued operations (net of income taxes)	—	-100%	427	369	-60%	933
Gain on disposal of discontinued operations (net of income taxes)	—	0%	—	1,733	—	—
Discontinued operations	—	-100%	427	2,102	125%	933
Net income	$ —	-100%	$ 427	$ 2,102	125%	$ 933

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in the reported market risks, as described in our Annual Report on Form 10-K for the year ended December 31, 2004.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures

An evaluation of the effectiveness of FPIC's disclosure controls and procedures (as defined by Rule 13a-15(e) of the Securities Exchange Act of 1934), was completed as of September 30, 2005 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 SEC, 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.

(b) Internal Control Over Financial Reporting

There have been no significant changes in FPIC's internal controls over financial reporting identified in connection with the evaluation referred to in paragraph (a) above that occurred during the third quarter of 2005 and that have materially affected, or are reasonably likely to materially affect, FPIC's internal control over financial reporting.

Part II
OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. -- None

Item 3. Defaults Upon Senior Securities. - None

Item 4. Submission of Matters to a Vote of Security Holders. -- None

Item 5. Other Information.

There have been no material changes to the procedures by which security holders recommend nominees to the board of directors.

Item 6. Exhibits.

10(kkkk)*	Form of Indemnity Agreement dated July 15, 2005 between the Registrant and Russell W. Park, III.
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.

*Management contract or compensatory plan or arrangement.

Signature

Pursuant to the requirements 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.

November 7, 2005

FPIC Insurance Group, Inc.

By: /s/ Kim D. Thorpe

Kim D. Thorpe
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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FPIC Insurance Group, Inc.
Condensed Consolidated Statements of Financial Position
As of September 30, 2005 and December 31, 2004
(unaudited)
(in thousands, except common share data)

		Sept 30, 2005	Dec 31, 2004
Assets			
Investments:			
Fixed maturity securities available for sale, at fair value	$	619,437	548,543
Short term investments		48,353	—
Other invested assets		6,906	7,175
Total investments		674,696	555,718
Cash and cash equivalents		83,064	128,250
Premiums receivable, net (Note 8)		104,586	94,282
Reinsurance recoverable on paid losses (Note 8)		11,750	19,140
Due from reinsurers on unpaid losses and advance premiums (Note 8)		292,653	333,419
Ceded unearned premiums (Note 8)		16,032	28,147
Deferred policy acquisition costs (Note 8)		14,123	11,280
Other assets (Note 8)		88,653	101,070
Total assets	$	1,285,557	1,271,306
Liabilities and Shareholders' Equity			
Policy Liabilities and Accruals:			
Losses and loss adjustment expenses (Note 8)	$	633,924	635,118
Unearned premiums (Note 8)		204,591	177,003
Reinsurance payable (Note 8)		112,129	134,639
Paid in advance and unprocessed premiums		7,013	13,698
Total policy liabilities and accruals		957,657	960,458
Long term debt		46,083	46,083
Other liabilities (Note 8)		39,367	47,514
Total liabilities		1,043,107	1,054,055
Commitments and contingencies (Note 6)			
Minority interest		3	131
Common stock, $0.10 par value, 50,000,000 shares authorized; 10,372,326 and 10,069,532 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively		1,037	1,007
Additional paid-in capital		54,465	47,871
Unearned compensation		(1,919)	—
Retained earnings		191,595	165,880
Accumulated other comprehensive (loss) income, net		(2,731)	2,362
Total shareholders' equity		242,447	217,120
Total liabilities and shareholders' equity	$	1,285,557	1,271,306

See accompanying notes to the condensed consolidated financial statements.

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FPIC Insurance Group, Inc.
Condensed Consolidated Statements of Income
For the Three Months and Nine Months Ended September 30, 2005 and 2004
(unaudited)
(in thousands, except per common share data)

	Three Months Ended		Nine Months Ended	
	Sept 30, 2005	Sept 30, 2004	Sept 30, 2005	Sept 30, 2004
Revenues				
Net premiums earned (Note 8)	$ 57,981	38,873	162,058	105,552
Insurance management fees (Note 8)	10,642	10,389	31,209	27,881
Net investment income	6,290	5,032	18,312	15,218
Commission income	432	1,932	1,546	5,275
Net realized investment (losses) gains (Note 2)	(139)	(110)	(179)	3,363
Other income	209	302	571	664
Total revenues	75,415	56,418	213,517	157,953
Expenses				
Net losses and loss adjustment expenses (Note 8)	42,014	32,801	121,540	89,434
Other underwriting expenses (Note 8)	10,074	2,676	25,680	6,894
Insurance management expenses	8,225	7,039	23,361	21,811
Interest expense on debt	898	656	2,494	1,852
Other expenses (Note 8)	1,712	2,038	5,420	5,674
Total expenses	62,923	45,210	178,495	125,665
Income from continuing operations before income taxes and minority interest	12,492	11,208	35,022	32,288
Less: Income tax expense	3,958	4,080	11,537	11,923
Income from continuing operations before minority interest	8,534	7,128	23,485	20,365
Less: Minority interest	(56)	26	(128)	303
Income from continuing operations	8,590	7,102	23,613	20,062
Discontinued Operations				
Income from discontinued operations (net of income taxes)	—	427	369	933
Gain on disposal of discontinued operations (net of income taxes)	—	—	1,733	—
Discontinued operations	—	427	2,102	933
Net income	$ 8,590	7,529	25,715	20,995
Basic earnings per common share:				
Income from continuing operations	$ 0.84	0.71	2.31	2.02
Discontinued operations	—	0.04	0.21	0.09
Basic earnings per common share	$ 0.84	0.75	2.52	2.11
Diluted earnings per common share:				
Income from continuing operations	$ 0.80	0.68	2.20	1.91
Discontinued operations	—	0.04	0.20	0.09
Diluted earnings per common share	$ 0.80	0.72	2.40	2.00
Basic weighted average common shares outstanding	10,278	10,003	10,194	9,954
Diluted weighted average common shares outstanding	10,783	10,522	10,704	10,502

See accompanying notes to the condensed consolidated financial statements.

FPIC Insurance Group, Inc.

Condensed Consolidated Statements of Shareholders' Equity and Comprehensive Income
For the Nine Months Ended September 30, 2005 and 2004
(unaudited)
(in thousands, expect common share data)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net	Total
Balances at December 31, 2004	10,069,532	$ 1,007	47,871	—	165,880	2,362	217,120
Net income	—	—	—	—	25,715	—	25,715
Minimum pension liability adjustment, net	—	—	—	—	—	392	392
Unrealized loss on fixed maturity investments and other invested assets, net	—	—	—	—	—	(5,484)	(5,484)
Unrealized loss on derivative financial instruments, net	—	—	—	—	—	(1)	(1)
Comprehensive income							20,622
Unearned compensation	—	8	2,341	(1,919)	—	—	430
Issuance of shares	302,794	22	3,425	—	—	—	3,447
Income tax reductions relating to exercise of stock options	—	—	828	—	—	—	828
Balances at September 30, 2005	10,372,326	$ 1,037	54,465	(1,919)	191,595	(2,731)	242,447

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income, Net	Total
Balances at December 31, 2003	9,770,843	$ 977	43,705	—	137,699	4,276	186,657
Net income	—	—	—	—	20,995	—	20,995
Minimum pension liability adjustment, net	—	—	—	—	—	(392)	(392)
Unrealized loss on fixed maturity investments and other invested assets, net	—	—	—	—	—	(336)	(336)
Unrealized loss on derivative financial instruments, net	—	—	—	—	—	(311)	(311)
Comprehensive income							19,956
Issuance of shares	251,191	25	2,563	—	—	—	2,588
Income tax reductions relating to exercise of stock options	—	—	108	—	—	—	108
Balances at September 30, 2004	10,022,034	$ 1,002	46,376	—	158,694	3,237	209,309

See accompanying notes to the condensed consolidated financial statements.

FPIC Insurance Group, Inc.
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2005 and 2004
(unaudited)
(in thousands)

	Nine Months Ended	
	Sept 30, 2005	Sept 30, 2004
Net Cash Provided by Operating Activities	$ 81,319	34,101
Cash Flows from Investing Activities:		
Proceeds from maturities and sale of fixed maturities available for sale	300,406	400,259
Purchase of fixed maturities available for sale	(383,148)	(419,246)
Proceeds from sale of other invested assets	434	2,601
Proceeds from sale of real estate investments	—	42
Purchase of real estate investments	(220)	(4)
Proceeds from maturities and sale of short-term investments	12,300	—
Purchase of short-term investments	(60,713)	—
Proceeds from disposition of subsidiary	3,928	—
Proceeds from sale of property and equipment	2	—
Purchase of property and equipment	(2,941)	(2,567)
Net cash used in investing activities	(129,952)	(18,915)
Cash Flows from Financing Activities:		
Issuance of common stock	3,447	2,588
Net cash provided by financing activities	3,447	2,588
Net (decrease) increase in cash and cash equivalents	(45,186)	17,774
Cash and cash equivalents at beginning of period	128,250	85,064
Cash and cash equivalents at end of period	$ 83,064	102,838
Supplemental Disclosure of Cash Flow Information:		
Interest paid on debt	$ 2,386	1,841
Federal income taxes paid	$ 6,200	8,100
Federal income tax refunds received	$ 74	—

See accompanying notes to the condensed consolidated financial statements.

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1. Organization and Basis of Presentation

The accompanying condensed consolidated financial statements represent the consolidation of FPIC Insurance Group, Inc. (“FPIC”) and all majority owned and controlled subsidiaries. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All significant transactions between the parent and consolidated subsidiaries have been eliminated. Reference is made to our most recently filed Annual Report on Form 10-K, which includes information necessary for understanding our businesses and financial statement presentations. In particular, our significant accounting policies are presented in Note 2, Significant Accounting Policies, to the consolidated financial statements included in that report.

These condensed consolidated interim financial statements are unaudited. These statements include all adjustments, consisting only of normal recurring accruals, that are, in the opinion of management, necessary for the fair statement of results for interim periods. Certain prior period amounts presented in the condensed consolidated financial statements have been reclassified to conform to the current presentation. The results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. For example, the timing and magnitude of claim losses incurred by our insurance subsidiaries due to the estimation process inherent in determining the liability for losses and loss adjustment expenses (“LAE”) can be relatively more significant to results of interim periods than to results for a full year. Also, variations in the amount and timing of realized investment gains and losses could cause significant variations in periodic net income.

Stock-Based Compensation

FPIC has elected to adopt Statement of Financial Accounting Standards No. (“FAS”) 123, “Accounting for Stock-Based Compensation,” on a disclosure basis only and measure stock-based compensation in accordance with Accounting Principles Board Opinion No. 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, “Accounting for Stock-Based Compensation, Transition and Disclosure.”

(in thousands, except 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 and basic and diluted earnings per common share would have been impacted as follows:

	Three Months Ended		Nine Months Ended	
	Sept 30, 2005	Sept 30, 2004	Sept 30, 2005	Sept 30, 2004
Pro Forma Net Income:				
Net income, as reported	$ 8,590	7,529	25,715	20,995
Stock-based compensation expense included in net income, net of income taxes	129	—	264	—
Stock-based compensation expense determined under fair value based method, net of income taxes	(411)	(318)	(1,171)	(914)
Pro forma net income	$ 8,308	7,211	24,808	20,081
Basic Earnings Per Common Share:				
Net income, as reported	$ 0.84	0.75	2.52	2.11
Stock-based compensation expense included in net income, net of income taxes	0.01	—	0.03	—
Stock-based compensation expense determined under fair value based method, net of income taxes	(0.04)	(0.03)	(0.12)	(0.09)
Pro forma net income	$ 0.81	0.72	2.43	2.02
Diluted Earnings Per Common Share:				
Net income, as reported	$ 0.80	0.72	2.40	2.00
Stock-based compensation expense included in net income, net of income taxes	0.01	—	0.03	—
Stock-based compensation expense determined under fair value based method, net of income taxes	(0.04)	(0.03)	(0.11)	(0.09)
Pro forma net income	$ 0.77	0.69	2.32	1.91

FPIC has also granted shares of restricted stock under its equity compensation plans. These grants entitle the holder to shares of common stock as the award vests. Under the fair value recognition provisions of FAS 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Stock-based compensation cost is accrued at the measurement date and is reported as unearned compensation, a component of shareholders' equity in the condensed consolidated statements of financial position.

FPIC Insurance Group, Inc.
Notes to the Condensed Consolidated Financial Statements
(in thousands, except as noted)
(Unaudited)

2. Investments

Realized investment gains and losses are determined on the basis of specific identification. Declines in the fair value of securities considered to be other-than-temporary, if any, are recorded as realized losses in the condensed consolidated statements of income. Data with respect to fixed maturities available for sale are presented in the table below.

	Nine Months Ended		
		Sept 30, 2005	Sept 30, 2004
Proceeds from sales and maturities	$	300,406	400,259
Gross realized gains on sales	$	1,176	5,153
Gross realized losses on sales	$	(1,355)	(3,127)

	As of		
		Sept 30, 2005	Dec 31, 2004
Amortized cost of investments in fixed maturity securities available for sale	$	624,232	544,296
Gross unrealized gains on fixed maturity securities available for sale	$	3,102	7,362
Gross unrealized losses on fixed maturity securities available for sale	$	(7,897)	(3,115)

Net realized investment gains on all investments for the nine months ended September 30, 2004 totaled $3,363. In addition to the gains and losses on sales of fixed maturity securities summarized in the table above, net realized investment gains for the nine months ended September 30, 2004 included gains of $4 on the sale of real estate and $2,120 on the sale of an investment in a limited partnership and losses of $787 resulting from the recognition of an other-than-temporary impairment of a private equity holding included in our other invested assets.

Short-term investments, which have an original maturity of one year or less, were $48,353 as of September 30, 2005 and are comprised mainly of investments in U.S. Treasury and corporate securities. These investments are reported at amortized cost, which approximates fair value.

3. Reinsurance

The effects of ceded reinsurance on premiums written, premiums earned, and losses and LAE incurred for the three and nine months ended September 30, 2005 and 2004 are presented in the table below.

		Three Months Ended				Nine Months Ended			
		Sept 30, 2005		Sept 30, 2004		Sept 30, 2005		Sept 30, 2004	
		Written	Earned	Written	Earned	Written	Earned	Written	Earned
Direct and assumed premiums	$	78,937	67,055	77,179	76,929	230,235	202,647	252,884	237,676
Ceded premiums		(9,568)	(9,074)	(12,061)	(38,056)	(28,473)	(40,589)	(110,835)	(132,124)
Net premiums	$	69,369	57,981	65,118	38,873	201,762	162,058	142,049	105,552

		Three Months Ended		Nine Months Ended	
		Sept 30, 2005	Sept 30, 2004	Sept 30, 2005	Sept 30, 2004
Losses and LAE incurred	$	48,447	55,689	143,934	181,974
Reinsurance recoverable		(6,433)	(22,888)	(22,394)	(92,540)
Net losses and LAE incurred	$	42,014	32,801	121,540	89,434

(in thousands, except as noted)

We renewed our excess of loss reinsurance program, effective January 1, 2005. The 2005 agreement includes a loss-corridor under which FPIC retains losses incurred in the excess layers from the point at which such losses reach 80% of ceded reinsurance premium and up to 110% of the ceded reinsurance premium, at which point such losses become subject to the reinsurance once again. We estimate that the maximum losses that would be retained assuming we were to realize or surpass the entire loss-corridor to be approximately $9.0 million. In addition, FPIC's reinsurance premium rate decreased approximately 16% for 2005 from 2004. Other than the addition of the loss-corridor and the reduced rate, the structure and coverage of such agreements are generally similar to those of our 2004 excess of loss reinsurance program.

We terminated further cessions under the Hannover Re net account quota share reinsurance agreement, effective July 1, 2004. The business already ceded through June 30, 2004, continues to be subject to the agreement and has gone into run-off.

During May 2005, First Professionals Insurance Company, Inc. and Anesthesiologists Professional Assurance Company entered into agreements to commute their 25% quota share ceded reinsurance with American Professional Assurance, Ltd. Under the terms of the agreements, the two companies assumed policy liabilities previously ceded under the contracts of approximately $10,180 and received a comparable amount of assets in the form of cash and investments, resulting in no material gain or loss on the transaction.

Reference is made to Note 8, Related Party Transactions, to the condensed consolidated financial statements included in this quarterly report for the period ended September 30, 2005, and to Note 8, Reinsurance, and Note 18, Related Party Transactions, to the consolidated financial statements included in our most recently filed Annual Report on Form 10-K, which include additional information regarding reinsurance involving related parties.

4. Employee Benefit Plans

The components of the actuarially computed net periodic pension cost for our two defined benefit plans, our excess benefit plan and our supplemental executive retirement plan for the nine months ended September 30, 2005 and 2004 are summarized in the table below on a consolidated basis.

	Nine Months Ended	
	Sept 30, 2005	Sept 30, 2004
Service cost of benefits earned during the period	$ 1,683	1,602
Interest cost on projected benefit obligation	1,104	1,038
Expected return on plan assets	(816)	(694)
Recognized net actuarial loss	88	59
Net amortization and deferral	602	851
Net periodic pension cost	$ 2,661	2,856

FPIC and its subsidiaries have made contributions to their employee post-retirement plans of $4,019 during the nine months ended September 30, 2005. We currently anticipate contributing an additional $905 to our employee post-retirement plans during the remainder of 2005 for total contributions during 2005 of $4,924.

Reference is made to Note 13, Employee Benefit Plans, to the consolidated financial statements included in our most recently filed Annual Report on Form 10-K, which includes additional information regarding our benefit plans.

(in thousands, except as noted)

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5. Reconciliation of Basic and Diluted Earnings per Common Share

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

	Three Months Ended		Nine Months Ended	
	Sept 30, 2005	Sept 30, 2004	Sept 30, 2005	Sept 30, 2004
Income from continuing operations	$ 8,590	7,102	23,613	20,062
Discontinued operations	—	427	2,102	933
Net income	$ 8,590	7,529	25,715	20,995
Basic Earnings per Common Share:				
Income from continuing operations	$ 0.84	0.71	2.31	2.02
Discontinued operations	—	0.04	0.21	0.09
Basic earnings per common share	$ 0.84	0.75	2.52	2.11
Diluted Earnings per Common Share:				
Income from continuing operations	$ 0.80	0.68	2.20	1.91
Discontinued operations	—	0.04	0.20	0.09
Diluted earnings per common share	$ 0.80	0.72	2.40	2.00
Basic weighted average shares outstanding	10,278	10,003	10,194	9,954
Common stock equivalents	505	519	510	548
Diluted weighted average shares outstanding	10,783	10,522	10,704	10,502

Excluded from the calculations of diluted earnings per common share for the three months ended September 30, 2005 and 2004 were options outstanding of 60 and 169, respectively, to purchase shares of common stock, as they were antidilutive. Excluded from the calculations of diluted earnings per common share for the nine months ended September 30, 2005 and 2004 were options outstanding of 60 and 132, respectively, to purchase shares of common stock, as they were antidilutive.

6. Commitments and Contingencies

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 September 30, 2005, and believes its positions 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.

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 September 30, 2005, 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 or the first nine months of 2005. In addition, FPIC could be subject to additional assessments in the future as a result of losses caused by catastrophic events, 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 Administrators For The Professions ("AFP") and Physicians' Reciprocal Insurers ("PRI"), a major client

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 $3,548 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, under the management agreement, 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 Insurance Group, Inc.
Notes to the Condensed Consolidated Financial Statements
(in thousands, except as noted)
(Unaudited)

7. Segment Information

The accounting policies of FPIC's segments are those described in the summary of significant accounting policies found in Note 2, Significant Accounting Policies, to the consolidated financial statements included in our most recently filed Annual Report on Form 10-K.

Selected financial information by segment is summarized in the tables below.

	Three Months Ended Sept 30, 2005						
		Insurance	Insurance Management	Third Party Administration	Total Segments	Intersegment Eliminations	Consolidated
Total revenues	$	64,234	11,312	—	75,546	(131)	75,415
Interest expense on debt	$	898	—	—	898	—	898
Income tax expense	$	2,767	1,191	—	3,958	—	3,958
Income from continuing operations	$	6,675	1,915	—	8,590	—	8,590
Discontinued operations	$	—	—	—	—	—	—
Net income	$	6,675	1,915	—	8,590	—	8,590

	Three Months Ended Sept 30, 2004						
		Insurance	Insurance Management	Third Party Administration	Total Segments	Intersegment Eliminations	Consolidated
Total revenues	$	44,030	13,300	—	57,330	(912)	56,418
Interest expense on debt	$	656	—	—	656	—	656
Income tax expense	$	1,539	2,541	—	4,080	—	4,080
Income from continuing operations	$	3,545	3,641	—	7,186	(84)	7,102
Discontinued operations	$	—	—	343	343	84	427
Net income	$	3,545	3,641	343	7,529	—	7,529

	Nine Months Ended Sept 30, 2005						
		Insurance	Insurance Management	Third Party Administration	Total Segments	Intersegment Eliminations	Consolidated
Total revenues	$	180,572	33,437	—	214,009	(492)	213,517
Interest expense on debt	$	2,494	—	—	2,494	—	2,494
Income tax expense	$	7,325	4,212	—	11,537	—	11,537
Income from continuing operations	$	17,816	5,899	—	23,715	(102)	23,613
Discontinued operations	$	—	—	2,000	2,000	102	2,102
Net income	$	17,816	5,899	2,000	25,715	—	25,715

	Nine Months Ended Sept 30, 2004						
		Insurance	Insurance Management	Third Party Administration	Total Segments	Intersegment Eliminations	Consolidated
Total revenues	$	124,769	36,110	—	160,879	(2,926)	157,953
Interest expense on debt	$	1,852	—	—	1,852	—	1,852
Income tax expense	$	6,220	5,703	—	11,923	—	11,923
Income from continuing operations	$	12,180	8,133	—	20,313	(251)	20,062
Discontinued operations	$	—	—	682	682	251	933
Net income	$	12,180	8,133	682	20,995	—	20,995

		Insurance	Insurance Management	Third Party Administration	Total Segments	Intersegment Eliminations	Consolidated
Identifiable assets as of September 30, 2005	$	1,248,313	39,263	—	1,287,576	(2,019)	1,285,557
Identifiable assets as of December 31, 2004	$	1,225,761	44,520	5,354	1,275,635	(4,329)	1,271,306

(in thousands, except as noted)

8. Related Party Transactions

Following are summaries of the related party transactions of FPIC and its consolidated subsidiaries included in the condensed consolidated statements of financial position as of September 30, 2005 and December 31, 2004, and the condensed consolidated statements of income for the three months and nine months ended September 30, 2005 and 2004. Credit balances are presented parenthetically. Refer to Note 3, Reinsurance, for information regarding the commutation of the quota share reinsurance agreement with APAL.

Reference is made to Note 18, Related Party Transactions, to the consolidated financial statements included in our most recently filed Annual Report on Form 10-K, which includes additional information regarding our related party transactions.

		As of	
		Sept 30, 2005	Dec 31, 2004
Statements of Financial Position:			
Premiums receivable	$	7,206	5,374
Reinsurance recoverable on paid losses	$	—	2,663
Reinsurance recoverable on unpaid losses and advance premiums	$	—	10,538
Reinsurance recoverable on unpaid losses and advance premiums, fronting arrangements [(1)]	$	34,162	72,224
Ceded unearned premiums, fronting arrangements [(2)]	$	—	2,550
Deferred policy acquisition costs	$	3,184	3,002
Other assets	$	3,115	7,882
Liability for losses and LAE	$	(20,918)	(25,292)
Unearned premiums	$	(50,228)	(46,575)
Reinsurance payable	$	—	(248)
Reinsurance payable, fronting arrangements	$	—	(4,372)
Other liabilities	$	(7,345)	(7,793)

(1) Corresponding direct liabilities for losses and LAE to unrelated parties under fronting arrangements were ($34,606) and ($73,122) as of September 30, 2005 and December 31, 2004, respectively.

(2) Corresponding direct unearned premiums from unrelated parties under fronting arrangements were ($2,550) as of December 31, 2004.

(in thousands, except as noted)

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		Three Months Ended		Nine Months Ended	
		Sept 30, 2005	Sept 30, 2004	Sept 30, 2005	Sept 30, 2004
Statements of Income:					
Net premiums earned	$	(396)	(281)	(1,308)	(3,028)
Net premiums earned, fronting arrangements [(1)]	$	157	8,241	3,317	30,469
Insurance management fees	$	(10,832)	(10,389)	(31,399)	(27,881)
Commission income	$	10	(1,176)	(353)	(1,158)
Net losses and LAE	$	257	134	475	647
Net losses and LAE, fronting arrangements [(2)]	$	(157)	(1,871)	(2,212)	(21,696)
Other underwriting expenses	$	(41)	(115)	(170)	473
Other underwriting expenses, fronting arrangements	$	(44)	(1,358)	(396)	(4,598)
Other expenses	$	28	53	84	160

(1) Corresponding direct premiums earned from unrelated parties under fronting arrangements were ($162) and ($8,241) for the three months ended September 30, 2005 and 2004, respectively, and ($3,323) and ($30,464) for the nine months ended September 30, 2005 and 2004, respectively.

(2) Corresponding direct losses and LAE incurred to unrelated parties under fronting arrangements were $162 and $1,875 for the three months ended September 30, 2005 and 2004, respectively, and $2,218 and $21,752 for the nine months ended September 30, 2005 and 2004, respectively.

9. New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (“FASB”) 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 and non-employee directors to be accounted for as compensation expense and recorded at fair value. Consistent with the provisions of the Securities Exchange Commission Release No. 2005-57, we intend to adopt FAS 123(R) in the first quarter of 2006. 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 can be found in Note 1, Organization and Basis of Presentation, to the condensed consolidated financial statements within this Form 10-Q. A number of technical implementation issues are yet to be resolved, including the selection and use of an appropriate valuation model, and thus, the ultimate impact of adopting FAS 123(R) is not yet known.

10. Discontinued Operations

Effective April 30, 2005, we sold the third party administration segment’s employee benefits administration business to WebTPA. As consideration for the sale, we received $628, which was comprised of $428 in cash and a $200 interest bearing note receivable. A pre-tax gain of $366 ($225 after-tax) was recognized on the sale. See Note 20, Subsequent Event, to the consolidated financial statements included in our most recently filed Annual Report on Form 10-K, for additional information about the transaction with WebTPA.

Effective June 2, 2005, we sold our subsidiary, Employers Mutual, Inc., to a private investor. As consideration for the sale we received $3,500 in cash. A pre-tax gain of $1,008 ($1,508 after-tax) was recognized on the sale.

FPIC Insurance Group, Inc.
Notes to the Condensed Consolidated Financial Statements
(in thousands, except as noted)
(Unaudited)

In accordance with the reporting requirements of FAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the results of the third party administration segment have been reported as discontinued operations and are summarized in the tables below.

	Three Months Ended		Nine Months Ended	
	Sept 30, 2005	Sept 30, 2004	Sept 30, 2005	Sept 30, 2004
Revenues				
Claims administration and management fees	$ —	3,421	4,646	10,717
Net investment gain (loss)	—	7	(3)	6
Commission income	—	809	506	1,608
Total revenues	—	4,237	5,149	12,331
Expenses				
Claims administration and management expenses	—	3,590	4,606	10,957
Total expenses	—	3,590	4,606	10,957
Income from discontinued operations before income taxes	—	647	543	1,374
Less: Income tax expense	—	220	174	441
Income from discontinued operations	—	427	369	933
Gain on disposal of discontinued operations (net of income taxes)	—	—	1,733	—
Discontinued operations	$ —	427	2,102	933

	As of Sept 30, 2005	As of Dec 31, 2004
Assets		
Cash and cash equivalents	$ —	1,875
Deferred tax assets	—	1,365
Other assets	—	2,114
Total assets	$ —	5,354
Liabilities		
Other liabilities	$ —	1,661
Total liabilities	$ —	1,661

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Agreement"), made as of July 15, 2005, by and between **FPIC INSURANCE GROUP, INC.**, a Florida corporation (the "Company"), and **RUSSELL W. PARK,** 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 he may become personally exposed as a result of performing his 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 his 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 he 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 him or any inaction on his part while acting as such director and/or officer or by reason of the fact that he 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 he 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 he 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 he is duly elected or appointed or until such time as he tenders his 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 he reasonably believed to be in good faith and in a manner he 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 he acted in good faith and in a manner which he 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 his 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 he 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 him 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/ Russell W. Park

Russell W. Park

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 Quarterly Report on Form 10-Q 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.

November 7, 2005

/s/ 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 Quarterly Report on Form 10-Q 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.

November 7, 2005

/s/ Kim D. Thorpe

Executive Vice President and
Chief Financial Officer

<u>Exhibit 32</u>

Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of FPIC Insurance Group, Inc. (the “Company”) on Form 10-Q for the quarter ending September 30, 2005 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.

November 7, 2005

/s/ John R. Byers

President and Chief Executive Officer

/s/ Kim D. Thorpe

Executive Vice President and Chief Financial Officer