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

FORM 10-Q

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2008  
or  
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-11983

**FPIC Insurance Group, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Florida  
(State or Other Jurisdiction of Incorporation)

59-3359111  
(IRS Employer Identification No.)

225 Water Street, Suite 1400  
Jacksonville, Florida 32202  
(Address of Principal Executive Offices)

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

[www.fpic.com](http://www.fpic.com)

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-accelerated Filer ☐

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

As of April 28, 2008, there were 8,809,297 shares of the Registrant's common stock, \$.10 par value, outstanding.

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**FPIC Insurance Group, Inc.**  
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For the Quarter Ended March 31, 2008

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**Part I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**FPIC Insurance Group, Inc.**

Unaudited Consolidated Statements of Financial Position

(in thousands, except shares authorized, issued and outstanding)

|   | As of<br>March 31, 2008 | As of<br>December 31, 2007 |
|---|-------------------------|----------------------------|
| <b>Assets</b>   |                         |                            |
| Investments:  |                         |                            |
| Fixed income securities, available-for-sale   | \$ 700,268              | 689,172                    |
| Equity securities, available-for-sale   | 15,177                  | 14,912                     |
| Short-term investments  | 1,479                   | 1,479                      |
| Other invested assets   | 5,672                   | 5,494                      |
| <b>Total investments (Note 8)</b>   | <b>722,596</b>          | <b>711,057</b>             |
| Cash and cash equivalents   | 64,847                  | 70,229                     |
| Premiums receivable (net of an allowance of \$300 as of March 31, 2008 and December 31, 2007)   | 65,216                  | 65,221                     |
| Accrued investment income   | 8,194                   | 8,439                      |
| Reinsurance recoverable on paid losses  | 3,463                   | 3,458                      |
| Due from reinsurers on unpaid losses and advance premiums   | 141,816                 | 144,335                    |
| Ceded unearned premiums   | 10,984                  | 9,764                      |
| Deferred policy acquisition costs   | 10,044                  | 9,662                      |
| Deferred income taxes   | 30,847                  | 32,566                     |
| Goodwill  | 10,833                  | 10,833                     |
| Other assets  | 9,623                   | 11,458                     |
| <b>Total assets</b>   | <b>\$ 1,078,463</b>     | <b>1,077,022</b>           |
| <b>Liabilities and Shareholders' Equity</b>   |                         |                            |
| Policy liabilities and accruals:  |                         |                            |
| Losses and loss adjustment expenses   | \$ 582,763              | 585,087                    |
| Unearned premiums   | 110,408                 | 108,894                    |
| Reinsurance payable   | 2,547                   | 1,268                      |
| Paid in advance and unprocessed premiums  | 7,305                   | 10,981                     |
| <b>Total policy liabilities and accruals</b>  | <b>703,023</b>          | <b>706,230</b>             |
| Long-term debt  | 46,083                  | 46,083                     |
| Other liabilities   | 29,927                  | 29,112                     |
| <b>Total liabilities</b>  | <b>779,033</b>          | <b>781,425</b>             |
| <b>Commitments and contingencies (Note 10)</b>  |                         |                            |
| Preferred stock, \$0.10 par value, 50,000,000 shares authorized; none issued  | —                       | —                          |
| Common stock, \$0.10 par value, 50,000,000 shares authorized; 8,830,231 and 8,949,401 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively | 883                     | 895                        |
| Additional paid-in capital  | —                       | —                          |
| Retained earnings   | 297,545                 | 295,586                    |
| Accumulated other comprehensive income (loss), net  | 1,002                   | (884)                      |
| <b>Total shareholders' equity</b>   | <b>299,430</b>          | <b>295,597</b>             |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 1,078,463</b>     | <b>1,077,022</b>           |

See the accompanying notes to the unaudited consolidated financial statements.  
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**FPIC Insurance Group, Inc.**  
Unaudited Consolidated Statements of Income

(in thousands, except earnings per common share)

|  | For the Quarter Ended<br>March 31, 2008 | For the Quarter Ended<br>March 31, 2007 |
|--|---|---|
| Revenues   |   |   |
| Net premiums earned                                | \$ 44,293                               | 51,602                                  |
| Net investment income                              | 7,747                                   | 7,987                                   |
| Net realized investment (losses) gains             | (92)                                    | 74                                      |
| Other income                                       | 97                                      | 77                                      |
| Total revenues                                     | 52,045                                  | 59,740                                  |
| Expenses   |   |   |
| Net losses and loss adjustment expenses            | 25,155                                  | 21,647                                  |
| Other underwriting expenses                        | 9,941                                   | 9,777                                   |
| Interest expense on debt                           | 1,065                                   | 1,088                                   |
| Other expenses                                     | 7                                       | 10                                      |
| Total expenses                                     | 36,168                                  | 32,522                                  |
| Income before income taxes                         | 15,877                                  | 27,218                                  |
| Less: Income tax expense                           | 5,049                                   | 9,472                                   |
| Net income   | \$ 10,828                               | 17,746                                  |
| Basic earnings per common share                    | \$ 1.23                                 | 1.81                                    |
| Basic weighted average common shares outstanding   | 8,776                                   | 9,801                                   |
| Diluted earnings per common share                  | \$ 1.19                                 | 1.75                                    |
| Diluted weighted average common shares outstanding | 9,089                                   | 10,161                                  |

See the accompanying notes to the unaudited consolidated financial statements.  
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# **FPIC Insurance Group, Inc.**

## Unaudited Consolidated Statements of Shareholders' Equity

*(in thousands)*

|  | Shares of<br>Common<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Unearned<br>Compensation | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Loss, Net | Comprehensive<br>Income | Total     |
|--|------------------------------|-----------------|----------------------------------|--------------------------|----------------------|---|-------------------------|-----------|
| Balances at December 31, 2007  | 8,949,401                    | \$ 895          | \$ —                             | \$ —                     | \$295,586            | \$ (884)  |                         | \$295,597 |
| Net income   | —                            | —               | —                                | —                        | 10,828               | —   | 10,828                  | 10,828    |
| Other comprehensive income<br>(loss), net of tax                         | —                            | —               | —                                | —                        | —                    | —   | —                       | —         |
| Unrealized gain on invested<br>assets, net of tax                        | —                            | —               | —                                | —                        | —                    | 1,885   | 1,885                   | 1,885     |
| Unrealized gain on derivative<br>financial instruments, net of<br>tax    | —                            | —               | —                                | —                        | —                    | 44  | 44                      | 44        |
| Prior service cost   | —                            | —               | —                                | —                        | —                    | 7   | 7                       | 7         |
| Transition obligation  | —                            | —               | —                                | —                        | —                    | 5   | 5                       | 5         |
| Net gain on pension plan   | —                            | —               | —                                | —                        | —                    | 3   | 3                       | 3         |
| Other comprehensive<br>income  | —                            | —               | —                                | —                        | —                    | —   | 1,944                   | —         |
| Comprehensive income   | —                            | —               | —                                | —                        | —                    | —   | 12,772                  | —         |
| Cumulative adjustment to adopt<br>FAS 158 measurement date<br>provisions | —                            | —               | —                                | —                        | (89)                 | (58)  | —                       | (147)     |
| Issuance of restricted stock   | 18,517                       | 2               | 562                              | —                        | —                    | —   | —                       | 564       |
| Issuance of shares   | 218,426                      | 22              | 4,265                            | —                        | —                    | —   | —                       | 4,287     |
| Repurchase of shares   | (356,113)                    | (36)            | (6,511)                          | —                        | (8,780)              | —   | —                       | (15,327)  |
| Share-based compensation   | —                            | —               | 189                              | —                        | —                    | —   | —                       | 189       |
| Income tax reductions relating to<br>exercise of stock options           | —                            | —               | 1,495                            | —                        | —                    | —   | —                       | 1,495     |
| Balances at March 31, 2008   | 8,830,231                    | \$ 883          | \$ —                             | \$ —                     | \$297,545            | \$ 1,002  |                         | \$299,430 |

*(in thousands)*

|  | Shares of<br>Common<br>Stock | Common<br>Stock | Additional<br>Paid-in<br>Capital | Unearned<br>Compensation | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Loss, Net | Comprehensive<br>Income | Total     |
|--|------------------------------|-----------------|----------------------------------|--------------------------|----------------------|---|-------------------------|-----------|
| Balances at December 31, 2006                                  | 10,063,937                   | \$ 1,006        | \$ 37,735                        | \$ —                     | \$252,490            | \$ (5,977)                                      |                         | \$285,254 |
| Net income   | —                            | —               | —                                | —                        | 17,746               | —   | 17,746                  | 17,746    |
| Other comprehensive income<br>(loss), net of tax               | —                            | —               | —                                | —                        | —                    | —   | —                       | —         |
| Unrealized gain on invested<br>assets, net                     | —                            | —               | —                                | —                        | —                    | 910   | 910                     | 910       |
| Unrealized loss on derivative<br>financial instruments, net    | —                            | —               | —                                | —                        | —                    | (75)  | (75)                    | (75)      |
| Prior service cost   | —                            | —               | —                                | —                        | —                    | (7)   | (7)                     | (7)       |
| Transition obligation  | —                            | —               | —                                | —                        | —                    | (5)   | (5)                     | (5)       |
| Net loss on pension plan                                       | —                            | —               | —                                | —                        | —                    | (4)   | (4)                     | (4)       |
| Other comprehensive income                                     | —                            | —               | —                                | —                        | —                    | —   | 819                     | —         |
| Comprehensive income   | —                            | —               | —                                | —                        | —                    | —   | 18,565                  | —         |
| Cumulative adjustment to adopt<br>FIN 48                       | —                            | —               | —                                | —                        | (84)                 | —   | —                       | (84)      |
| Issuance of restricted stock                                   | 25,626                       | 3               | 391                              | —                        | —                    | —   | —                       | 394       |
| Issuance of shares   | 39,659                       | 4               | 826                              | —                        | —                    | —   | —                       | 830       |
| Repurchase of shares   | (378,314)                    | (38)            | (15,259)                         | —                        | —                    | —   | —                       | (15,297)  |
| Share-based compensation                                       | —                            | —               | 335                              | —                        | —                    | —   | —                       | 335       |
| Income tax reductions relating to<br>exercise of stock options | —                            | —               | 272                              | —                        | —                    | —   | —                       | 272       |
| Balances at March 31, 2007                                     | 9,750,908                    | \$ 975          | \$ 24,300                        | \$ —                     | \$270,152            | \$ (5,158)                                      |                         | \$290,269 |

See the accompanying notes to the unaudited consolidated financial statements.

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**FPIC Insurance Group, Inc.**  
Unaudited Consolidated Statements of Cash Flows

(in thousands)

|   | For the Three Months Ended<br>March 31, 2008 | March 31, 2007 |
|---|--|----------------|
| Operating Activities  |  |                |
| Net income  | \$ 10,828                                    | 17,746         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |  |                |
| Depreciation, amortization and accretion  | 6,543  | 5,453          |
| Net realized losses (gains) on investments  | 92   | (74)           |
| Deferred policy acquisition costs, net of related amortization                              | (4,904)                                      | (4,688)        |
| Deferred income tax expense (benefit)   | 665  | (110)          |
| Excess tax benefits from share-based compensation   | (1,469)                                      | (239)          |
| Share-based compensation  | 755  | 728            |
| Other Changes in Assets and Liabilities   |  |                |
| Premiums receivable, net  | (7)  | 7,421          |
| Accrued investment income   | 245  | 1,060          |
| Reinsurance recoverable on paid losses  | (5)  | 2,752          |
| Due from reinsurers on unpaid losses and advance premiums                                   | 2,519  | 4,367          |
| Ceded unearned premiums   | (1,220)                                      | (208)          |
| Other assets and liabilities  | 84   | (881)          |
| Losses and loss adjustment expenses   | (2,324)                                      | (43,773)       |
| Unearned premiums   | 1,514  | (52,797)       |
| Reinsurance payable   | 1,279  | (8,036)        |
| Paid in advance and unprocessed premiums  | (3,676)                                      | (6,419)        |
| Net cash provided by (used in) operating activities   | 10,919                                       | (77,698)       |
| Investing Activities  |  |                |
| Proceeds from   |  |                |
| Sales of fixed income securities, available-for-sale  | 11,467                                       | 55,131         |
| Sales of other invested assets  | 5  | 10             |
| Maturities of fixed income securities, available-for-sale                                   | 18,545                                       | 3,690          |
| Maturities of short-term investments  | —  | 29,543         |
| Purchases of  |  |                |
| Fixed income securities, available-for-sale   | (34,806)                                     | (31,199)       |
| Equity securities   | (1,500)                                      | (6,400)        |
| Other invested assets   | (369)  | (28)           |
| Property and equipment  | (71)   | (3,915)        |
| Net cash (used in) provided by investing activities   | (6,729)                                      | 46,832         |
| Financing Activities  |  |                |
| Issuance of common stock  | 4,287  | 830            |
| Repurchase of common stock  | (15,328)                                     | (15,297)       |
| Excess tax benefits from share-based compensation   | 1,469  | 239            |
| Net cash used in financing activities   | (9,572)                                      | (14,228)       |
| Net decrease in cash and cash equivalents   | (5,382)                                      | (45,094)       |
| Cash and cash equivalents at beginning of period  | 70,229                                       | 138,688        |
| Cash and cash equivalents at end of period  | \$ 64,847                                    | 93,594         |

See the accompanying notes to the unaudited consolidated financial statements.  
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# FPIC Insurance Group, Inc.

Notes to the Unaudited Consolidated Financial Statements

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## 1. Basis of Presentation and New Accounting Pronouncements

### Basis of Presentation

The accompanying unaudited consolidated financial statements represent the consolidation of FPIC Insurance Group, Inc. ("FPIC") and all majority owned and controlled subsidiaries. Unless the context otherwise requires, the terms "we," "our," "us," the "Company" and "FPIC" as used in this report refer to FPIC Insurance Group, Inc. and its subsidiaries.

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with the rules and regulations of the Securities and Exchange Commission ("SEC"). The statement of financial position as of December 31, 2007 was derived from audited financial statements, but does not include all disclosures required by GAAP. All significant transactions between the parent and consolidated subsidiaries have been eliminated. Reference is made to our Annual Report on Form 10-K for the year ended December 31, 2007, which includes information necessary for understanding our business 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 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 presentation of results for interim periods. Certain prior period amounts presented in the consolidated financial statements have been reclassified to conform to the current presentation. The results reported in these 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.

### New Accounting Pronouncements

Effective January 1, 2008, we partially adopted Financial Accounting Standard ("FAS") 157, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP. In February 2008, the Financial Accounting Standards Board ("FASB") released a FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of FAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The partial adoption of FAS 157 did not have an impact on our consolidated financial statements. For additional disclosures, see Note 9, *Fair Value Measurements*.

Effective January 1, 2008, we adopted the measurement date provisions of FAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, by electing the "two measurement approach" for current year-end measurement calculations. Under the "two measurement approach" we have appropriately recorded the net benefit expense for the transition period to retained earnings as of January 1, 2008. Additionally, changes in the value of plan assets and benefit obligations that occurred in the transition period between October 1, 2007 and December 31, 2007 were recorded to accumulated other comprehensive income, net of tax, at the beginning of the year. A second measurement was performed at January 1, 2008 to produce twelve months of net benefit expense to record during 2008. The impact of adopting the measurement date provisions of FAS 158 is shown in the table below:

(in thousands)

|                                      | Before<br>Application of<br>FAS 158<br>Measurement<br>Date Provisions | Adjustments to<br>Adopt FAS 158<br>Measurement<br>Date Provisions | After Application<br>of<br>FAS 158<br>Measurement<br>Date Provisions |
|--------------------------------------|---|---|--|
| As of January 1, 2008                |   |   |  |
| Retained earnings                    | \$ 295,586  | (89)  | 295,497  |
| Accumulated other comprehensive loss | \$ (884)  | (58)  | (942)  |
| Total shareholders' equity           | \$ 294,702  | (147)   | 294,555  |

# FPIC Insurance Group, Inc.

Notes to the Unaudited Consolidated Financial Statements

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Effective January 1, 2008, we adopted FAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FAS 115*, which allows entities to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. The adoption of FAS 159 did not have an impact on our consolidated financial statements as we did not elect to measure any additional financial instruments at fair value.

In December 2007, the FASB issued FAS 141(R), *Business Combinations*. This Statement applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as “true mergers” or “mergers of equals” and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. This Statement applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. It does not apply to: (a) the formation of a joint venture, (b) the acquisition of an asset or a group of assets that does not constitute a business, (c) a combination between entities or businesses under common control, (d) a combination between not-for-profit organizations or (e) the acquisition of a for-profit business by a not-for-profit organization. FAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of FAS 141(R) is not expected to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued FAS 160, *Non-controlling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (“ARB”) No. 51*. FAS 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51’s consolidation procedures for consistency with the requirements of FAS 141(R), *Business Combinations*. FAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of FAS 160 is not expected to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued FAS 161, *Disclosures about Derivative Instruments and Hedging Activities*. The standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance and cash flows. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of FAS 161 is not expected to have a material impact on our consolidated financial statements.

## 2. Share-Based Compensation Plans

We maintain three share-based compensation plans: (i) a plan for officers and key employees (the “Omnibus Plan”); (ii) a plan for non-employee directors (the “Director Plan”); and (iii) an employee stock purchase plan (the “ESPP”). For a description of these plans, see *Note 9, Share-Based Compensation Plans* included in our Annual Report on Form 10-K for the year ended December 31, 2007. The following table summarizes data for stock options outstanding and exercisable as of March 31, 2008:

| Range of Prices<br>per Share | Options Outstanding           |                                  |   |  |   | Options Exercisable |   |   |
|------------------------------|-------------------------------|----------------------------------|---|--|---|---------------------|---|---|
|                              | Vested<br>Number of<br>Shares | Nonvested<br>Number of<br>Shares | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life<br>in Years | Total<br>Aggregate<br>Intrinsic<br>Value<br>(in<br>thousands) | Number of<br>Shares | Weighted-<br>Average<br>Exercise<br>Price | Total<br>Aggregate<br>Intrinsic<br>Value<br>(in<br>thousands) |
| \$ 0.00-11.99                | 146,018                       | —                                | \$ 9.09                                   | 3.4  |   | 146,018             | \$ 9.09                                   |   |
| \$ 12.00-15.99               | 177,966                       | —                                | 13.75                                     | 3.8  |   | 177,966             | 13.75                                     |   |
| \$ 16.00-19.99               | 8,000                         | —                                | 17.34                                     | 1.8  |   | 8,000               | 17.34                                     |   |
| \$ 20.00-35.99               | 193,639                       | 9,229                            | 26.90                                     | 6.2  |   | 193,639             | 26.51                                     |   |
| \$ 36.00-60.99               | 54,625                        | 54,244                           | 41.01                                     | 6.8  |   | 54,625              | 42.64                                     |   |
|                              | 580,248                       | 63,473                           | \$ 21.49                                  | 5.0  | \$ 16,528   | 580,248             | \$ 19.60                                  | \$ 15,997   |

# FPIC Insurance Group, Inc.

Notes to the Unaudited Consolidated Financial Statements

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During the first quarter of 2008, awards of an aggregate of 33,372 performance units were granted to employees under the Omnibus Plan. Generally, performance unit awards are subject to achieving specified levels of adjusted return on average equity during a two-year plan period. These awards also generally vest at the expiration of the same two-year period. The final determination of the number of shares to be issued in respect of an award (which can vary between 50 and 150 percent of the number of performance units subject to the award, provided a threshold performance level is achieved) is determined by the Compensation Committee of our Board of Directors.

The following table presents the status of, and changes in, performance units and restricted stock:

| Performance Units and Restricted Stock |                     |   |   |  |
|--|---------------------|---|---|--|
|  | Number of<br>Shares | Weighted-<br>Average Grant<br>Date Fair Value | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term in Years | Total Aggregate<br>Intrinsic Value<br>(in thousands) |
| Nonvested, January 1, 2008             | 92,413              | \$ 36.29                                      |   |  |
| Granted                                | 53,030              | 44.62   |   |  |
| Vested                                 | (35,497)            | 34.47   |   |  |
| Forfeited                              | (1,264)             | 40.12   |   |  |
| Nonvested, March 31, 2008              | 108,682             | \$ 40.91                                      | 1.6   | \$ 5,123   |

As of March 31, 2008, there was \$4.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under our various plans, which is expected to be recognized over a weighted-average period of 1.1 years. The compensation cost related to our share-based awards that were charged to other underwriting expense was \$0.8 million for the quarter ended March 31, 2008 and \$0.7 million for the quarter ended March 31, 2007.

### 3. Reconciliation of Basic and Diluted Earnings per Common Share

Data with respect to our basic and diluted earnings per common share are shown below.

| <i>(in thousands, except earnings per common share)</i> |    | For the Quarter Ended<br>March 31, 2008 | For the Quarter Ended<br>March 31, 2007 |
|---|----|---|---|
| Net income  | \$ | 10,828                                  | 17,746                                  |
| Basic earnings per common share                         | \$ | 1.23                                    | 1.81                                    |
| Diluted earnings per common share                       | \$ | 1.19                                    | 1.75                                    |
| Basic weighted-average shares outstanding               |    | 8,776                                   | 9,801                                   |
| Common stock equivalents <sup>(1)</sup>                 |    | 313                                     | 360                                     |
| Diluted weighted-average shares outstanding             |    | 9,089                                   | 10,161                                  |

(1) Outstanding stock options totaling 101,369 and 36,783 options for the three months ended March 31, 2008 and 2007, respectively, were excluded from the calculation of diluted earnings per common share because the sum of the hypothetical amount of future proceeds from the exercise price, unrecorded compensation, and tax benefits to be credited to additional paid-in capital for all grants of stock options were higher than the average price of the common shares, and therefore were anti-dilutive.

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## 4. Liability for Losses and LAE

We establish loss and LAE reserves taking into account the results of multiple actuarial techniques applied as well as other assumptions and factors regarding our business. Each actuarial technique is applied in a consistent manner from period to period and the techniques encompass a review of selected claims data, including claim and incident counts, average indemnity payments, and loss adjustment costs. Estimating liability for losses and LAE is a complex process and changes in key assumptions or trends could result in a significant change in our reserve estimates. Given the magnitude of our loss and LAE reserves, virtually any change in the level of our carried reserves will be material to our results of operations and may be material to our financial position. For additional information regarding our liability for losses and LAE see *Note 4, Liability for Losses and LAE*, included in our Annual Report on Form 10-K for the year ended December 31, 2007.

As a result of the continuation of favorable loss trends, we recognized favorable net loss development related to previously established reserves of \$4.5 million for the three months ended March 31, 2008. The favorable development reflects a decline in expected ultimate losses primarily for the 2004 through 2006 accident years as a result of reductions in our estimates of incidents to claim development, payment frequency and payment severity. For the three months ended March 31, 2007, we recognized a decline in incurred losses of \$14.0 million in connection with the Physicians' Reciprocal Insurers ("PRI") commutation. For additional information on the PRI commutation see *Note 7, Reinsurance*.

## 5. Income Taxes

We adopted the provisions of FASB Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of the implementation of FIN 48, we recognized a \$0.08 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction of the January 1, 2007 balance of retained earnings. Our liability for unrecognized tax benefits as of January 1, 2007 and March 31, 2008 was \$0.6 million, 100 percent of which would affect our annual effective tax rate if recognized. We estimate that our unrecognized tax benefits will not change significantly within the next 12 months.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, we are no longer subject to U.S. federal or state income tax examinations by tax authorities for years prior to 2004. Our income tax returns for 2005 and 2006 have not been examined by the Internal Revenue Service (the "IRS") and remain open under the applicable statute of limitations. The IRS commenced an examination of our 2004 U.S. income tax return during 2006. The examination was closed in February 2007 with no significant adjustments.

Our continuing practice is to recognize accrued interest related to unrecognized tax benefits and penalties in income tax expense. During the three months ended March 31, 2008 and 2007, we recognized interest expense of \$0.01 million and \$0.03 million, respectively. We had approximately \$0.09 million and \$0.08 million accrued for the payment of interest as of March 31, 2008 and December 31, 2007, respectively.

## 6. Employee Benefit Plans

The components of the actuarially computed net periodic pension cost for our benefit plans are summarized in the table below. For a description of our employee benefit plans, see *Note 13, Employee Benefit Plans*, included in our Annual Report on Form 10-K for the year ended December 31, 2007.

(in thousands)

|   | For the Quarter Ended<br>March 31, 2008 | For the Quarter Ended<br>March 31, 2007 |
|---|---|---|
| Service cost of benefits earned during the period | \$ 254                                  | 236                                     |
| Interest cost on projected benefit obligation     | 179                                     | 162                                     |
| Expected return on plan assets                    | (109)                                   | (101)                                   |
| Amortization of net loss                          | 5                                       | 6                                       |
| Amortization of prior service cost                | 12                                      | 12                                      |
| Amortization of net transition obligation         | 2                                       | 8                                       |
| Net periodic pension cost                         | \$ 343                                  | 323                                     |

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We contributed \$1.1 million to our employee benefit plans during the three months ended March 31, 2008. We currently anticipate contributing an additional \$0.9 million to these plans during the remainder of 2008 for total contributions of \$2.0 million.

## 7. Reinsurance

The effects of ceded reinsurance on premiums written, premiums earned, and losses and LAE incurred are shown below.

|   | For the Quarter Ended<br>March 31, 2008 |         | For the Quarter Ended<br>March 31, 2007 |         |
|---|---|---------|---|---------|
|   | Written                                 | Earned  | Written                                 | Earned  |
| Direct premiums                         | \$ 51,855                               | 50,342  | \$ 60,344                               | 58,676  |
| Assumed premiums                        | —                                       | —       | —                                       | —       |
| Commutation of assumed premiums written | —                                       | —       | (54,465)                                | —       |
| Ceded premiums                          | (7,269)                                 | (6,049) | (7,282)                                 | (7,074) |
| Net premiums                            | \$ 44,586                               | 44,293  | \$ (1,403)                              | 51,602  |

|                                       | For the Quarter Ended<br>March 31, 2008 | For the Quarter Ended<br>March 31, 2007 |
|---------------------------------------|---|---|
| Losses and LAE                        | \$ 29,069                               | 40,544                                  |
| Commutation of assumed losses and LAE | —                                       | (13,982)                                |
| Reinsurance recoveries                | (3,914)                                 | (4,915)                                 |
| Net losses and LAE                    | \$ 25,155                               | 21,647                                  |

During February 2007, our subsidiary, First Professionals Insurance Company, Inc. ("First Professionals"), commuted, effective January 1, 2007, all assumed reinsurance treaties with PRI under which First Professionals acted as a reinsurer. These treaties provided excess of loss reinsurance and reinsurance for PRI's death, disability and retirement risks. Under the terms of the commutation agreements, First Professionals paid cash and delivered securities with an aggregate value of \$87.7 million to PRI as full settlement of all past and future obligations for policy risks previously reinsured by First Professionals. The corresponding net liabilities related to these agreements carried by First Professionals totaled \$103.4 million. First Professionals recognized an after-tax gain of \$9.7 million as a result of the commutation.

We purchase reinsurance from a number of companies to mitigate concentrations of credit risk, and utilize our reinsurance broker to assist us in the analysis of the credit quality of our reinsurers. We base our reinsurance buying decisions on an evaluation of the then current financial strength and stability of prospective reinsurers. However, the financial strength of our reinsurers, and their corresponding ability to pay us, may change in the future due to forces or events we cannot control or anticipate. At March 31, 2008, our receivable from reinsurers was approximately \$156.3 million. We have not experienced any difficulty in collecting amounts due from reinsurers related to the financial condition of a reinsurer. Should future events lead us to believe that any reinsurer is unable to meet its obligations, adjustments to the amounts recoverable would be reflected in the results of current operations.

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## 8. 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 consolidated statements of income. Data with respect to investments are presented in the tables below.

(in thousands)

|   | For the Quarter Ended<br>March 31, 2008                                |                                       | For the Quarter Ended<br>March 31, 2007                                |                                       |
|---|--|---------------------------------------|--|---------------------------------------|
|   | Fixed income securities, available-for-sale and short-term investments | Equity securities, available-for-sale | Fixed income securities, available-for-sale and short-term investments | Equity securities, available-for-sale |
| Proceeds from sales and maturities        | \$ 30,012  | —                                     | 88,364   | —                                     |
| Gross realized gains on investment sales  | \$ 7   | —                                     | 300  | —                                     |
| Gross realized losses on investment sales | \$ —   | —                                     | (260)  | —                                     |

|                               | As of March 31, 2008   |                                       | As of December 31, 2007  |                                       |
|-------------------------------|--|---------------------------------------|--|---------------------------------------|
|                               | Fixed income securities, available-for-sale and short-term investments | Equity securities, available-for-sale | Fixed income securities, available-for-sale and short-term investments | Equity securities, available-for-sale |
| Amortized cost of investments | \$ 697,203   | 17,003                                | 690,364  | 15,503                                |
| Gross unrealized gains        | 11,177   | —                                     | 5,159  | 7                                     |
| Gross unrealized losses       | (6,633)  | (1,826)                               | (4,872)  | (598)                                 |
| Fair value                    | \$ 701,747   | 15,177                                | 690,651  | 14,912                                |

As of March 31, 2008, certain of our investments were in an unrealized loss position primarily attributable to the impact of interest rates on the fair value of our investment portfolio. We have the intent and ability to hold these securities to recover their value, which may be until their respective maturity dates. Therefore, we do not consider any of the securities carried in an unrealized loss position at March 31, 2008 to be other-than-temporarily impaired. During the three months ended March 31, 2008, we did recognize an other-than-temporary impairment charge of \$0.1 million related to one of our other invested assets, an investment in a limited partnership.

## 9. Fair Value Measurements

We adopted FAS 157, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP, for financial assets and liabilities effective January 1, 2008. The adoption of FAS 157 did not have an impact on our consolidated financial statements. As defined in FAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). We utilize market data or assumptions that we believe market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily have applied the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We then classify fair value balances based on the observability of those inputs.

The fair value hierarchy under FAS 157 prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy defined by FAS No. 157 are as follows:

**Level 1** Pricing inputs are based on quoted prices available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. We've included the following financial instruments in this category: equity securities traded on a national stock exchange, such as the New York Stock Exchange.

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**Level 2** Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued by our pricing service using models or other valuation methodologies. Pricing inputs may include benchmark curves, reported trades, broker / dealer quotes, issuer spreads, quoted forward prices, time value, volatility factors and current market and contractual prices for an underlying instrument. We've included the following financial instruments in this category: fixed-income securities, short-term investments, preferred stock and non-exchange-traded derivatives.

**Level 3** Pricing inputs include significant inputs that are generally less observable from objective sources and may include internally developed methodologies that result in management's best estimate of fair value from the perspective of a market participant. At each balance sheet date, we perform an analysis of all instruments subject to FAS 157 and include in Level 3 all assets or liabilities whose fair value is based on significant unobservable inputs. We've included the following financial instruments in this category: fixed-income securities priced solely using broker quotes and our investments in limited partnerships.

The following table presents disclosures about fair value measurements at March 31, 2008 for assets and liabilities measured at fair value on a recurring basis.

(in thousands)

| Description                                 | March 31, 2008    | Fair Value Measurements at March 31, 2008 Using                |   |   |
|---|-------------------|--|---|---|
|   |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Fixed income securities, available-for-sale | \$ 700,268        | —  | 698,413                                       | 1,855                                     |
| Equity securities, available-for-sale       | 15,177            | 13,295   | 1,882   | —   |
| Short-term investments                      | 1,479             | —  | 1,479   | —   |
| Other invested assets                       | 432               | —  | —   | 432                                       |
| <b>Total</b>                                | <b>\$ 717,356</b> | <b>13,295</b>  | <b>701,774</b>                                | <b>2,287</b>                              |

The following table presents disclosures about fair value measurements at March 31, 2008 using significant unobservable inputs (Level 3).

|  | Fixed Income Securities, available-for-sale | Other Invested Assets |
|--|---|-----------------------|
| Beginning balance, January 1, 2008   | \$ 3,359                                    | 553                   |
| Total gains or losses (realized / unrealized)  |   |                       |
| Included in earnings   | —   | (88)                  |
| Included in other comprehensive income   | 13  | (28)                  |
| Purchases, issuances and settlements   | 1,729                                       | (5)                   |
| Transfers in and / or out of Level 3   | (3,246)                                     | —                     |
| Ending balance, March 31, 2008   | \$ 1,855                                    | 432                   |
| The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at March 31, 2008 |   |                       |
|  | \$ —  | (88)                  |

Gains and losses (realized and unrealized) included in earnings for the period are reported in net realized investment gains (losses) as follows:

|   | Fixed Income Securities, available-for-sale | Other Invested Assets |
|---|---|-----------------------|
| Total gains or losses included in earnings for the period (above)                   | \$ —  | (88)                  |
| Change in unrealized gains or losses related to assets still held at March 31, 2008 | \$ 13                                       | (28)                  |

**10. Commitments and Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is determined to be probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. In addition, our insurance subsidiaries may 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. Our primary excess of loss program includes an additional level of coverage for claims in excess of policy limits. (For additional information regarding this reinsurance coverage see *Note 5, Reinsurance*, included in our Annual Report on Form 10-K for the year ended December 31, 2007.) An award for a bad faith claim against one of our subsidiaries in excess of the applicable reinsurance could have an adverse affect on our financial condition, results of operations or cash flows. We have evaluated such exposures as of March 31, 2008, and believe our position and defenses are meritorious. However, there can be no absolute assurance as to the outcome of such exposures.

Our 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. During 2006 and 2007, the Florida Office of Insurance Regulation ("Florida OIR") levied assessments, totaling \$9.4 million and \$4.2 million, respectively, on our Florida direct written premiums at the request of the Florida Insurance Guaranty Association ("FIGA") as a result of the insolvency of a group of Florida-domiciled homeowner's insurance companies owned by Poe Financial Group. Loss deficiencies in excess of FIGA's estimates could result in the need for additional assessments by FIGA. Such additional assessments or assessments related to other property and casualty insurers that have or may become insolvent because of hurricane activity or otherwise could adversely impact our financial condition, results of operations or cash flows. Under Florida law, our insurance subsidiaries are entitled to recoup guaranty fund assessments from their Florida policyholders and have made the necessary filings to do so.

In addition to standard guaranty fund assessments, the Florida and Missouri legislatures may also levy special assessments to settle claims caused by certain catastrophic losses. Medical malpractice policies have been exempted from assessment by the Florida Hurricane Catastrophe Fund until the fund's expiration on May 31, 2010.

**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," "we," "our," "us," and the "Company" refer to FPIC Insurance Group, Inc., together with its subsidiaries, unless the context requires otherwise. The following MD&A should be read in conjunction with the accompanying consolidated financial statements for the three months ended March 31, 2008, included in Part I, Item 1, as well as the audited, consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2007, which was filed with the SEC on February 27, 2008.

**Cautionary Statement Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q, including the following MD&A, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not materialize or prove correct, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements: of our plans, strategies and objectives for future operations; concerning new products, services or developments; regarding future economic conditions, performance or outlook; as to the outcome of contingencies; of beliefs or expectations; and of assumptions underlying any of the foregoing. Forward-looking statements may be identified by their use of forward-looking terminology, such as "believes," "expects," "may," "should," "would," "will," "intends," "plans," "estimates," "anticipates," "projects" and similar words or expressions. You should not place undue reliance on these forward-looking statements, which reflect our management's opinions only as of the date of the filing of this Quarterly Report on Form 10-Q. Factors that might cause our results to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to:

- i) The effect of negative developments and cyclical changes in the medical professional liability ("MPL") insurance business;
- ii) The effects of competition, including competition for agents to place insurance, of physicians electing to self-insure or to practice without insurance coverage, and of related trends and associated pricing pressures and developments;
- iii) Business risks that result from our size, products, and geographic concentration;
- iv) The risks and uncertainties involved in determining the rates we charge for our products and services, as well as these rates being subject to or mandated by legal requirements and regulatory approval;
- v) The actual amount of our new and renewal business;
- vi) The uncertainties involved in the loss reserving process, including the possible occurrence of insured losses with a frequency or severity exceeding our estimates;
- vii) The unpredictability of court decisions and our exposure to claims for extra contractual damages and losses in excess of policy limits;
- viii) Assessments imposed by state financial guaranty associations or other insurance regulatory bodies;
- ix) Developments in financial and securities markets that could affect our investment portfolio;
- x) Legislative, regulatory or consumer initiatives that may adversely affect our business, including initiatives seeking to lower premium rates;
- xi) The passage of additional or repeal of current tort reform measures, and the effect of such measures;
- xii) Developments in reinsurance markets that could affect our reinsurance programs or our ability to collect reinsurance recoverables;
- xiii) The loss of the services of any key members of senior management;
- xiv) 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;

- xv) Other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, including *Item 1A. Risk Factors* and *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, filed with the SEC on February 27, 2008.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of their dates. Forward-looking statements are made in reliance on the safe harbor provision of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended and, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

### **Critical Accounting Policies**

The accounting policies considered by management to be critically important in the preparation and understanding of our financial statements and related disclosures are presented in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the year ended December 31, 2007.

### **Impact of Recently Issued Accounting Pronouncements**

As described in *Item 1. Financial Statements, Note 1, Organization and Basis of Presentation* under the heading "New Accounting Pronouncements," there are accounting pronouncements that have recently been issued. Note 1 describes the potential impact that these pronouncements are expected to have or have had on our consolidated financial statements.

### **Commitments and Contingencies**

For information concerning commitments and contingencies to which we are subject, see *Item 1. Financial Statements, Note 10, Commitments and Contingencies*.

### **Business Overview**

We operate in the MPL insurance sector of the property and casualty insurance industry. Our primary insurance products provide protection for physicians, dentists and other healthcare providers as individual practitioners or as members of practice groups. Our insurance protects policyholders against losses arising from professional liability claims and the related defense costs with respect to injuries alleged to have been caused by medical error or malpractice. Optional coverage is available for professional corporations under which physicians or dentists practice. Through our insurance subsidiaries, we are the largest provider of MPL insurance in Florida. Based on 2006 premium data published by A.M. Best, which is the latest available data, Florida is the third largest market for MPL insurance in the United States. Our insurance subsidiaries also provide MPL insurance in selected other states. We have chosen to focus on selected markets where we believe we have advantages in terms of our market knowledge, well-established reputation, significant market presence and resources.

### **Recent Trends and Other Developments**

(Comparisons are made to the comparable periods in 2007 unless otherwise indicated)

- On April 8, 2008, A.M. Best affirmed the financial strength rating of our insurance subsidiaries at A- (Excellent) with a stable outlook.
- Income from continuing operations and net income, excluding the impact of the PRI commutation in first quarter 2007, increased 34 percent (49 percent on a diluted common share basis).
- Our initiative to provide management services for alternative risk arrangements resulted in \$1.3 million of direct written premiums for the quarter ended March 31, 2008 on 81 policyholders.
- The number of professional liability policyholders, excluding policyholders under alternative risk arrangements, increased 1 percent to 13,380 policyholders at March 31, 2008 compared to 13,205 policyholders at March 31, 2007.
- As a result of the continuation of favorable loss trends, we recognized favorable net loss development related to previously established reserves of \$4.5 million for the three months ended March 31, 2008.

- On a trade date basis, we repurchased 315,098 shares of our common stock during the quarter at an average price of \$42.80 per share and had remaining authority from our Board of Directors to repurchase 115,445 more shares as of March 31, 2008. In April 2008, our Board of Directors approved a 500,000 share increase in our share repurchase program.
- Book value per common share increased 3 percent to \$33.91 as of March 31, 2008 from \$33.03 as of December 31, 2007. The statutory surplus of our insurance subsidiaries increased 1 percent to \$264.8 million as of March 31, 2008 compared to \$261.6 million as of December 31, 2007.
- <sup>(1)</sup> During February 2007, our subsidiary, First Professionals, commuted, effective January 1, 2007, all assumed reinsurance treaties with PRI under which First Professionals acted as a reinsurer. In connection with the commutation, First Professionals recognized an after-tax gain of \$9.7 million. For additional information on the commutation, see *Item 1. Financial Statements, Note 7, Reinsurance*.

- (1) As noted under the discussion of *Recent Trends and Other Developments*, our 2007 consolidated financial statements include the following effects of the reinsurance commutation between First Professionals and PRI:

| <i>(in thousands)</i>                                 | For the quarter ended<br><b>March 31, 2007</b> |
|---|--|
| Commutation of assumed premiums written               | \$ (54,465)                                    |
| Net premiums written                                  | \$ (54,465)                                    |
| <b>Total revenues</b>                                 | <b>\$ —</b>                                    |
| Net losses and LAE                                    | (13,982)                                       |
| Other underwriting expenses                           | (1,733)  |
| <b>Total expenses</b>                                 | <b>(15,715)</b>                                |
| Income from continuing operations before income taxes | 15,715   |
| Less: Income tax expense                              | 6,063  |
| <b>Net income</b>                                     | <b>\$ 9,652</b>                                |

## Insurance Regulation

Proposed legislation related to MPL insurance is from time to time introduced in the state legislatures of markets where we conduct business, including Florida. Proposed legislation was introduced in the Florida legislature during the 2007 legislative session that if enacted into law, would have, among other things, required a prospective reduction in Florida MPL insurance rates. Other proposed legislation would have, among other things, required a new study of presumed savings from Florida tort reform, which would be factored into Florida MPL insurance rate making. Neither of these proposals was enacted in 2007, or have been reintroduced in the 2008 legislative session, but there can be no assurance that similar or other proposals affecting our industry will not be introduced or enacted in the future.

### *Results of Operations*

#### *Three Months Ended March 31, 2008 compared to Three Months Ended March 31, 2007*

*Net income* was \$10.8 million for the three months ended March 31, 2008, or \$1.19 per diluted common share, a decrease of 39 percent and 32 percent, respectively, compared to \$17.7 million, or \$1.75 per diluted common share, for the three months ended March 31, 2007. Net income for the three months ended March 31, 2007 includes a gain of \$9.7 million on the reinsurance commutation between First Professionals and PRI. Excluding the PRI reinsurance commutation, net income and diluted earnings per common share increased 34 percent and 49 percent, respectively, compared with the same period in 2007 primarily as a result of lower net losses and LAE and other underwriting expenses, partially offset by lower net premiums earned.

Information concerning *written premiums* and *policyholders* is summarized in the tables below:

| (in thousands)                          | For the Quarter Ended<br>March 31, 2008 | Percentage<br>Change | For the Quarter Ended<br>March 31, 2007 |
|---|---|----------------------|---|
| Direct premiums written                 | \$ 51,855 <sup>(1)</sup>                | -14%                 | 60,344                                  |
| Assumed premiums written                | —                                       | 0%                   | —                                       |
| Commutation of assumed premiums written | —                                       | 100%                 | (54,465)                                |
| Ceded premiums written                  | (7,269) <sup>(1)</sup>                  | 0%                   | (7,282)                                 |
| Net premiums written                    | \$ 44,586                               | 3278%                | (1,403)                                 |

(1) Includes \$1.3 million of premiums associated with alternative risk arrangements. Management fees for such arrangements are included in other income.

|   | As of<br>March 31, 2008 | Percentage<br>Change | As of<br>March 31, 2007 |
|---|-------------------------|----------------------|-------------------------|
| Professional liability policyholders  | 13,380                  | 1%                   | 13,205                  |
| Professional liability policyholders under<br>alternative risk arrangements | 81                      | —                    | —                       |
| Total professional liability policyholders                                  | 13,461                  | 2%                   | 13,205                  |

*Direct premiums written* declined 14 percent for the three months ended March 31, 2008 compared to the same period in 2007, primarily as a result of lower premium rates in our Florida market and to a lesser extent a shift in business mix to lower risk specialties offset to some extent by premiums written on alternative risk arrangements. Our policyholder retention rate in our core Florida market was 96 percent for the first three months of 2008, compared to 94 percent for the comparable period in 2007. Our national policyholder retention was 95 percent for the first three months of 2008 compared to 93 percent for the comparable period in 2007.

*Net premiums written* increased during the three months ended March 31, 2008 compared to the same period in 2007, which reflects a reduction of assumed premiums written as a result of the PRI commutation. Excluding the impact of the PRI commutation on assumed premiums written in 2007, net premiums written declined 16 percent during the three months ended March 31, 2008. The decline in net premiums written is primarily a result of lower premium rates in our Florida market and to a lesser extent a shift in business mix to lower risk specialties.

*Net premiums earned* declined 14 percent for the three months ended March 31, 2008 compared to the same period in 2007. The decline is primarily the result of lower rates in our Florida market and a shift in business mix to lower risk specialties.

*Net investment income* declined 3 percent for the three months ended March 31, 2008 compared to the same period in 2007. The decline in net investment income is a result of declines in average cash and cash equivalents and the investment yield on our cash and cash equivalents offset to a certain extent by increases in average fixed income securities and short-term investments and the yield on fixed income securities and short-term investments.

Information concerning our *loss ratio* and *underwriting expense ratio* is summarized in the table below.

|  | For the Quarter Ended<br>March 31, 2008 | For the Quarter Ended<br>March 31, 2007 |
|--|---|---|
| Loss ratio   |   |   |
| Current accident year  | 67.0%                                   | 69.0%                                   |
| Commutation of assumed premiums written - prior accident years | 0.0%                                    | -27.0%                                  |
| Prior accident years   | -10.2%                                  | 0.0%                                    |
| Calendar year loss ratio                                       | 56.8%                                   | 42.0%                                   |
| Underwriting expense ratio <sup>(1)</sup>                      | 22.4%                                   | 18.9%                                   |
| Combined ratio   | 79.2%                                   | 60.9%                                   |

(1) The underwriting expense ratio for the three months ended March 31, 2007 includes the impact of the reinsurance commutations between First Professionals and PRI effective January 1, 2007. Excluding the impact of the commutations, the underwriting expense ratio would be 22.3 percent.

*Net losses and LAE* increased 16 percent for the three months ended March 31, 2008 compared to the same period in 2007, which reflects a reduction of net losses and LAE in the first quarter of 2007 as a result of the PRI commutation. Excluding the impact of the PRI commutation in 2007, net losses and LAE decreased 29 percent for 2008. The decline in net losses and LAE reflects the continuation of favorable loss trends, including \$4.5 million of favorable prior year development. This favorable development reflects reductions in our estimates of incident to claim development, payment frequency and payment severity. Lower net premiums earned and the corresponding provision for losses and LAE also contributed to the decline.

*Other underwriting expenses* increased 2 percent for the three months ended March 31, 2008 from the comparable period in 2007, which reflects a reduction of other underwriting expenses in the first quarter of 2007 as a result of the PRI commutation. Excluding the impact of the PRI reinsurance commutation in 2007, other underwriting expenses decreased 14 percent for 2008 primarily due to higher ceding commissions, lower premium taxes and the recoupment of a guarantee fund assessment from our policyholders.

Selected information concerning our *direct professional liability insurance claim data* is summarized in the table below.

|  | As of<br>March 31, 2008 | Percentage<br>Change | As of<br>March 31, 2007 |
|--|-------------------------|----------------------|-------------------------|
| Net Paid Losses and LAE on Professional Liability Claims (in thousands):           |                         |                      |                         |
| Net paid losses  | \$ 11,911               | -75 %                | 47,537                  |
| Less: net paid losses on commuted reinsurance agreements                           | 144                     | -100 %               | 29,376                  |
| Net paid losses excluding commuted reinsurance agreements                          | 11,767                  | -35 %                | 18,161                  |
| Net paid LAE   | 13,048                  | -3 %                 | 13,517                  |
| Less: net paid LAE on commuted reinsurance agreements                              | 70                      | 119 %                | 32                      |
| Net paid LAE excluding commuted reinsurance agreements                             | 12,978                  | -4 %                 | 13,485                  |
| Net paid losses and LAE on core professional liability business                    | \$ 24,745               | -22 %                | \$ 31,646               |
| Professional Liability Claims and Incidents Closed Without Indemnity Payment:      |                         |                      |                         |
| Total professional liability claims closed without indemnity payment               | 117                     | -37 %                | 187                     |
| Total professional liability incidents closed without indemnity payment            | 92                      | -55 %                | 205                     |
| Total professional liability claims and incidents closed without indemnity payment | 209                     | -47 %                | 392                     |
| Total professional liability claims with indemnity payment                         | 65                      | -34 %                | 98                      |
| CWIP Ratio on a rolling four quarter basis <sup>(1)</sup>                          | 30 %                    |                      | 29 %                    |
| CWIP Ratio, including incidents, on a rolling four quarter basis <sup>(1)</sup>    | 14 %                    |                      | 15 %                    |
| Professional Liability Claims and Incidents Reported During the Period:            |                         |                      |                         |
| Total professional liability claims reported during the period                     | 175                     | 4 %                  | 169                     |
| Total professional liability incidents reported during the period                  | 222                     | -3 %                 | 230                     |
| Total professional liability claims and incidents reported during the period       | 397                     | -1 %                 | 399                     |
| Total professional liability claims and incidents that remained open               | 3,462                   | -10 %                | 3,828                   |

(1) The closed with indemnity payment ("CWIP") ratio is defined as the ratio of total professional liability claims with indemnity payment to the sum of total professional liability claims with indemnity payment and total professional liability claims closed without indemnity payment.

Net paid losses and LAE declined for the three months ended March 31, 2008 compared with the same period in 2007 primarily due to fewer claims with an indemnity payment ("CWIP") during the quarter. The number of reported claims and incidents for the three months ended March 31, 2008 was relatively unchanged compared to the same period in 2007 and generally reflects continued lower frequency in newly reported claims and incidents in our Florida market that began in the fourth quarter of 2003. For the four quarters ended March 31, 2008, the CWIP Ratio and the CWIP Ratio, including incidents, were comparable with the ratios for the four quarters ended March 31, 2007. It is not unusual for our claims data to fluctuate from period to period, and our claims data remains within our expectations.

*Income tax expense* decreased 47 percent for the three months ended March 31, 2008, compared to the same period in 2007 as a result of lower income before taxes. Excluding the impact of the PRI commutation in 2007, income tax expense for 2008 increased 48 percent and our effective tax rate for the three months ended March 31, 2008 and 2007 was 32 percent and 30 percent, respectively. The increase in our effective tax rate is primarily due to a decrease in tax-exempt investment income as a percentage of income before taxes.

### *Liquidity and Capital Resources*

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet short-term and long-term cash requirements of its business operations. As a holding company, our assets consist primarily of the stock of our subsidiaries and of other investments. The sources of liquidity available to us for the payment of operating expenses, taxes and debt-related amounts include management fees and dividends from our insurance subsidiaries. Management fees from our insurance subsidiaries are based on agreements in place with First Professionals and Anesthesiologists Professional Assurance Company, pursuant to which we provide substantially all management and administrative services. In accordance with limitations imposed by Florida law, our insurance subsidiaries are permitted to pay us dividends of approximately \$48.2 million during 2008 without prior regulatory approval. We have received dividends of \$6.0 million from our insurance subsidiaries for the three months ended March 31, 2008.

For additional information concerning our liquidity and financial resources, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Sources of liquidity include cash from operations, sales of investments and financing arrangements. As reported in the consolidated statement of cash flows, *net cash provided by operating activities* was \$10.9 million for the three months ended March 31, 2008 compared to net cash used in operating activities of \$77.7 million for the three months ended March 31, 2007. The increase in cash provided by operating activities is primarily due to the 2007 commutation of the reinsurance agreements between First Professionals and PRI and lower net paid losses and income taxes offset by a decline in premiums received and reinsurance recoveries associated with the decline in written premiums.

*Net cash used in investing activities* was \$6.7 million for the three months ended March 31, 2008 compared to net cash provided by investing activities of \$46.8 million for the three months ended March 31, 2007. The cash flows from investing activities were higher in 2007 due to the transfer of securities in connection with the PRI commutation. The remainder of the change in cash flows from investing activities is primarily due to transactions involving fixed income securities and short-term investments, which are dependent on our cash flows from operating activities and the management of our investment portfolio.

*Net cash used in financing activities* was \$9.6 million for the three months ended March 31, 2008 compared to \$14.2 million for the three months ended March 31, 2007. The change in net cash flows used in financing activities is primarily due to additional issuances of our common stock during 2008 resulting from the exercise of stock options. In addition, we recognized additional excess tax benefits as a result of the exercise of those stock options.

As of March 31, 2008, we had *cash and investments* of \$787.4 million. Included within cash and investments were cash and cash equivalents of \$64.8 million and fixed income securities, available-for-sale, and short-term investments with a fair value of approximately \$55.7 million with scheduled maturities during the next 12 months. We believe that our cash and investments as of March 31, 2008, 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 12 months.

### Capital Resources

Capital resources consist of funds deployed or available to be deployed to support our business operations. We believe our financial strength provides us with the flexibility and capacity to obtain funds externally through debt or equity financing on both a short-term and long-term basis. Our ability to access the capital markets is dependent on, among other things, market conditions. The following table summarizes the components of our capital resources as of March 31, 2008 and December 31, 2007.

| (in thousands)                        | As of<br>March 31, 2008 | As of<br>December 31, 2007 |
|---------------------------------------|-------------------------|----------------------------|
| Long-term debt                        | \$ 46,083               | 46,083                     |
| Shareholders' equity                  | \$ 299,430              | 295,597                    |
| Ratio of debt to total capitalization | 13.3%                   | 13.5%                      |

### Long-term debt

During 2003, we completed the placement of \$10.0 million in senior notes and created three trusts that issued 30-year trust-preferred securities for which the proceeds from such issuances together with cash previously contributed to the trusts were used to purchase junior subordinated debentures from FPIC totaling \$36.1 million. The debentures that we issued, which are reported as long-term debt in the consolidated statements of financial position, to the three trusts are subordinated to all senior indebtedness, including the senior notes, and are equal in standing with one another. In accordance with the guidance given in FASB Interpretation No. 46, "Variable Interest Entities," we have not consolidated these subsidiary trusts.

The securities are uncollateralized and bear floating interest rates equal to the three-month London Inter-Bank Offered Rate ("LIBOR") plus spreads ranging from 3.85 percent to 4.20 percent (the interest rates ranged from 7.16 percent to 7.28 percent as of March 31, 2008). The floating interest rates are adjustable quarterly with changes in the three-month LIBOR, and in the case of two offerings, the maximum rate that may be charged under the securities within the first five years is 12.50 percent. We also purchased interest rate collars designed to maintain the ultimate floating rate interest cost on all of these securities within a stated range for five years from closing. We have the option to redeem the trust-preferred securities and senior notes at par or its equivalent beginning five years from closing. We are currently evaluating the redemption and possible replacement of certain of these securities or the effecting of interest rate hedges to replace the expiring interest rate collars. The trust-preferred securities also contain features that would 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 redemption date in five years. In the case of the potential earlier redemption date, the redemption 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.

### Contractual Obligations and Off-Balance Sheet Arrangements

We have various contractual obligations that are recorded as liabilities in our consolidated financial statements. We also have items that represent contractual obligations, commitments and contingent liabilities that are not recorded or that are considered to possess off-balance sheet risks beyond their respective amounts otherwise reflected in our consolidated financial statements. These include: (1) derivative financial instruments, which are used to hedge interest rate risk; (2) guarantees by us and contractual obligations related to the trust-preferred securities issued by separately created, unconsolidated trusts; and (3) employee benefit plans. We were not a party to any unconsolidated arrangement or financial instrument with special purpose entities or other vehicles as of March 31, 2008 that would give rise to previously undisclosed market, credit or financing risk. There have been no significant changes in our contractual obligations, commitments and off-balance sheet arrangements as described in the applicable section of our MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2007.

### 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, 2007.

**Item 4. 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 March 31, 2008 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. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There have been no changes in our internal control over financial reporting that occurred during the first quarter of 2008 and that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II  
OTHER INFORMATION****Item 1. Legal Proceedings**

We, in common with the insurance industry in general, are subject to litigation involving claims under our insurance policies in the normal course of business. Though we may be involved in routine litigation as a matter of course, we do not expect these cases to have a material adverse effect on our financial condition, results of operations or cash flows. For additional information concerning our commitments and contingencies, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* as well as *Note 10, Commitments and Contingencies* to this Form 10-Q.

We may also become involved in legal actions not involving claims under our insurance policies from time to time. We have evaluated such exposures as of March 31, 2008, and in all cases, believe our positions and defenses are meritorious. However, there can be no absolute assurance as to the outcome of such exposures. Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is determined to be probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

In addition, our insurance subsidiaries may become subject to claims for extra-contractual obligations or risks in excess of policy limits in connection with their insurance claims, particularly in Florida. 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. We have evaluated such exposures as of March 31, 2008, and believe our position and defenses are meritorious. However, there can be no absolute assurance as to the outcome of such exposures. An award for a bad faith claim against one of our insurance subsidiaries in excess of the applicable reinsurance could have an adverse effect on our consolidated financial condition, results of operations or cash flows.

**Item 1A. Risk Factors**

There have been no material changes to our risk factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There were no unregistered sales of equity securities during the first quarter of 2008.

**Stock Repurchase Plan**

Under our stock repurchase program, we may repurchase shares at such times, and in such amounts, as management deems appropriate. Under certain circumstances, limitations may be placed on our ability to repurchase our stock by the terms of agreements relating to our junior subordinated debentures. For information regarding these limitations, see our Annual Report on Form 10-K for the year ended December 31, 2007, *Item 8. Financial Statements and Supplementary Data, Note 10, Long-Term Debt*, as well as the discussion under the heading "Liquidity and Capital Resources" in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*. The following table summarizes our common stock repurchases for the three months ended March 31, 2008:

| Period                   | Total Number of<br>Shares Purchased | Average Price Paid per<br>Share | Total Number of Shares<br>Purchased as Part of<br>Publicly Announced Plans<br>or<br>Programs * | Maximum Number of<br>Shares that May Yet Be<br>Purchased Under the<br>Plans<br>or Programs at End of<br>Month * |
|--------------------------|-------------------------------------|---------------------------------|--|---|
| January 1 -31, 2008      |                                     |                                 |  |   |
| Repurchase programs *    | 104,198                             | \$ 41.60                        | 104,198  | 326,345   |
| Employee transactions ** | 10,894                              | \$ 42.12                        | n/a  | n/a   |
| February 1-29, 2008      |                                     |                                 |  |   |
| Repurchase programs *    | 119,600                             | \$ 41.50                        | 119,600  | 206,745   |
| Employee transactions ** | —                                   | \$ —                            | n/a  | n/a   |
| March 1-31, 2008         |                                     |                                 |  |   |
| Repurchase programs *    | 91,300                              | \$ 45.85                        | 91,300   | 115,445   |
| Employee transactions ** | 28,721                              | \$ 47.11                        | n/a  | n/a   |
| <b>Total</b>             | <b>354,713</b>                      | <b>\$ 43.12</b>                 | <b>315,098</b>   | <b>115,445</b>  |

\* In April 2008, our Board of Directors approved a 500,000 share increase in our share repurchase program, which authorizes us to repurchase shares through open-market transactions, or in block transactions, or private transactions, pursuant to Rule 10b5-1 trading plans, or otherwise. This program expires on December 31, 2008.

\*\* Represents shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of restricted shares that vested during the quarter and the exercise of stock options.

**Item 3. Defaults Upon Senior Securities** - Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders** - Not applicable.

**Item 5. Other Information**

All items requiring a Form 8-K filing have been so filed as of the date of this filing. There have been no material changes to the procedures by which security holders recommend nominees to the board of directors.

# FPIC Insurance Group, Inc.

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## **Item 6. Exhibits**

| <b>Exhibit</b> | <b>Description</b> |
|----------------|--------------------|
|----------------|--------------------|

|                       |  |
|-----------------------|--|
| <a href="#">10.1*</a> | 2008 Senior Executive Annual Incentive Plan  |
| <a href="#">12</a>    | Ratio of Earnings to Fixed Charges   |
| <a href="#">31.1</a>  | Certification of John R. Byers, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| <a href="#">31.2</a>  | Certification of Charles Divita, III, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| <a href="#">32</a>    | Certification of John R. Byers, President and Chief Executive Officer, and Charles Divita, III, 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.

April 30, 2008

## **FPIC Insurance Group, Inc.**

By: /s/ Charles Divita, III  
*Charles Divita, III*  
*Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*

## **FPIC Insurance Group, Inc.**

Exhibit Index to Form 10-Q  
For the Quarter Ended March 31, 2008

| <u>Exhibit</u>         | <u>Description</u>   |
|------------------------|--|
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## FPIC INSURANCE GROUP, INC.

## 2008 SENIOR EXECUTIVE ANNUAL INCENTIVE PLAN

(effective January 1, 2008)

**1. Purpose.** The compensation policies of FPIC Insurance Group, Inc. (the "Company") are intended to support the Company's overall objective of enhancing shareholder value. In furtherance of this philosophy, the FPIC Insurance Group, Inc. 2008 Senior Executive Annual Incentive Plan (the "Plan") is intended to motivate and reward executive officers of the Company by providing for annual incentive bonuses if annual pre-established performance goals are achieved. The Plan is also intended to qualify as a performance-based compensation plan under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

**2. Effective Date.** The Plan shall be effective as of January 1, 2008, upon approval of the Plan by the Company's shareholders.

**3. Plan Administration.** The Plan shall be administered by the Compensation Committee ("Committee") of the Company's Board of Directors ("Board"), which shall consist of members appointed from time to time by the Board. Each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Code. The Committee shall have full power and authority, subject to the provisions of the Plan and applicable law, to (a) establish, amend, suspend or waive such rules and regulations and appoint such agents as it deems necessary or advisable for the proper administration of the Plan, (b) construe, interpret and administer the Plan and any instrument or agreement relating to the Plan, and (c) make all other determinations and take all other actions necessary or advisable for the administration of the Plan. Unless otherwise expressly provided in the Plan, each determination made and each action taken by the Committee pursuant to the Plan or any instrument or agreement relating to the Plan (x) shall be within the sole discretion of the Committee, and (y) may be made at any time. All decisions of the Committee concerning the Plan shall be binding on the Company and its subsidiaries and their respective boards of directors, and on all Participants, their legal representatives and beneficiaries and other persons claiming rights under the Plan.

**4. Eligibility.** The Company's Chief Executive Officer and each other employee of the Company and its subsidiaries that the Committee determines, in its discretion, is or may be a "covered employee" of the Company within the meaning of Section 162(m) of the Code and the regulations adopted thereunder shall be eligible to participate in the Plan for a given period of twelve months or less (a "Plan Year"). Participation in the Plan by a Participant during a given Plan Year does not entitle continued participation by such Participant in any subsequent Plan Year.

**5. Awards.**

(a) *Initial Designations.* Prior to or within ninety (90) days after the commencement of each Plan Year, the Committee shall designate the following:

- (i) The persons who will participate (the "Participants") in the Plan for the Plan Year.
- (ii) The Performance Criteria, as defined herein, which will apply to Awards for the Plan Year.

(iii) The Performance Goals, as defined herein, to be met in order for Participants to earn Awards for the Plan Year.

(iv) The payout matrix or formula for such Performance Criteria and Performance Goals.

(b) *Forms of Awards.* Awards under this Plan (“Awards”) will be bonus payments in an amount determined in accordance with the applicable payout matrix or formula. Subject to Section 8(f) hereof, Awards shall be paid to the Participants in cash.

(c) *Performance Criteria.* The Committee shall use any one or more of the following performance criteria (“Performance Criteria”) to establish Performance Goals:

(i) Awards intended to qualify as “qualified performance-based compensation” under Section 162 (m) of the Code (“Qualified Awards”) shall be based solely upon one or more of the following: stock price; premiums (whether written, earned or otherwise); revenues; earnings, including operating earnings; shareholders’ equity (whether including or excluding intangibles); return on equity; assets; return on assets; capital; return on capital; economic value added; operating margins; cash flow; shareholder return; expenses; combined ratio; expense ratio; loss ratio; underwriting results; debt-to-capital ratio; market share; financial strength ratings of our insurance subsidiaries; investment results; or insurance reserves or ratio of insurance reserves to specified measures of capitalization or liabilities; or effecting specified strategic objectives. Any of the Performance Criteria may be on a per share basis.

(ii) Awards other than Qualified Awards may be described in any terms that are related to the performance of the individual Participant or the Company or a subsidiary of subsidiaries of the Company, a business unit, division, department or other portion thereof or the function with any of the foregoing performed by the Participant.

The Committee may specify any reasonable definition of the financial or other measures it uses. Such definitions may provide for reasonable adjustments and may include or exclude items, including but not limited to the following: realized investment gains and losses; extraordinary, unusual or non-recurring items; effects of accounting changes; currency fluctuations; acquisitions; divestitures; financing activities; recapitalizations, including stock splits and dividends; expenses for restructuring or productivity initiatives; and other non-operating items. Performance Criteria may be based on the performance of the Company, a subsidiary or subsidiaries of the Company, a business unit, division, department, or other portion thereof, a product line or products, or any combination of the foregoing or upon a comparison of such performance with the performance of a peer group or other measure selected or defined by the Committee.

(d) *Performance Goals.* For each Plan Year, the Committee shall establish levels of performance (the “Performance Goals”), the outcome of which is substantially uncertain at the time so established, for each of the Performance Criteria designated by the Committee for the Plan Year against which actual performance is to be measured to determine the amount of Awards.

## **6. Determination and Payment of Awards.**

(a) *Determination of Awards.* As soon as practicable after the end of the Plan Year, the Committee will determine the amount of the Award or Awards earned by each Participant, based upon application of the matrix or payout formula specified in Section 5 hereof. The Committee will make payments promptly after determination of the Awards unless payment of an Award has been deferred pursuant to Section 8(f) hereof. With respect to Qualified Awards such Committee determination must include a certification in writing that the Performance Goals and any other material terms of the Award were in fact satisfied; provided, that minutes of the Committee meeting (or any action by written consent) shall satisfy the written certification requirement.

(b) *Limitation on Awards.* Notwithstanding anything herein to the contrary, the Awards for a Participant with respect to a Plan Year shall equal no more than the lesser of 200% of the Participant's base salary in effect on January 1 of the applicable Plan Year or \$2,250,000.

(c) *Qualified Awards; Shareholder Approval.* It is intended that the Plan be administered, interpreted and construed so that Qualified Awards satisfy the applicable requirements for the performance-based compensation exception under Section 162(m) of the Code. Qualified Awards shall be contingent upon approval of the Plan by the Company's shareholders in accordance with Section 162(m) of the Code and the regulations thereunder.

(d) *Eligibility for Payment of Awards.* Subject to Section 8(f) hereof, a Participant will be eligible to receive his or her Award if he or she is employed by the Company or one of its subsidiaries as of the date on which the Award is to be paid. Subject to the terms of any contractual arrangements to the contrary, Participants who leave the employment of the Company and its subsidiaries before, or who otherwise are not employed by the Company or one of its subsidiaries on, the date the Award is to be paid, whether involuntarily or voluntarily, are ineligible to receive payment of the Award; provided, however, that the Committee may, in its sole and complete discretion, determine to pay an Award in the event termination was the result of death, disability, retirement, a reduction in workforce, or other reason.

**7. Termination, Suspension or Modification of the Plan.** The Plan may be amended or terminated by the Board or Committee. All amendments to the Plan, including any amendment to terminate the Plan, shall be in writing. An amendment, other than an amendment to terminate the Plan, shall not be effective without the prior approval of the shareholders of the Company if such approval is necessary to continue to qualify Qualified Awards as "qualified performance-based compensation" under Section 162(m) of the Code and the regulations thereunder, Securities and Exchange Commission regulations, the rules of The NASDAQ Stock Market or any other applicable exchange, or any other applicable law or regulations. Unless otherwise expressly provided by the Board or Committee, no amendment to the Plan shall apply to Awards made before the effective date of the amendment. A Participant's rights with respect to any Awards made to him or her may not be abridged by any amendment, modification or termination of the Plan, without his or her individual consent.

## **8. Miscellaneous.**

(a) *No Assignments.* No Award shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary, including any such liability that is for alimony or other payments for the support of a spouse or former spouse, or for any other relative of a Participant prior to actually being received by the Participant or his or her designated beneficiary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge, or otherwise dispose of any right to an Award shall be void.

(b) *No Right of Employment.* Neither the adoption of the Plan nor the determination of eligibility to participate in the Plan nor the granting of an Award shall confer upon any person, including any Participant, any right to continue in the employ of the Company or any of its subsidiaries or interfere in any way with the right of the Company or the subsidiary to terminate such employment at any time.

(c) *Tax Withholding.* The Company shall have the right to withhold the amount of any tax attributable to amounts payable under the Plan.

(d) *Governing Law.* The Plan and all determinations under the Plan shall be governed by and construed in accordance with the laws of the State of Florida.

(e) *Other Plans.* Nothing in this Plan shall be construed as limiting the authority of the Committee, the Board, the Company or any subsidiary of the Company to establish any other compensation plan or as in any way limiting its or their authority to pay bonuses or supplemental compensation to any person employed by the Company or any subsidiary of the Company, whether or not such person is a Participant in this Plan and regardless of how the amount of such compensation or bonus is determined.

(f) *Deferrals of Awards.* A Participant may elect to defer payment of his or her cash Award if deferral of an Award is permitted pursuant to the terms of a deferred compensation program of the Company (or a subsidiary) existing at the time the election to defer is made and the Participant complies with the terms of such program.

(g) *Committee Members Not Liable.* The Committee shall be entitled to rely upon certificates of appropriate officers of the Company with respect to financial, statistical or other data in order to determine whether the Performance Goals have been met. The Committee and its members shall not be liable for any action, inaction or determination made in good faith with respect to the Plan.

The undersigned, Secretary of FPIC Insurance Group, Inc., hereby certifies that the above 2008 Senior Executive Annual Incentive Plan was adopted by the Board of Directors of FPIC Insurance Group, Inc. at a meeting held on March 14, 2008.

/s/ T. Malcolm Graham

T. Malcolm Graham

Secretary

**FPIC Insurance Group, Inc.**

## Ratio of Earnings to Fixed Charges

|  | For the Quarter Ended<br>March 31, 2008 | For the Quarter Ended<br>March 31, 2007 |
|--|---|---|
| Interest expense on long-term debt   | \$ 1,065                                | 1,088                                   |
| Finance charges incurred in the form of interest on funds withheld under reinsurance agreement | —                                       | —                                       |
| Estimated interest within rental expense related to operating leases                           | 83                                      | 94                                      |
| Other interest expense and capitalized expenses related to indebtedness                        | 26                                      | 17                                      |
| Total fixed charges  | \$ 1,174                                | 1,199                                   |
| Income from continuing operations before income taxes  | \$ 15,877                               | 27,218                                  |
| Plus fixed charges   | 1,174                                   | 1,199                                   |
| Earnings   | \$ 17,051                               | 28,417                                  |
| Ratio of earnings to fixed charges <sup>(1),(2)</sup>  | 14.52                                   | 23.70                                   |

(1) We have authority to issue up to 50,000,000 shares of preferred stock; however, there are currently no preferred shares outstanding and we do not have any preferred stock dividend obligations. Therefore, the ratio of earnings to fixed charges and preferred stock dividends is equal to the ratio earnings to fixed charges and is not disclosed separately.

(2) For the purposes of this computation, earnings consist of income from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest expense, capitalized expenses related to indebtedness, finance charges in the form of interest on funds withheld under a reinsurance agreement, and an estimate of the interest within rental expense.

## 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.

April 30, 2008

/s/ John R. Byers  
*President and Chief Executive Officer*

## Certification

I, Charles Divita, III, 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.

April 30, 2008

/s/ Charles Divita, III  
*Chief Financial Officer*

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 period ending March 31, 2008, 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, Charles Divita, III, 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.

April 30, 2008

**FPIC Insurance Group, Inc.**

By: /s/ John R. Byers  
*President and Chief Executive Officer*

By: /s/ Charles Divita, III  
*Chief Financial Officer*