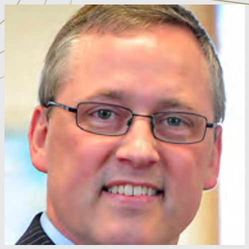
2009 ANNUAL REPORT
Fiftieth Anniversary Edition

PERSPECTIVES





FCCI® INSURANCE GROUP
50 YEARS 1959-2009

PROTECTING BUSINESS, PROPERTY AND PEOPLE

Table of contents

FCCI® INSURANCE GROUP 50 YEARS 1959-2009

PROTECTING BUSINESS, PROPERTY AND PEOPLE

TO OUR CUSTOMERS

A golden perspective

In 2009, FCCI celebrated 50 years in business.

The FCCI story began in 1959, when a group of local business owners in Sarasota, Florida formed a self-insurance fund to help save money on the cost of workers' compensation insurance.

Today, FCCI provides comprehensive property and casualty insurance coverage to more than 17,000 business owners in 14 states, we employ more than 670 employees in three regions, and we partner with approximately 500 select independent agency partners who represent some of the best in the business.

Over the years, our founders' vision and their commitment to 'do what we say we're going to do' laid the foundation for FCCI's success.

From our perspective, three pivotal decisions were made over the course of 50 years that helped FCCI emerge a property and casualty industry leader.

The biggest fundamental change occurred in 1975 when FCCI began marketing through the independent agent instead of through local trade associations and individual business owners. As a result, FCCI's premiums grew from $1 million to $2 million to $6 million to $12 million, in four years' time.

In 2009, FCCI wrote $471.8 million in direct premiums.

The next big decision occurred in 1994 when FCCI became a mutual insurance company. Restructuring established the framework FCCI needed to provide our customers with both property and casualty commercial insurance coverage and offer these coverages in states outside of Florida.

The third and most recent significant change occurred in 1999, when the FCCI Board of Directors unanimously approved the decision to build the infrastructure required to expand.

Today, FCCI remains committed to the independent agency model as our sole distribution system; we maintain our status as a privately-held, mutual insurance enterprise with a regional focus and a long-term commitment to the financial strength and survivability of the organization; and we continue to provide our policyholders with comprehensive property and casualty commercial insurance coverage, and we do it while providing unparalleled customer service.

Although no one could have predicted the remarkable path that a small, Florida-based self-insurance fund would take in just five short decades, one thing is certain: FCCI's future is bright.

In commemoration of our fiftieth anniversary, and in appreciation for your continued partnership and trust, this 2009 Annual Report is dedicated to you, FCCI's customer.

As always, thank you for the privilege of being your First Choice in Commercial Insurance.

John T. Stafford
Chairman of the Board

G.W. Jacobs
President and Chief Executive Officer

G.W. Jacobs (pictured left) has been President and Chief Executive Officer of FCCI Insurance Group since 1999. "My greatest satisfaction is having a strong financial base and a strong core of employees committed to the enterprise and the way we do business," he says. G.W. is especially proud of the way FCCI takes care of its policyholders. "We go to extraordinary lengths to put a good face on insurance," he says. "Fifty years from now, I hope we're remembered for *playing good ball*—for conducting business in an honest and ethical manner and for doing the right thing."

"It's an honor for me to be here," says John T. Stafford, FCCI Chairman of the Board (pictured right). Having served on the board since 1996, and as chairman since 2004, John says he is confident about the future of FCCI. "The year-to-year continuation of adding to our capital base positions FCCI nicely to pursue growth opportunities and new market expansions," he says. "The only thing I ever regret is that I never had the opportunity to work here." Regarding FCCI's 50-year milestone, John says, "I'm extremely proud of this company."

HISTORICAL TIMELINE

Past, present and future

1959

The Sarasota General Contractors Association forms a self-insurance fund in Florida so members can save money on the cost of workers' compensation insurance.

1962

The FCCI Fund opens membership to builders outside of Sarasota.

1975

Independent insurance agents statewide are chosen to represent the FCCI Fund.

1979

The FCCI Fund submits the first loss control program to meet state guidelines.

1984

On its 25th anniversary, the FCCI Fund becomes the number one writer of workers' compensation insurance in Florida.

1985

FCCI doubles its premium from the previous year to $67 million and serves more than 5,000 members.

1994

The FCCI Fund becomes FCCI Mutual Insurance Company.

1996

FCCI starts writing lines of business other than workers' compensation.

There's clearly a difference in how FCCI views our responsibility to the policyholder. FCCI is on the leading edge of issues that affect policyholders, agents and the insurance market.

Tom Koval, Senior Vice President
FCCI General Counsel

Technology is a tool and FCCI recognizes the value of having the right tools, today and into the future. The right tools in the right hands give us more time to focus on the people aspect of our business.

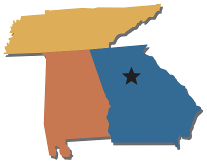
Brenda Davis, Senior Vice President
FCCI Chief Information Officer

1998

FCCI reorganizes into a mutual insurance holding company.

1999

FCCI opens a Southeast Regional Office in Georgia.



2000

FCCI acquires Monroe Guaranty Insurance Company in Carmel, Ind. FCCI rolls out FCCI ExpressServe℠ online services.

ExpressServe℠

2001

FCCI moves into its new 260,000-square-foot corporate headquarters in Sarasota.

2004

FCCI Chairman's Club

FCCI introduces the FCCI Chairman's Club for our highest performing agency partners.

2006

FCCI eclipses $1 billion in cash and cash equivalents. FCCI introduces FCCI ServiceWorks!℠

FCCI ServiceWorks!℠ INSURANCE HAS A FACE

2009

FCCI INSURANCE GROUP 50 YEARS 1959-2009
PROTECTING BUSINESS, PROPERTY AND PEOPLE

FCCI celebrates 50 years in business and completes the acquisition of Brierfield Insurance Company in Jackson, Miss.

2010

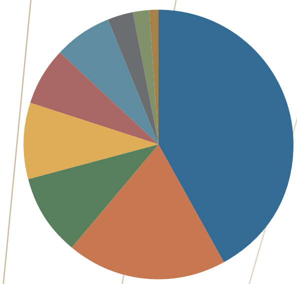
FCCI AgriCulture℠

FCCI introduces new Farmowners and First Choice products and begins the expansion of Surety in the Southeast.

FINANCIAL HIGHLIGHTS

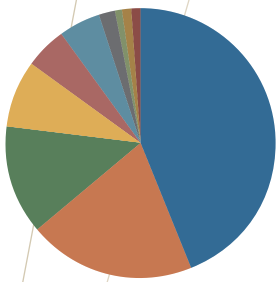
Direct written premiums up close

Direct written premiums by policyholder industry



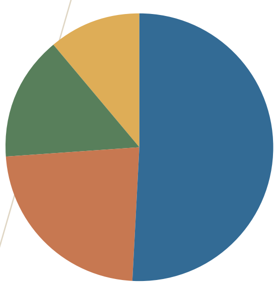
- **42.3%** Construction
- **19.0%** Manufacturing
- **10.6%** Agriculture
- **9.2%** Services
- **7.1%** Wholesale
- **7.0%** Retail
- **2.6%** Financial Services
- **1.6%** Transportation/ Utilities
- **0.6%** Other

Direct written premiums by coverage type



- **44.5%** Workers' Compensation
- **20.2%** Automobile
- **13.5%** Multi-Peril
- **7.6%** Liability
- **5.7%** Property
- **5.6%** Umbrella
- **1.4%** Inland Marine
- **1.2%** Farmowners
- **0.2%** Surety
- **0.1%** Crime

Direct written premiums by region



- **51.3%** Florida Regional Office
- **23.5%** Southeast Regional Office – Ga., N.C., S.C., Tenn.
- **14.7%** Midwest Regional Office – Ill., Ind., Ky., Mich., Mo., Ohio
- **10.5%** Gulf Coast Operations Office – Ala., La., Miss.

Pie chart percentages based on direct written premiums totaling $471,793,396.

It's so important that we maintain our financial prudence. Our conservative reserving and investing practices translate to stability and peace-of-mind for our agents and policyholders.

Craig Johnson, Executive Vice President
FCCI Chief Financial Officer & Treasurer

Numbers that count

$1.8 BILLION **Total Assets.** FCCI's total assets reflect the size and strength of our organization and our ability to meet our financial obligations.

$1.2 BILLION **Cash and Investments.** FCCI's conservative-while-maximizing-returns approach to investing ensures that funds are always available to pay your claim.

$0.5 BILLION **Members' Equity.** In 2009, FCCI's equity based on Generally Accepted Accounting Principles (GAAP) eclipsed one-half billion dollars, demonstrating our ability to remain stable and solvent, even after catastrophic loss.

$27.6 MILLION **Net Income.** FCCI nearly tripled our net income in 2009. We accomplished this by expertly managing our investment portfolio and operating expenses.

11% INCREASE **Policy Count.** FCCI increased our policy count by 11 percent in 2009. Productivity gains enabled us to process the extra business and maintain the same number of employees.

FCCI's financial officers: (Left to right) Chris Shoucair, FCCI Senior Vice President, Controller & Assistant Treasurer; Ned Wilson, FCCI Vice President, Treasury Operations; (Standing) Craig Johnson, FCCI Executive Vice President/Chief Financial Officer & Treasurer; and David Leblanc-Simard, FCCI Senior Vice President/Chief Actuary.

REGIONAL STRUCTURE

Local knowledge, local authority

FCCI Corporate Headquarters/
Florida Regional Office
6300 University Parkway
Sarasota, FL 34240
(800) 226-3224

FCCI Orlando Branch Office
610 Crescent Executive Court, Suite 210
Lake Mary, FL 32746
(800) 239-4778

FCCI Southeast Regional Office
3175 Satellite Boulevard, Suite 200
Duluth, GA 30096
(800) 805-3737

FCCI Midwest Regional Office
12800 N. Meridian Street, Suite 200
Carmel, IN 46032
(800) 824-2513

FCCI Gulf Coast Operations Office
1817 Crane Ridge Drive
Jackson, MS 39216
(800) 530-7800

Earl E. Price
Regional Senior Vice President
Florida Region

Tracey J. Pfab
Regional Senior Vice President
Midwest Region

Richard E. Rueger
Regional Senior Vice President
Southeast Region

Thomas G. Quaka
Regional Senior Vice President
Gulf Coast Operations

Our agents know the decision makers because the decision makers live in our agents' backyards. Bottom line: We're accessible when our customers need us most.

Rupe Willis, Executive Vice President
FCCI Chief Regional Officer

Doug Garland, President of Heiden & Garland, Inc., Flowood, Miss., understands the value of local presence. More often than not, FCCI's Gulf Coast Operations office in Jackson, Miss. is where his agency goes first to place new business or get quick answers. "They have a wealth of knowledge, and they don't mind our picking up the phone and asking them a question," he says. "Especially in today's market, you have to be able to respond knowledgeably and quickly. If we need help, we need help now."

(Left to right) Donna Rademacher, Senior Commercial Lines Underwriter, FCCI Gulf Coast Operations; Jimmie McNair, Claim Specialist, FCCI Gulf Coast Operations; Doug Garland, President, Heiden & Garland, Inc., Flowood, Miss.; and Marvin Brown, President, Insulation, Foam & Roofing, Inc., Jackson, Miss.

UNDERWRITING

Relationship-building at its best

FCCI Commercial Lines Underwriter Cathy Davis (pictured opposite page) attributes FCCI's success to the strength of the company's personal relationships. "Our agents talk about how friendly and accessible we are," Cathy says. "Customer service is one of our top qualities."

Cathy is a strong supporter of initiatives like FCCI TeamWorks!SM in which the underwriter and others from the FCCI insurance team meet with the agent and the policyholder to discuss various aspects of the policyholder's business. "It helps us learn more about the business owner and their operations," Cathy says. "It also shows our customers that we're not just offering a piece of paper, but a relationship."

> *The challenge right now is to stay focused on our underwriting discipline and still write profitable business for a fair price. Agency partnership has never played a more critical role.*
>
> *Kaye Garruto, Vice President Underwriting*
> *FCCI Southeast Region*

(Left to right) Amy Smith, Senior Commercial Lines Underwriter, FCCI Midwest Region; Dana Smith, Underwriting Manager, FCCI Midwest Region; Les Allen, Senior Sales Executive, Wells Fargo Insurance Agency of Michigan, Inc., Grand Rapids, Mich.; and Lori Herman, Senior Marketing Underwriter, FCCI Midwest Region.

"My relationship with FCCI's underwriters has been exceptional," says Jim Hurst of Willis of Florida, Inc., Winter Haven. "And they understand Ag." An Agriculture specialist since 1978, Jim appreciates the professional and expeditious manner in which FCCI has always paid his clients' claims, including major losses. "I believe that FCCI is fair in their underwriting and their pricing," Jim says. "I also believe that FCCI has a long-term commitment to Agriculture."

(Left to right) Bob Spencer, Executive Vice President/Sales Manager, West Coast Tomato, LLC, Palmetto, Fla.; Duane Duryea, Controller, West Coast Tomato, LLC; Cathy Davis, Commercial Lines Underwriter, FCCI Florida Region; Mary Roberts, Underwriting Manager, FCCI Florida Region; and James H. Hurst, Jr., Willis of Florida, Inc., Winter Haven.

LOSS CONTROL

Listening to our policyholders

FCCI Loss Control Consultant Robert Denney (pictured opposite page) represents what is often the first and sometimes the only touch point a policyholder has with FCCI. He and more than 30 other FCCI loss control experts in the field provide an invaluable service: Helping customers manage risk.

Their job isn't about hollow recommendations or Gotcha! moments, Robert says. It's about listening to and consulting with the policyholder. The ultimate goal is to help business owners reduce or eliminate the hazards and exposures they face every day. "A good day for me is when I visit a policyholder, and everything's done right," Robert says. "Once they realize we're working in their best interests, everyone benefits."

Our focus is to help business owners protect their assets and provide a safe workplace for their employees. We listen.

Greg Kramer, Vice President Underwriting
FCCI Midwest Region

(Left to right) Eldon R. Falgout, Jr., Director of Finance, Capital City Beverages, Inc., Jackson, Miss.; Randall Foster, Loss Control Consultant, FCCI Gulf Coast Operations; and Paul J. Bertucci, Executive Vice President, Capital City Beverages, Inc.

"If you have a good safety program and you maintain a safe workplace, you definitely have a competitive edge," says Jorge Garnica-Watson, HR/Safety Director at Woodman Insulation Co., Inc., Cumming, Ga. "We're very comfortable with FCCI," he says. "FCCI is always willing to share their expertise with us, and more important than anything else, we have a good relationship."

(Left to right) Jorge Garnica-Watson, HR/Safety Director, Woodman Insulation Co., Inc., Cumming, Ga.; Brad Thompson, Claim Specialist, FCCI Southeast Region; and Robert Denney, Loss Control Consultant, FCCI Southeast Region.

CLAIMS

Doing what's right, every time

FCCI Senior Claim Adjuster Kevin Elliott (pictured opposite page) understands how devastating a claim can be. In particular, workplace injuries can be traumatic, heightening stress levels and creating concerns for the injured employee, the family, and the employer. "Worrying about recovery is enough," Kevin says. "Injured workers shouldn't have to worry about how they're going to feed and take care of their families."

Kevin enjoys the autonomy of being a resident adjuster at FCCI, where the emphasis is on quality and not quantity, and where he feels empowered to make decisions that help make the injured worker whole again. "We have a duty to do what's right," he says. "No one can argue with that."

Our philosophy is to look at claims as an obligation to many different parties. It's important to treat people fairly and to do the right thing every time. We owe it to everyone involved.

Joe Keene, Executive Vice President
FCCI Corporate Claims

(Center) Jonathan Dubose, Claim Adjuster, FCCI Gulf Coast Operations; (Surrounded by, left to right) Richard B. Copeland, President; Tim Nelson, Vice President Construction; and R. Craig Provine, Executive Vice President/General Manager, Copeland & Johns, Inc., Jackson, Miss.

"FCCI is strong on communication," says Mark Bergsma of Berends Hendricks Stuit Insurance Agency, Inc., Grandville, Mich. In 2010, FCCI settled a large property claim for Mark's client, Ron VanderMeer of Continental Linen Services in Kalamazoo. According to Mark, FCCI is always responsive, but what impressed him most was the way the claim adjuster handled the situation on a personal level, keeping the policyholder informed and educated every step along the way. "I get hands-on with my claims," Mark says. "I really appreciate a company that gets hands-on, too."

(Left to right) Kevin Elliott, Senior Claim Adjuster, FCCI Midwest Region; Ron VanderMeer, Chief Executive Officer, Continental Linen Services, Kalamazoo, Mich.; and Mark Bergsma, Sales Manager/Property & Casualty Account Executive, Berends Hendricks Stuit Insurance Agency, Inc., Grandville, Mich.

CUSTOMER SERVICE

It's what sets us apart

According to Customer Service Representative Maggie Villalta (pictured below), when a customer calls FCCI, the questions are always different. But Maggie, who just earned her 620 All Lines Adjuster license, likes different. "We always go the extra mile," she says.

Whether the call is coming from an FCCI policyholder, an agent, or a claimant, if you ask Maggie, listening is key. "The caller may not always be sure who they need to talk to; they just know they need our help," she says. "We're here to listen and get them the help they need."

We care about each other just as much as we care about our customers. It's not what we do here but 'how' we do it that makes the difference.

Lisa Krouse, Senior Vice President
FCCI Human Resources & Support Services

Representatives of FCCI's customer service/loss reporting team: (Standing, left to right) Cindy Loria, Supervisor, Customer Service/Loss Reporting; Angela Johnstone, Loss Reporting Coordinator; Vanessa Hagerman, Customer Service Representative; Elyse Lessig, Loss Reporting Coordinator; (Seated, left to right) Elsie Thompson, Customer Service Representative; DaSha Bradley, Customer Service Representative; and Maggie Villalta, Customer Service Representative.

"I can tell FCCI places high emphasis on customer service," says Tim Graham, Vice President of Human Resources at Tervis Tumbler, North Venice, Fla. According to Tim, when it comes to workers' compensation, there are two levels of customer service: Customer service for the injured employee and customer service for the employer. FCCI excels at both. "We like that we have access to FCCI loss control experts and that FCCI claim adjusters are always giving us the information we need when we need it and trying to resolve our claims quickly."

(Left to right) Dessi Sanders, Claims Manager, FCCI Florida Region; Pansy Heger, Loss Control Consultant, FCCI Florida Region; Tim Graham, Vice President of Human Resources, Tervis Tumbler, North Venice, Fla.; Wayne Varnadore, Vice President Operations, Tervis Tumbler; Jim Henderson, Senior Vice President/Risk Consultant, Wells Fargo Insurance Services USA, Inc., Clearwater, Fla.; and Nancy Krizen, Senior Claim Adjuster, FCCI Florida Region.

AGENCY PARTNERSHIP

The key to our success

John Bush (pictured below) has a unique perspective on FCCI. As Principal and Commercial Manager at Herndon & Associates Insurance in Lakeland, Fla., an FCCI President's Club agency, and as Council Chair of the FCCI Florida Region Agents' Advisory Council, John says: "FCCI's come a long way in a short period of time."

John appreciates how quickly and consistently FCCI implements Council suggestions, and he thinks the accessibility of FCCI staff and upper management, including FCCI's Board of Directors, is refreshing. But, for John, one thing stands out most of all.

In 1996, John witnessed FCCI expand its product line beyond workers' compensation. He admits he was at first surprised by the decision but cites the company's coordinated loss control and claims response to the 2004 hurricanes that devastated parts of Florida as a turning point in his opinion of just what FCCI could accomplish in the wake of a major property catastrophe.

"At this point, for me," he says, "FCCI broke through the threshold."

The FCCI Florida Region Agents' Advisory Council: (Standing, left to right) Robert Brown, Atlas Insurance, Sarasota; LaVerne Wicks, Brown & Brown of Florida, Inc., Fort Myers; Greg Marsh, Keyes Coverage, Tamarac; John Bush (Chair), Herndon & Associates Insurance, Lakeland; Theresa Greene Hazel, Greene Hazel & Associates, Inc., Jacksonville; (Seated, left to right) Patricia Mendoza, Brown & Brown Insurance/HBA Division, Miami; Danny Anderson, Insurance Office of America, Longwood; and Ray Bouchard, Bouchard Insurance, Inc., Clearwater.

Recognizing excellence

The FCCI Chairman's Club and the FCCI President's Club are designed to reward and support those agency partners who consistently demonstrate superior levels of performance with FCCI and who conduct themselves with the highest degree of integrity. FCCI partners with 487 select appointed agencies. Of these, the following 31 agencies have earned this special recognition:

FCCI Chairman's Club Appointees

Mr. Danny Anderson
Insurance Office of America
Longwood, Fla.

Mr. Ray Bouchard
Bouchard Insurance
Clearwater, Fla.

Mr. Bob Gerry
Risk Management Insurance
Fort Myers, Fla.

Mr. John Graham
Graham-Naylor Agency
Marietta, Ga.

Mr. Jon Loftin
MJ Insurance
Indianapolis, Ind.

Mr. Colin Lowe
Brown & Brown of Florida
Miami, Fla.

Mr. John J. Nelson
Lykes Insurance
Fort Myers, Fla.

Ms. Cynthia Payne
CHAPP, Inc.
Dundee, Fla.

Mr. Fitz Powell, Jr.
Cecil W. Powell & Company
Jacksonville, Fla.

Mr. David Stanton
Gateway Insurance Agency
Fort Lauderdale, Fla.

Mr. Keith Stone
Gibson Insurance Group
South Bend, Ind.

Mr. Skip Treco
Hylant Group
Indianapolis, Ind.

Mr. Jerry Veazey, Jr.
Bottrell Insurance Agency
Jackson, Miss.

Mr. Mike Welch
Commercial Insurance Marketing
Sarasota, Fla.

Mr. LaVerne Wicks
Brown & Brown of Florida
Fort Myers, Fla.

FCCI President's Club Member Agencies

Associates Insurance Agency
Temple Terrace, Fla.

Atlantic Pacific Insurance
Palm Beach Gardens, Fla.

BB&T/J. Rolfe Davis Insurance
Maitland, Fla.

Ben Brown Insurance Agency
Sarasota, Fla.

Bernard Williams & Company
Savannah, Ga.

Five County Insurance Agency
Fort Myers, Fla.

Frank H. Furman
Pompano Beach, Fla.

Herndon & Associates Insurance
Lakeland, Fla.

The Horton Group
Orland Park, Ill.

Innovative Insurance Consultants
Coral Springs, Fla.

Keyes Coverage
Tamarac, Fla.

Lutgert Insurance
Naples, Fla.

Mike Ledkins Insurance Agency
Thomasville, Ala.

Premier Insurance Corp.
Cape Coral, Fla.

SouthGroup Insurance
Ridgeland, Miss.

Yates Insurance Agency
Atlanta, Ga.

CORPORATE CITIZENSHIP

People helping people

FCCI Underwriting Technician Trainee Connie Howard (pictured opposite page) is no novice when it comes to volunteering. Every year, Connie helps raise funds for FCCI's United Way fundraising event, convincing local businesses why they want to give. She also helps out during the FCCI Kiddie Holiday Party and volunteers at her granddaughter's middle school.

But what Connie really enjoys is shingling roofs and laying sod. In fact, Connie's helped build about a dozen homes for Habitat for Humanity, often soliciting other FCCI employees to join her. "I've had a few people give me a hand up when I needed it," she says. "And while I can't always help out financially, I can at least give someone my time and energy."

> *We don't make anything here; it's all about people. Being passionate about what we do and giving back to our communities is what makes life rich and full.*
>
> *Debbie Douglas, Executive Vice President*
> *FCCI Marketing/Underwriting & Human Resources*

Painting a Child's World

Kathy McDill, Executive Assistant, FCCI Gulf Coast Operations

When Kathy McDill's oldest daughter got married and her twins left for college, empty nest syndrome set in. To conquer it, Kathy picked up a paint brush. She and 10 other women from the Junior Auxiliary of Rankin County helped transform the activities room at Mississippi State Hospital's Oak Circle Center, an adolescent and child treatment center, from drab to fab. The completed mural depicts a tree house surrounded by green leaves, blue skies, and inspirational quotes by the poet Robert Frost. "The surprised looks on the children's faces made it worth the effort," says Kathy, who is already planning the next Paint for Youth project.

Helping Girls Achieve

Jan Curry, FCCI Director of Insurance Operations Support

Jan Curry makes the perfect Girl Scout Cookie Manager. Dedicated and results-driven, Jan empowered her niece and 14 other 10-year-old girls from Gulf Coast Girl Scout Troop #302 to sell 3,756 boxes of cookies in three months. According to Jan, a 23-year veteran of FCCI, selling cookies teaches the girls how to establish goals, be creative, manage money and work as a team. "I've watched them grow up and learn to be responsible," Jan says. "This year, they counted the money and made change."

In January 2010, FCCI volunteers gathered at All Faiths Food Bank in Sarasota, Fla. to help sort food to feed the hungry. An FCCI policyholder, All Faiths Food Bank partners with more than 160 local agencies and distributes food to more than 32,500 people every day. According to Paula Coburn, All Faiths Food Bank Volunteer Programs Manager, in just one hour, FCCI volunteers sorted enough food to create 1,430 meals.

(Front row, left to right) Vish Subramanian, FCCI Senior Systems Developer; Marian Raupp, Senior Commercial Lines Underwriter, FCCI Florida Region; Connie Howard, Underwriting Technician Trainee, FCCI Florida Region; (Center row, left to right) Katie Bigley, FCCI Senior Systems Analyst; Alice Arnold, FCCI Collections Supervisor; Christine DiMarco, FCCI Project Services Manager; Carla East, FCCI Accounts Receivable/Commissions Coordinator; Litha John-Rose, FCCI Associate Actuary; Mingtang Liu, FCCI Senior Systems Developer; (Back row, left to right) Chris Marriner, Loss Control Consultant, FCCI Florida Region; Bruce Ludke, FCCI Building Maintenance Manager; Paul Healy, Claims Manager, FCCI Florida Region; and Curtis Mollohan, FCCI Attorney/Privacy & Security Compliance.

FCCI Officers

G.W. Jacobs, J.D.
President/Chief Executive Officer

Rupert L. Willis
Executive Vice President/Chief Regional Officer

Craig A. Johnson, MBA, CPA
Executive Vice President/Chief Financial Officer & Treasurer

Debra H. Douglas, MBA, CLU, ChFC
Executive Vice President, Marketing/Underwriting & Human Resources

Joseph A. Keene
Executive Vice President, Corporate Claims

Brenda M. Davis
Senior Vice President/Chief Information Officer

Lisa Krouse, Esq., SPHR
Senior Vice President, Human Resources & Support Services

Thomas A. Koval, Esq.
Senior Vice President/General Counsel

David Leblanc-Simard, FCAS, MAAA, ASA, CFA
Senior Vice President/Chief Actuary

Tracey J. Pfab
Regional Senior Vice President, Midwest Region

Earl E. Price
Regional Senior Vice President, Florida Region

Thomas G. Quaka, CPCU
Regional Senior Vice President, Gulf Coast Operations

Richard E. Rueger, CPCU, AIC, ARe
Regional Senior Vice President, Southeast Region

Chris Shoucair, MST, CPA
Senior Vice President, Controller & Assistant Treasurer

John J. Bartone
Vice President, Claims

Patrick L. Caranfa, CIC, AU, MLIS
Vice President, Home Office Underwriting

Garth D. Crow, CPCU, CIC, AIC
Vice President, Claims

Kaye H. Garruto
Vice President, Underwriting

Cynthia L. Gaul
Vice President, Claims

Carey A. Geaglone, CPCU, MBA, ARe, AIS, AIT
Vice President, IS Application Services

Stephen H. Graham, AFIS
Vice President, Agribusiness

Gregory L. Kramer
Vice President, Underwriting

Duane L. Padgett, CIC, AU
Vice President, Marketing & Product Management

William D. Speaker, CPCU, AU
Vice President, Underwriting

Christina D. Welch, Esq., CPCU
Vice President/Chief Security Officer

Ned B. Wilson, Ph.D., CPCU
Vice President, Treasury Operations

Scott Paice, CPCU, AFSB, CIC
Assistant Vice President, Surety

Gary L. Pemberton
Assistant Vice President, IS Application Services

FCCI Board of Directors

John T. Stafford
Chairman of the Board, FCCI Insurance Group, since 2004
Former chairman, president and CEO of numerous regional banks
FCCI Director since 1996

G.W. Jacobs, J.D.
President and Chief Executive Officer, FCCI Insurance Group, since 1999

Charles R. Baumann, CPA/CFF
Principal, Kerkering, Barberio & Co., P.A. (accounting firm)
FCCI Director since 2004

Robert W. Benjamin, Esq.
Of Counsel, Williams Parker (law firm)
FCCI Director since 2007

Timothy J. Clarke
Retired president/founder, Clarke Advertising & Public Relations
FCCI Director since 2005

Robert W. Flanders
President, Quality Walls Enterprises, Inc.
Board Chairman, Suncoast Foundation for the Handicapped, Inc.
Charter Member, The Argus Foundation
FCCI Director since 1993

Marvin S. Haber
Retired president, Savon Furniture
Retired president, Haber Management (furniture manufacturing consulting)
FCCI Trustee/Director since 1992

Roy A. Yahraus
Board of Directors, Cadence Bank
Commercial Real Estate Consultant/Landlord, Harry E. Robbins Associates, Inc.
Retired owner, Gulf Coast Building Materials
FCCI Director since 2007

FCCI's Board of Directors: (Standing, left to right) Marvin S. Haber; Robert W. Benjamin; G.W. Jacobs, President/Chief Executive Officer; Charles R. Baumann; and Robert W. Flanders. (Seated, left to right) Roy A. Yahraus; John T. Stafford, Chairman of the Board; and Timothy J. Clarke.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Financial Statements

As of and for the Years Ended December 31, 2009 and 2008

Table of Contents

FCCI® INSURANCE GROUP 50 YEARS 1959-2009

PROTECTING BUSINESS, PROPERTY AND PEOPLE

Independent Auditors' Report

The Board of Directors
FCCI Mutual Insurance Holding Company and subsidiaries

We have audited the accompanying consolidated balance sheet of FCCI Mutual Insurance Holding Company and subsidiaries (the Company) as of December 31, 2009, and the related consolidated statements of earnings, members' equity, comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the Company as of December 31, 2008 were examined by other auditors whose report dated March 27, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FCCI Mutual Insurance Holding Company and subsidiaries as of December 31, 2009, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

Atlanta, Georgia
March 31, 2010

Consolidated Balance Sheets

(in thousands)

As of December 31,

		2009	2008
Assets			
Investments:			
Securities available for sale, at fair value			
Fixed maturity securities	$	1,156,409	1,076,436
Common stocks		73,734	58,861
Total investments		1,230,143	1,135,297
Cash and cash equivalents		7,942	25,367
Accrued investment income		11,690	10,410
Amounts due from policyholders, net		191,316	193,815
Reinsurance recoverables and prepaid reinsurance premium		174,319	216,485
Amounts due from Florida Special Disability Trust Fund		11,693	16,765
Deferred policy acquisition costs		32,157	33,900
Land, building and equipment, net		49,928	51,991
Deferred income taxes, net		37,858	53,872
Income tax recoverable		-	2,221
Goodwill		18,776	16,811
Other assets		11,984	13,344
Total assets	$	1,777,806	1,770,278
Liabilities and Members' Equity			
Liabilities:			
Loss and loss adjustment expenses		878,215	931,737
Unearned and advance premiums		219,845	222,627
Accrued expenses and other liabilities		94,267	102,865
Accrued policyholder dividends		11,382	13,767
Premiums refundable and loss fund deposits		3,475	3,380
Income tax payable		6,515	-
Debt		59,750	44,000
Total liabilities		1,273,449	1,318,376
Commitments and contingencies (Note 15)			
Members' equity			
Accumulated earnings		491,554	464,051
Accumulated other comprehensive gain (loss)		12,803	(12,149)
Total members' equity		504,357	451,902
Total liabilities and members' equity	$	1,777,806	1,770,278

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

(in thousands)

For the Years Ended December 31,

	2009	2008
Revenues		
Net premiums earned	$ 438,379	476,166
Net investment income	44,743	48,212
Net realized investment gain (loss)	12,996	(15,488)
Service fees and other income	2,966	3,022
Total revenues	499,084	511,912
Expenses:		
Losses and loss adjustment expenses incurred	292,711	330,959
Policy acquisition expenses	81,234	89,602
General and administrative expenses	74,458	71,424
Policyholder dividends	7,701	7,504
Other	1,488	3,176
Total expenses	457,592	502,665
Income before income taxes	41,492	9,247
Income tax expense (benefit)	13,902	(44)
Net income attributable to members	$ 27,590	9,291

See accompanying notes to consolidated financial statements.

Consolidated Statements of Members' Equity

(in thousands)

For the Years Ended December 31,

	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
December 31, 2007	$ 454,760	7,937	462,697
Comprehensive income:			
Net income	9,291	-	9,291
Unrealized loss on available-for-sale securities net of deferred tax	-	(20,086)	(20,086)
December 31, 2008	464,051	(12,149)	451,902
Net income	27,590	-	27,590
Reclassification of 2008 other comprehensive income	(87)	87	-
Unrealized gain on available-for-sale securities net of deferred tax	-	24,865	24,865
December 31, 2009	$ 491,554	12,803	504,357

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in thousands)

For the Years Ended December 31,

	2009	2008
Net income attributable to members	$ 27,590	9,291
Other comprehensive income, net of taxes:		
Increase (decrease) in unrealized gains (losses) on investments, net of taxes of $19,974 and ($18,589)	32,987	(29,600)
Reclassification adjustments for realized (gains) losses gains in net income, net of taxes of ($4,874) and $5,975	(8,122)	9,514
	24,865	(20,086)
Total comprehensive income (loss)	$ 52,455	(10,795)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

For the Years Ended December 31,

	2009	2008
Cash flow from operating activities		
Net income	$ 27,590	9,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	5,490	5,097
Deferred tax expense (benefit)	756	(1,753)
Net realized (gains) losses on investments and equipment sold and retired	(13,038)	15,636
Net amortization of discounts and premiums on fixed maturity securities	4,368	4,515
Changes in assets and liabilities:		
Decrease (increase) in:		
Accrued investment income	(1,280)	(249)
Amounts due from policyholders	8,886	9,913
Reinsurance recoverables and prepaid reinsurance premium	42,166	58,149
Amounts due from Florida Special Disability Trust Fund	5,072	3,363
Deferred policy acquisition costs	1,743	(620)
Income tax recoverable	2,221	(2,760)
Other assets	1,360	(788)
Increase (decrease) in:		
Loss and loss adjustment expenses	(53,523)	(39,550)
Unearned and advance premiums	(2,781)	(3,062)
Accrued expenses and other liabilities	(16,199)	(5,002)
Accrued policyholder dividends	(2,385)	1,886
Premiums refundable and loss fund deposits	95	(868)
Income tax payable	6,515	(383)
Net cash flow provided by operating activities	17,056	52,815
Cash flow from investing activities		
Sales and maturities of investments	534,144	482,006
Purchases of investments	(579,024)	(519,206)
Purchase of business, net of cash acquired	(1,965)	(4,040)
Proceeds from sales of property and equipment	89	13
Purchases of property and equipment	(3,475)	(2,338)
Net change in short-term investments	-	2,000
Net cash flow used in investing activities	(50,231)	(41,565)
Cash flow from financing activities		
Principal payments on notes payable	(12,000)	(20,000)
Proceeds from credit facility	36,500	93,300
Principal payments on credit facility	(8,750)	(61,300)
Net cash flow provided by financing activities	15,750	12,000
Net (decrease) increase in cash, cash equivalents	(17,425)	23,250
Cash, cash equivalents, beginning of year	25,367	2,117
Cash, cash equivalents, end of year	$ 7,942	25,367
Cash paid during the year for:		
Interest	1,710	3,012
Income taxes	$ 4,410	4,852

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands)

1. Nature of Operations

FCCI Mutual Insurance Holding Company and subsidiaries (the Company) was created on August 27, 1998 when the policyholders of FCCI Mutual Insurance Company voted to reorganize into a mutual holding company and is engaged in the commercial property and casualty insurance business. In connection with the reorganization, FCCI Group, Inc. was formed as an intermediate holding company for the purpose of holding investments in insurance operations and FCCI Mutual Insurance Company became FCCI Insurance Company, a stock insurance company by issuing 5 million shares of common stock to FCCI Group, Inc. No cash or other consideration was paid in connection with the reorganization.

2. Summary of Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed by the Company are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts, after intercompany eliminations, of the Company as summarized below.

- FCCI Group, Inc. (FGI)
  - FCCI Insurance Company (FCCI)
    - FCCI Insurance Group, Inc. (FIG)
      - Monroe Guaranty Insurance Company (MGI)
      - National Trust Insurance Company (NTI)
      - FCCI Commercial Insurance Company (FCIC)
      - FCCI Advantage Insurance Company (FAIC)
      - Brierfield Insurance Company (BIC)
      - FCCI Services, Inc. (FSI)
        - FCCI Agency, Inc. (FAI)
        - FCCI Staffing Solutions, Inc. (FSS)
      - Mississippi Insurance Managers, Inc. (MIM)

All of the above are wholly-owned subsidiaries.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible to known amounts of cash. In general, only investments with original maturities of three months or less qualify as cash equivalents.

Investments

The Company purchases equity and fixed maturity securities with the intent, expectation, and capability to hold them indefinitely. However, since securities may be sold prior to maturity they are classified as available-for-sale and are reported at fair value, with net unrealized gains and losses, net of deferred income tax, reported as accumulated other comprehensive income. Fair values are based on quoted market prices from independent pricing services when available or broker pricing if the security class lacks liquidity. A decline in fair value of any security below cost that is deemed to be other-than-temporary results in a charge to income and a reduction in carrying amount to fair value. All holdings are continuously monitored to assess future prospects for individual securities as a part of the Company's portfolio management, including the identification of other-than-temporary decline in fair values.

All securities in an unrealized loss position as of the reporting date are evaluated for other than temporary impairment. The Company does not define an arbitrary finite period as "temporary." Rather, the Company believes the time frame should be related more closely to reasonable levels of liquidity in bond markets and the business cycle for equity holdings. In addition to issuer specific discrete credit events, management identifies fixed maturity securities as candidates for other-than-temporary impairment if they have been in an unrealized loss position for twelve consecutive months and the fair values are at least 20% below book value as of the balance sheet date. These securities are evaluated by management utilizing data and information from the Company's external investment consultant and investment manager to determine if the unrealized loss position is due to credit issues rather than market volatility, in which case an other-than-temporary impairment loss will be recognized in the income statement. This evaluation includes an analysis of expected future cash flows and projections of the probability and severity of defaults. In addition, if events indicate that the Company will not hold securities until the fair value recovers from an unrealized loss position, the Company will recognize an other-than-temporary impairment in the consolidated statement of earnings.

Equity securities are evaluated for other-than-temporary impairment using the following procedures:

1. Single issuer equity securities (not mutual funds) whose fair value is adversely affected by a precipitating event that is of an extended duration (e.g., bankruptcy, major court action, serious product liability exposure) will be immediately considered for other-than-temporary impairment treatment.
2. On at least a quarterly basis, mutual funds or single issuer equity securities that have been in an unrealized loss position for twelve consecutive months and whose fair values have declined by more than one standard deviation (based on historical performance for the associated equity sector) will be considered for other-than-temporary impairment treatment.
3. Single issuer equity securities and mutual funds identified above for consideration for other-than-temporary impairment treatment are evaluated by management utilizing data and information from the Company's external investment consultant and investment manager to determine whether the full recovery of cost is expected in the near term.

Realized gains and losses on the sales of securities are recognized based on the specific identification method, except for mutual fund equities which are based on the weighted average cost method. Premiums and discounts on securities are amortized using the interest method over their contractual lives or expected average lives for loan-backed securities. Interest rate adjustments associated with changes in projected cash flows on mortgage and asset-backed securities are accounted for using the retrospective method.

Short-term investments consist of government and corporate bonds and are stated at cost, which approximates fair value.

Deferred Policy Acquisition Costs

Policy acquisition costs, consisting of commissions, premium-related taxes and assessments, and certain other underwriting costs, are deferred and amortized as the related premiums are earned. The Company considers anticipated investment income in determining if a premium deficiency exists.

Land, Building and Equipment

Land is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 3 – 39 years. Improvements, which increase the life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset.

Capitalized Software Costs

Capitalized software costs are accounted for in accordance with Accounting Standards Codification (ASC) 350-40, *Internal Use Software*, and are recorded at cost less accumulated amortization. Upon successful testing of the system, amortization is charged to income over the estimated useful life of the software, generally five years.

Goodwill

Goodwill represents the excess of costs over fair value of assets of acquired businesses and is determined to have an indefinite useful life and is not amortized, but instead tested for impairment at least annually in accordance with ASC 350-20, *Goodwill*.

Impairment of Long-Lived Assets

In accordance with ASC 360, *Property, Plant and Equipment*, long-lived assets, such as property and equipment, and purchased intan-

Notes to Consolidated Financial Statements

(in thousands)

gibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted future cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Recognition of Revenue

Premiums are earned on a pro rata basis over the policy term. Premiums applicable to the unexpired terms of effective policies are recorded as unearned premiums. Premiums for certain lines of business, such as workers' compensation, are subject to revision based upon final determination of the exposure base, which occurs after the policy period. Retrospectively rated policy premiums are increased or decreased, subject to certain policy limitations, based upon the estimated loss experience of the insured during the policy period and subsequent calendar years. Service fees and commission income are earned pro rata over the term of the contract period or when the services are performed, if applicable. Reinsurance commission income is recognized pro rata over the term of the related insurance contract.

Loss and Loss Adjustment Expenses

The liability for loss and loss adjustment expenses (LAE) represents the ultimate estimated liability for reported claim costs (including LAE) that have not settled, and an estimate, based on experience, for claims that have been incurred but not yet reported. The liability for loss and LAE is estimated by management based upon actuarial reviews of the Company's historical loss development experience and industry data. The Company does not discount the liability for loss and LAE.

Policyholder Dividends

At the sole discretion of the boards of directors of the insurance companies, and within regulatory guidelines, insureds with participating insurance contracts may be eligible to share in the profitability of the policy in the form of a dividend, based on the insured's individual loss experience. An estimated provision for policyholder dividends is accrued as the related premiums are earned based on historical profitability and published dividend tables. Changes in estimates are recognized in the period determined.

Reinsurance

Premiums and loss and LAE ceded under reinsurance contracts are reported as a reduction to premiums earned and loss and LAE incurred, respectively. Loss and LAE reserve amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance contract.

Florida Special Disability Trust Fund

Amounts due from the Florida Special Disability Trust Fund (SDTF) relate to recoverable amounts for certain claims costs related to injuries that aggravate or accelerate a preexisting injury or physical impairment. The receivable is comprised of three components: amounts paid by the Company which has been submitted to the SDTF pending reimbursement, amounts paid by the Company which have not yet been submitted to the SDTF, and amounts not yet paid by the Company.

Income Taxes

The Company files a consolidated federal income tax return. Deferred income taxes are recognized for assets and liabilities that have different values for financial statement and tax reporting purposes using enacted federal and state tax rates. Where necessary, a valuation allowance is recorded to reduce a net deferred tax asset to the amount expected to be realized.

The Company's federal income tax return is consolidated with the following entities:

Notes to Consolidated Financial Statements

(in thousands)

FCCI Group, Inc.
- FCCI Insurance Company
  - FCCI Insurance Group, Inc.
    - Monroe Guaranty Insurance Company
    - National Trust Insurance Company
    - FCCI Commercial Insurance Company
    - FCCI Advantage Insurance Company
    - Brierfield Insurance Company
    - FCCI Services, Inc.
      - FCCI Agency, Inc.
      - FCCI Staffing Solutions, Inc.
    - Mississippi Insurance Managers, Inc.

Concentrations of Business Risks

The Company is inherently subject to various business risks. Following is a description of the most significant risks facing property/casualty insurers:

Catastrophic Loss Risk is the risk of losses due to geographic concentrations of property policies within storm-prone regions and accumulation of lives within a single location. The Company maintains reinsurance coverage to mitigate the risk of catastrophic losses.

Legal/Regulatory Risk is the risk that the legal or regulatory environment in which an insurer operates will change and create additional loss costs or expense not anticipated by the insurer in pricing its products. Regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those currently recorded in the consolidated financial statements. As the Company writes a significant amount of insurance business in the state of Florida, these risks might have a more significant effect on the Company than on a more geographically diversified insurance company.

Credit Risk is the risk that issuers of securities owned by the Company will default or other parties, including policyholders, reinsurers, and the SDTF that owe the Company money, will not pay. The Company minimizes this risk by adhering to a conservative investment strategy, closely monitoring premiums receivable, and contracting with reinsuring companies that meet certain rating criteria and other qualifications.

Interest Rate Risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. To the extent that liabilities come due more quickly than assets mature, an insurer would have to sell assets prior to maturity and potentially recognize a loss in a rising interest rate environment. The Company mitigates this risk by attempting to match the duration of its assets with the duration of its liabilities and by maintaining working lines of credit.

Use of Estimates

The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. Significant estimates include the liability for loss and LAE, amounts recoverable from reinsurers, deferred income tax assets and liabilities, the deferral of policy acquisition costs, amounts due from the Florida Special Disability Trust Fund, accrued policyholder dividends, guaranty fund assessments, final premium audits, allowance for doubtful accounts, and retrospectively rated premiums.

Reclassifications

Certain 2008 fiscal amounts have been reclassified to conform to the current year presentation.

Notes to Consolidated Financial Statements

(in thousands)

Recently Issued Accounting Standards

In May 2009, the FASB issued ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 establishes principles and disclosure requirements for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 is effective for annual financial periods ending after June 15, 2009.

In April 2009, the FASB issued ASC 820-10-65, *Transition Related to FASB Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC 820-10-65). ASC 820-10-65, among other things, clarifies that the measurement objective in determining fair value when the volume and level of activity for an asset or liability have significantly decreased is the price that would be received to sell the asset in an orderly transaction between willing market participants under current market conditions, and not the value in a hypothetical active market. ASC 820-10-65 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. Adoption of ASC 320-10-65 had no material impact on the Company's financial condition or results of operations.

In April 2009, the FASB issued ASC 320-10-65, *Transition Related to FSP No. FAS 115-2 and No. FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments* (ASC 320-10-65). ASC 320-10-65 replaces the existing requirement that in order for an entity to conclude impairment of debt securities is not other-than-temporary, it must have the intent and ability to hold an impaired security for a period sufficient to allow for recovery in value of the investment. To conclude impairment is not other-than-temporary, ASC 320-10-65 requires management to assert that it does not have the intent to sell the security and that it is more likely than not it will not have to sell the security before recovery of its cost basis. ASC 320-10-65 also changes the presentation in the financial statements of non-credit related impairment amounts for instruments within its scope. When the entity asserts it does not have the intent to sell the security and it is more likely than not it will not have to sell the security before recovery of its cost basis, only the credit related impairment losses are to be recorded in earnings; non-credit related losses are to be recorded in accumulated other comprehensive income. ASC 320-10-65 also expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. ASC 320-10-65 is effective for annual reporting periods ending after June 15, 2009. Adoption of ASC 320-10-65 did not have a material impact on the Company's financial condition or results of operations.

Subsequent Events

The Company has evaluated events subsequent to December 31, 2009, and through the consolidated financial statement issuance date of March 31, 2010. The Company has not evaluated subsequent events after that date for presentation in these consolidated financial statements.

3. Investments

The amortized cost and fair value of fixed maturity securities available for sale and equity securities as of December 31 are as follows:

2009	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
US Treasury and US government agencies and corporations	$ 60,302	2,431	(311)	62,422
State and political subdivisions	315,102	6,753	(1,719)	320,136
Mortgage-backed and asset-backed securities	395,842	8,546	(1,789)	402,599
Corporate bonds	273,000	8,149	(716)	280,433
Foreign government and foreign corporate bonds	87,936	3,355	(472)	90,819
Total fixed maturity securities	1,132,182	29,234	(5,007)	1,156,409
Common stock	77,475	712	(4,453)	73,734
Total available-for-sale securities	$ 1,209,657	29,946	(9,460)	1,230,143

Notes to Consolidated Financial Statements

(in thousands)

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury and US government agencies and corporations	$ 187,833	11,078	-	198,911
State and political subdivisions	301,465	3,591	(6,348)	298,708
Mortgage-backed and asset-backed securities	384,442	7,015	(15,153)	376,304
Corporate bonds	62,009	970	(1,765)	61,214
Foreign government and foreign corporate bonds	145,050	1,167	(4,918)	141,299
Total fixed maturity securities	1,080,799	23,821	(28,184)	1,076,436
Common stock	74,135	-	(15,274)	58,861
Total available-for-sale securities	$ 1,154,934	23,821	(43,458)	1,135,297

Fair values are based on quoted market prices from independent pricing services when available or broker pricing if the security or security class lacks liquidity.

The amortized cost and fair value of fixed maturity securities as of December 31, 2009 by contractual maturities follow:

	Amortized Cost [(1)]	Fair Value [(1)]
Due in one year or less	$ 57,814	58,767
Due after one year through five years	571,798	586,378
Due after five years through ten years	268,738	275,543
Due after ten years	233,832	235,721
Total fixed maturities	$ 1,132,182	1,156,409

[(1)] Includes principal paydowns on mortgage- and asset-backed securities using estimated maturities.

Mortgage and asset-backed securities are classified in the maturity distribution based upon their projected cash flows. The Company uses a six-month average actual cumulative prepayment rate (CPR), cumulative default rate (CDR), and severity in determining projected cash flows for the life of each bond. CPR, CDR, and severity information is obtained from various data providers including Loan Performance Corp, Polypaths, and Intex when available. When actual severity cannot be obtained or calculated from these sources, the Company uses assumptions based on market research. Actual maturities and projected cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

Notes to Consolidated Financial Statements

(in thousands)

	Less than 12 months		12 months or more		Total	
2009	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for sale:						
Bonds	$ 2,508	139,677	710	11,138	3,218	150,815
Equity securities	80	5,223	4,373	52,493	4,453	57,716
Mortgage-backed and asset-backed securities	606	102,699	1,183	15,461	1,789	118,160
	$ 3,194	247,599	6,266	79,092	9,460	326,691

	Less than 12 months		12 months or more		Total	
2008	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for sale:						
Bonds	$ 7,820	252,015	5,211	56,765	13,031	308,780
Equity securities	15,274	41,846	-	-	15,274	41,846
Mortgage-backed and asset-backed securities	11,398	78,417	3,755	40,736	15,153	119,153
	$ 34,492	372,278	8,966	97,501	43,458	469,779

The Company's other-than-temporary impairment assessment includes reviewing the extent and duration of declines in fair values of investment, the seniority and duration for the securities, historical and projected company financial performance, company specific news and other developments, the outlook for industry sectors, credit ratings and macroeconomic changes, including government policy initiatives. The largest single unrealized loss was $3,331 on a mutual fund investment in the Vanguard Institutional Index Mutual Fund.

During 2009 and 2008, the Company recognized $1.5 million and $24.4 million of other-than-temporary impairment losses on certain fixed maturity and single issuer equity securities, respectively, due to issuer-specific credit and equity events, consistent with management's criteria for recognizing other-than-temporary declines in fair values. During 2008, the Company recognized $7.8 million of other-than-temporary impairment losses on two mutual fund equities in accordance with the Company's other-than-temporary impairment policy, as while recovery of cost is expected, it was not anticipated to occur in the near-term, and is included in the total other-than-temporary impairment charge above.

For fixed maturity securities, the Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because management has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, management does not consider these securities to be other-than-temporarily impaired at December 31, 2009. For equity securities, the Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on those evaluations and the Company's ability and intent to hold these investments until recovery of cost in the near term, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2009. Management bases this conclusion on its understanding, which includes the opinions of their outside investment consultant and outside investment manager, of the issuers of these securities, as described above.

It is possible that the Company could recognize other-than-temporary impairment losses on some securities owned at December 31, 2009 if future events, information and the passage of time cause the Company to determine that a decline in value is other than temporary.

Net investment income is summarized as follows for the years ended December 31:

Notes to Consolidated Financial Statements

(in thousands)

	2009	2008
Bonds	$ 47,892	47,382
Equity securities	1,098	1,526
Cash, cash equivalents and short-term investments	43	639
Gross investment income	49,033	49,547
Investment expenses	(4,290)	(1,335)
Net investment income	$ 44,743	48,212

Proceeds from sales or maturities of fixed maturity securities during 2009 and 2008 were $518,020 and $462,654, respectively. Proceeds from sales of equity securities during 2009 or 2008 were $16,124 and $19,352, respectively.

Net realized gains (losses) on investments sold, as well as other-than-temporary impairment charges incurred (OTTI), were comprised of the following for the years ended December 31:

	2009	2008
Fixed maturity securities:		
Gross gains	$ 12,714	9,069
Gross losses	(843)	(206)
Equity securities:		
Gross gains	2,650	667
Gross losses	(10)	(588)
Net realized gains before income taxes	14,511	8,942
OTTI charges incurred on fixed maturity securities[1]	(915)	-
OTTI charges incurred on equity securities[1]	(600)	(24,430)
Total realized investments gain (loss)	$ 12,996	(15,488)

[1]$898 of the OTTI charges in 2009 relate to securities the Company held in its investment portfolio as of December 31, 2009.

At December 31, 2009 and 2008, bonds, cash, and cash equivalents with fair values of $15,485 and $14,842, respectively, were pledged to various state and federal regulatory authorities.

The Company maintains a diversified portfolio and there were no concentrations of investments in excess of 10% of members' equity at December 31, 2009 and 2008.

The Company does not engage in direct subprime residential mortgage lending. The Company's exposure to subprime mortgage-related risk is limited to investments within the fixed maturity income investment portfolio, which contains securities collateralized by mortgages that have characteristics of subprime lending. Such characteristics include an interest rate above prime to borrowers who do not qualify for prime rate loans, borrowers with low credit ratings (FICO scores), unconventionally high initial loan-to-value ratios, and borrowers with less than conventional documentation of their income and/or net assets.

The Company minimizes risk exposure by holding securities that carry an aggregate credit rating of AA and by monitoring the underlying collateral performance on an ongoing basis.

The following chart summarizes the actual cost, book/adjusted carrying value, and the fair value of subprime mortgage-related risk exposure:

Description	*Actual Cost*	*Book/ Adjusted Carrying Value*	*Fair Value*	*Unrealized (Loss)*	*Other-Than-Temporary Impairment Losses Recognized to Date as of December 31, 2009*
Residential mortgage-backed securities	$ 3,242	3,020	2,687	(333)	(298)

Notes to Consolidated Financial Statements

(in thousands)

The Company recorded $298 of impairment write-downs during the year, and $70 of realized gains were taken on subsequent sales of investments with subprime exposure.

Fair Value Measurements

The Company adopted the provisions of ASC 820, *Fair Value Measurements and Disclosures* (ASC 820) on January 1, 2008. ASC 820 defines fair value as the exit price or the amount that would be (1) received to sell an asset or (2) paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date. When determining an exit price, the Company must, whenever possible, rely upon observable market data. Prior to the adoption of ASC 820, the Company primarily obtained pricing from various external services, including broker quotes.

In October 2008, FASB amended ASC 820, effective immediately. The amendment clarifies the application of ASC 820 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Company has considered the guidance in its determination of estimated fair values during 2009.

The ASC 820 exit price notion requires the Company's valuation to also consider what a marketplace participant would pay to buy an asset or receive to assume a liability. Therefore, while the Company can consider pricing data from outside services, the Company ultimately determines whether the data or inputs used by these outside services are observable or unobservable.

In accordance with ASC 820, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level that is significant to the fair value measurement of the instrument.

Level 1 and Level 2 Valuation Techniques

All invested assets of the Company measured at fair value are classified as Level 1 or Level 2. Financial assets that fall within Level 1 and Level 2 are priced according to observable data from identical or similar securities that have traded in the marketplace. Also within Level 2 are securities that are valued by outside pricing services because the inputs used in pricing the securities are market observable. The Company has evaluated the pricing methodology and has determined that the inputs are observable.

The Company holds membership stock in the Federal Home Loan Bank of Atlanta (FHLB), which it classifies as Level 2 due to a lack of an active market. However, the fair value of the stock is contractually specified by the FHLB. The fair value of the membership stock is $5.29 million at December 31, 2009.

Level 3 Valuation Techniques

Financial assets that fall within Level 3 of the hierarchy are valued based upon unobservable market inputs, normally because they are not actively traded on a public market. The Company includes broker quotes in this category due to the lack of transparency in the process that brokers use to develop such prices and due to the lack of a binding or completed sale or purchase transaction. The Company holds no Level 3 investments.

The following table represents fair value of fixed maturity and equity securities by hierarchy level as of December 31, 2009:

		Quoted Prices in Active Markets for Identical Assets	*Significant Observable Inputs*	*Significant Unobservable Inputs*
	Total	*Level 1 Inputs*	*Level 2 Inputs*	*Level 3 Inputs*
Fixed maturity securities	$ 1,156,409	55,463	1,100,946	-
Equity securities	73,734	68,444	5,290	-
Total investment securities	$ 1,230,143	123,907	1,106,236	-

Notes to Consolidated Financial Statements

(in thousands)

4. Amounts Due from Policyholders

Amounts due from policyholders are composed of the following at December 31:

	2009	2008
Premiums in course of collection	$ 29,071	30,629
Premiums deferred not yet due	164,242	162,273
Premiums due on retrospectively rated policies	2,207	3,389
Amounts due on deductible policies	1,174	4,113
	196,694	200,404
Allowance for doubtful accounts	(5,378)	(6,589)
	$ 191,316	193,815

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in our amounts due from policyholders balance determined on the basis of historical experience, specific allowances for known troubled accounts, and other currently available evidence.

5. Deferred Policy Acquisition Costs

Deferred policy acquisition costs are summarized as follows as of and for the years ended December 31:

	2009	2008
January 1,	$ 33,900	33,280
Capitalized costs	72,232	82,194
Amortized costs	(73,975)	(81,574)
December 31,	$ 32,157	33,900

6. Land, Building and Equipment

The major components of land, building, and equipment as of December 31 are as follows:

	2009	2008
Land	$ 4,515	4,515
Building and improvements	49,939	49,933
Furniture and equipment	11,177	10,723
Software in use	28,493	26,782
Software under development	1,226	745
Property held for sale	186	-
	95,536	92,698
Accumulated depreciation and amortization	(45,608)	(40,707)
Land, building and equipment, net	$ 49,928	51,991

Depreciation and amortization expense for land, building and equipment for the years ended December 31, 2009 and 2008 amounted to $5,490 and $5,097, respectively.

Notes to Consolidated Financial Statements

(in thousands)

7. Goodwill and Other Intangible Assets

The balance sheets include goodwill attributable to the Company's November 2000 purchase of MGIC. The original amount of goodwill associated with this acquisition was $18,120. Prior to the adoption of ASC 350, *Intangibles-Goodwill and Other* (ASC 350) in 2002, cumulative amortization of $1,309 was recorded. In addition, the Company purchased MIM, a managing general agent, through a wholly owned subsidiary in December 2008. The cost of the MIM acquisition was $8,000, and the Company recorded an intangible asset associated with the purchase of $4,949, which will be amortized over ten years and is reported as a component of other assets. The purchase contract includes a three-year earn-out provision which may increase the purchase price in the future if certain financial performance targets are met. Any amounts paid in connection with this earn-out provision are recorded as an increase to goodwill. During 2009, the Company paid $1,965 in additional purchase price, increasing total gross goodwill to $20,085 at December 31, 2009.

As of December 31, 2009, the Company tested the underlying goodwill and intangible assets for recoverability, and the test indicated that the fair values exceeded the carrying value of the assets.

The following table details goodwill and intangible assets as of December 31, 2009:

	Goodwill	*Other Intangibles* [(1)]	*Total*
Monroe Guaranty Insurance Company	$ 18,120	-	18,120
Mississippi Insurance Managers, Inc.	1,965	4,949	6,914
Goodwill and other intangible assets, gross	20,085	4,949	25,034
Accumulated amortization	(1,309)	(495)	(1,804)
Goodwill and other intangible assets, net	$ 18,776	4,454	23,230

[(1)] *Reported as a component of other assets.*

Intangible amortization expense for the year ended December 31, 2009 was $495.

8. Liability for Loss and LAE

The Company establishes a liability for loss and LAE that estimates the future payments of reported and unreported claims for losses and the related loss expenses with respect to insured events that have occurred. The process of establishing this liability is subject to uncertainties that are normal, recurring, and inherent in the property and casualty business. The process requires reliance upon estimates based on available data that reflects past experience, current trends, and other information and the exercise of informed judgment. Changes in the Company's estimate of this liability may be required as information develops that varies from experience, provides additional data, or, in some cases, augments data previously not considered sufficient for use in determining reserves. The effect of these changes, net of reinsurance, is charged (unfavorable development) or credited (favorable development) to income for the periods in which they are determined.

In management's judgment, information currently available has been appropriately considered in estimating the Company's liability for losses and LAE. However, future changes in estimates of the Company's liability for insured events may materially affect results positively or adversely in future periods although such effects cannot be reasonably estimated.

Activity for the years ended December 31 in the liability for loss and LAE is summarized on the following page:

Notes to Consolidated Financial Statements

(in thousands)

	2009	2008
January 1, gross	$ 931,737	971,287
Less:		
Reinsurance recoverable, unpaid losses	195,127	250,668
Florida Special Disability Trust Fund recoverable (Note 8)	16,765	20,128
Salvage and subrogation recoverables	4,267	5,706
Reinsurance reserves assumed	2,017	2,520
Liability for loss and LAE on deductible policies	4,113	4,781
January 1, net	709,448	687,484
Incurred related to:		
Current year	363,514	381,625
Prior years	(70,803)	(50,666)
	292,711	330,959
Paid related to:		
Current year	116,123	119,831
Prior years	188,288	189,164
	304,411	308,995
December 31, net	697,748	709,448
Plus:		
Reinsurance recoverable, unpaid losses	161,830	195,127
Florida Special Disability Trust Fund recoverable (Note 9)	11,693	16,765
Salvage and subrogation recoverables	4,013	4,267
Reinsurance reserves assumed	1,757	2,017
Liability for loss and LAE on deductible policies	1,174	4,113
December 31, gross	$ 878,215	931,737

The liability for LAE developed favorably in 2009 and 2008 by $70,803 and $50,666, respectively, due mainly to reductions in expected ultimate losses driven primarily by lower than anticipated emergence on prior accident years.

9. Florida Special Disability Trust Fund

The SDTF provides for the reimbursement of certain Florida workers' compensation claim costs related to injuries that occurred prior to 1998 and that aggravate or accelerate a preexisting injury or physical impairment. The Company submits claims to the SDTF, a Florida government trust fund for recovery of eligible claim costs. The SDTF is funded on a current basis through quarterly assessments imposed on insurance carriers, self-insurance funds, and self-insurers, based on Florida workers' compensation direct premiums written net of any related policyholder dividends.

The Company's receivable from the SDTF is comprised of the following three components:

December 31,	2009	2008
Amounts paid by the Company submitted to the SDTF pending reimbursement	$ 5,033	4,884
Amounts paid by the Company not yet submitted to the SDTF	1,442	4,423
Amounts not yet paid by the Company	5,218	7,458
	$ 11,693	16,765

The SDTF accepts submissions for recovery once per year for each subject claim.

For the years ended December 31, 2009 and 2008, assessments were $4,702 and $5,545, respectively, and the Company collected $4,950 and $6,290, respectively, in reimbursements.

Notes to Consolidated Financial Statements

(in thousands)

10. Reinsurance

The Company has a reinsurance program that is intended to reduce overall risks, including exposure to large losses and catastrophic events. The Company limits the maximum net loss that can arise from claims by reinsuring certain levels of risks with reinsurers. In the ordinary course of business, the Company assumes premiums, losses, and LAE from involuntary assigned risk pools.

The Company expects those companies with whom reinsurance has been placed to honor their obligations. However, in the event that all or any of the reinsuring companies are unable to meet their obligations for existing paid and unpaid loss recoverables, the Company would be liable for such defaulted amounts.

The following table summarizes reinsurance recoverables and prepaid reinsurance premium as of December 31:

	2009	2008
Recoverable for loss and LAE reserves	$ 161,830	195,127
Recoverable for paid loss and LAE	2,679	10,585
Prepaid reinsurance premium	9,810	10,773
	$ 174,319	216,485

Commutation of Reinsurance

The Company commuted eight ceded reinsurance treaties in the current year with Swiss Reinsurance America and its affiliated company Westport Insurance Company (formerly known as Employers Reinsurance Corporation). The Company recognized the amounts received from the reinsurers as an increase in ceded losses and loss adjustment expenses paid (thereby reducing net losses and loss adjustment expenses incurred) in the current year. The Company also reduced the related ceded loss and loss adjustment expense reserves (thereby increasing net losses and loss adjustment expenses incurred) to recognize the effect of releasing the reinsurers from their obligations under the treaties. The net effect of the commutations was an increase in net losses and loss adjustment expenses of $2,941. This amount is detailed in the table below:

	Amount
Losses Incurred	$ 2,589
Loss adjustment expenses incurred	352
Premiums earned	-
	$ 2,941

The Company commuted one ceded facultative reinsurance agreement in the current year with John Hancock Life Insurance Company (formerly known as Manufacturers Life Insurance Company) for $208. There was no impact on net premiums earned or net loss and loss adjustment expenses incurred related to this commutation.

The following table summarizes the effect of reinsurance on premiums for the years ended December 31:

	Direct	*Assumed*	*Ceded*	*Net*
2009				
Written premiums	$ 471,793	3,851	38,865	436,779
Earned premiums	474,260	3,946	39,827	438,379
2008				
Written premiums	$ 513,661	3,565	42,278	474,948
Earned premiums	515,287	4,611	43,732	476,166

The following table summarizes the effect of reinsurance on loss and LAE incurred for the years ended December 31:

	Direct	*Assumed*	*Ceded*	*Net*
2009	$ 296,466	2,871	6,626	292,711
2008	321,125	2,497	(7,337)	330,959

Notes to Consolidated Financial Statements

(in thousands)

11. Income Tax

The components of income tax expense are as follows for the years ended December 31:

	2009	2008
Current income tax expense:		
Federal	$ 11,293	1,287
State	1,853	422
Total current income tax expense	13,146	1,709
Deferred income tax (benefit) expense		
Federal	(982)	(1,347)
State	1,738	(406)
Total deferred income tax expense (benefit)	756	(1,753)
Total income tax expense (benefit)	$ 13,902	(44)

The significant components of the net deferred income tax asset as of December 31 are as follows:

	2009	2008
Deferred income tax assets:		
Discount of liability for loss and LAE	$ 26,365	26,139
Discount of unearned and advance premiums	15,972	16,590
Deferred compensation	7,538	7,153
Unrealized loss on investment securities	3,548	16,764
Allowance for doubtful accounts	2,017	2,542
AMT credit	1,785	2,752
Net federal operating tax loss carryforwards	-	223
Accrued policyholder dividends	2,202	(757)
Disallowed capital losses	311	3,475
Net state operating loss carryforwards	3,178	3,194
Subsequent injury tax	1,959	1,511
Other	4,054	3,270
Total gross deferred income tax assets	68,929	82,856
Less valuation allowance	(3,178)	(3,194)
Total net deferred income tax assets	65,751	79,662
Deferred income tax liabilities		
Deferred policy acquisition costs	12,060	13,238
Unrealized gain on investment securities	11,230	9,189
Other	4,603	3,363
Total deferred income tax liabilities	27,893	25,790
Net deferred income tax asset	$ 37,858	53,872

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset of $3,178 related to net operating losses in the state of Indiana, the Company will need to generate future taxable income of approximately $152,281 prior to the expiration of the net operating loss carryforwards in 2019 to 2026. Indiana taxable income for the years ended December 31, 2009 and 2008 was $72 and $197, respectively. Accordingly, management believes it is not more likely than not that this deferred tax asset will be realized and has recorded a valuation allowance. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the remaining deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2009. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

(in thousands)

Following is a reconciliation of the provision for federal income tax at the U.S. corporate rate (35% for December 31, 2009 and 2008) to the expense recorded for the years ended December 31:

	2009	2008
Expected tax	$ 14,522	3,236
State income taxes, net of federal benefit	2,008	406
Tax-exempt interest	(3,345)	(3,448)
Provision to return adjustment	207	(256)
Other, net	510	18
Actual income tax expense (benefit)	$ 13,902	(44)

On January 1, 2009, the Company adopted ASC 740-10-05, *Accounting for Uncertainty in Income Taxes* (ASC 740-10-05), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management has evaluated their tax positions and determined that there are no situations where it is "more likely than not" that a position taken will not be upheld. Therefore, the Company has no liability recorded for uncertainty in income taxes.

12. Debt

Notes Payable

One of the Company's insurance subsidiaries issued surplus notes on October 29, 2003 and December 16, 2003 in the amounts of $20,000 and $12,000, respectively. The $20,000 note was repaid in full on October 29, 2008, and the $12,000 note was repaid in full on January 8, 2009.

Lines of Credit/Credit Facility

Northern Trust Line of Credit

The Company has a line of credit (LOC) from Northern Trust Bank of Florida, N.A., in the amount of $20,000 maturing on June 28, 2010. Bonds with a carrying value of $22,296 have been pledged as collateral. There is no balance outstanding on the LOC as of December 31, 2009 and 2008.

FHLB Credit Facility

On April 4, 2008, the Company was accepted as a member of the FHLB. As a requirement of membership, the Company purchased FHLB stock in the amount of $2,533. Membership stock requirements are adjusted annually based on the asset size of the Company. In addition to membership stock requirements, the FHLB also requires members to purchase additional FHLB stock in amounts equal to 4.5% of each advance. FHLB shares that are purchased at the time of an advance are automatically redeemed when the advance is repaid (proportionately if the advance is partially repaid). As of December 31, 2009, the Company owned FHLB stock in the amount of $5,290. As of December 31, 2009, the Company's borrowing limit is $200,000. The Company's overall FHLB credit limit can fluctuate based on the Company's financial condition, and all balances must be adequately collateralized.

The Company borrowed funds on July 24, 2008 and September 5, 2008 in the amounts of $20,000 and $12,000,

Notes to Consolidated Financial Statements

(in thousands)

respectively. These notes carry five-year fixed interest rates of 4.258% and 3.9075%, respectively. The notes mature on July 24, 2013 and September 5, 2013, respectively. The Company also has a line of credit (LOC) with FHLB maturing on April 17, 2010. There is a balance due of 27,750 on the LOC as of December 31, 2009.

Bonds with a carrying value of $72,113 have been pledged as collateral on all FHLB borrowings.

13. Retirement and Deferred Compensation Plans

Retirement and Savings Plan

The Company has a retirement and profit sharing plan (defined 401(k) contribution plan) for which all employees are eligible to participate. Employees, at their option, may contribute a portion of their eligible earnings to the plan, which may qualify for a matching contribution by the Company. Based on the Company's financial results, an additional discretionary profit sharing contribution may be made to all eligible employees' accounts. All contributions by the Company are restricted to amounts authorized annually by the board of directors. Retirement benefits are based on the balance in each employee's account, including the amount vested in employer 401(k) matching contributions and profit sharing contributions. The plan may be cancelled at any time at the option of the Company. The Company's net contributions to the plan for 2009 and 2008 were $4,439 and $4,071, respectively.

Long-Term Incentive Plan

Directors and officers are eligible participants under the Company's Long-Term Incentive Plan (Incentive Plan), which offers two types of performance-based incentive awards, a Full Value Performance Unit Award (Performance Units) and a Performance Unit Appreciation Rights Award (Appreciation Rights).

After satisfaction or lapse of the restrictions, terms, and conditions established by the Incentive Plan with respect to a grant of Performance Unit awards, the Incentive Plan participant will receive a cash payment equal to the number of Performance Units multiplied by a Company Value as of the exercise date as defined in the Incentive Plan. During 2009 and 2008, the Company recognized expense related to these units of $1,471 and $1,026, respectively. As of December 31, 2009 and 2008, the Company has a liability for the Performance Units outstanding of $8,793 and $7,321, respectively.

Appreciation Rights may be exercised subject to the terms of the Incentive Plan and upon exercise, the Incentive Plan participant will receive the number of Appreciation Rights exercised multiplied by the increase in Company Value as of the exercise date compared to the Company Value on the grant date. During 2009 and 2008, the Company recognized expense related to Appreciation Rights of $1,252 and $323, respectively. As of December 31, 2009 and 2008, the Company has a liability for the Appreciation Rights outstanding of $9,868 and $9,688, respectively.

Directors' Deferred Compensation Plan

Certain members of FGI's board of directors have entered into a deferred compensation plan, which includes a deferred compensation payment of three times the directors' annual fees at retirement subject to certain vesting criteria, which is to be partially funded through a special grant of Performance Units, described above. As of December 31, 2009 and 2008, the Company's liability for such deferred compensation, not funded by Performance Units, was $1,484,651 and $1,533,873, respectively. For the years 2009 and 2008, the Company recognized expense of $(49,222) and $193,867, respectively.

14. Regulation

The Company and its insurance company subsidiaries are regulated by state insurance departments and are subject to insurance statutes of their domiciliary states. The insurance companies are required to file financial statements with the state insurance departments prepared on an accounting basis prescribed or permitted by such regulators (statutory basis). Included among the applicable insurance laws and regulations with which the insurance companies must comply is the requirement that they maintain sufficient surplus, as defined by the states.

The National Association of Insurance Commissioners and the domiciliary states utilize risk-based capital (RBC) standards. RBC is a method of measuring the amount of capital and surplus appropriate for an insurer to support its overall business operations in light

Notes to Consolidated Financial Statements

(in thousands)

of its size and risk profile. Under RBC standards, risks specific to insurance companies in such areas as asset risk and underwriting risk are evaluated and compared to the insurance companies' capital and surplus to determine solvency margins. Regulators use RBC standards to initiate actions relating to insurers that show signs of weak or deteriorating financial condition. At December 31, 2009 and 2008, the insurance companies were adequately capitalized under the RBC requirements.

Combined net income and policyholders' surplus of the Company's insurance subsidiaries, as determined in accordance with statutory accounting practices, follow:

	2009	2008
Net income	$37,232	8,877
Policyholders' surplus	427,390	376,794

15. Commitments and Contingencies

Legal Proceedings

The Company's insurance subsidiaries are party to litigation and workers' compensation administrative proceedings involving claims arising in the normal course of business, none of which, in the opinion of management, will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

Operating Leases

The Company leases vehicles, office equipment, and office space with terms expiring through 2017. The minimum rentals on these operating leases as of December 31, 2009 follow:

	Amount
2010	$ 2,051
2011	1,867
2012	1,571
2013	1,582
Thereafter	4,951
	$ 12,022

Rent expense for the years ended December 31, 2009 and 2008 was $2,161 and $1,969, respectively.

Acknowledgements

We would like to thank the following FCCI customers for contributing to our 2009 Annual Report:

FCCI Agencies

BB&T Insurance Services, Inc./Huffines Russell
Alpharetta, Ga.

Berends Hendricks Stuit Insurance Agency, Inc.
Grandville, Mich.

Heiden & Garland, Inc.
Flowood, Miss.

Herndon & Associates Insurance, LLC
Lakeland, Fla.

M. F. Carter Insurance Agency, Inc.
Gulfport, Miss.

Stewart Sneed Hewes
Hattiesburg, Miss.

Sutter, McLellan & Gilbreath, Inc.
Lawrenceville, Ga.

Wells Fargo Insurance Agency of Michigan, Inc.
Grand Rapids, Mich.

Wells Fargo Insurance Services USA, Inc.
Clearwater, Fla.

Willis of Florida, Inc.
Winter Haven, Fla.

FCCI Policyholders

All Faiths Food Bank
Sarasota, Fla.

Arvco Containers, Inc.
Kalamazoo, Mich.

Capital City Beverages, Inc.
Jackson, Miss.

Continental Linen Services
Kalamazoo, Mich.

Copeland & Johns, Inc.
Jackson, Miss.

Insulation, Foam & Roofing, Inc.
Jackson, Miss.

Penco Electrical Contractors, Inc.
Morrow, Ga.

Tervis Tumbler Company
North Venice, Fla.

West Coast Tomato, LLC
Palmetto, Fla.

Woodman Insulation Co., Inc.
Cumming, Ga.

Thank you for your business!

Contributing Photographers

Brian Bass Photography
Comstock Park, Mich.

Gil Ford Photography
Jackson, Miss.

LeBlanc Studios
Sarasota, Fla.

Mark Najjar Studios
Duluth, Ga.

FCCI® INSURANCE GROUP

50 YEARS 1959-2009

PROTECTING BUSINESS, PROPERTY AND PEOPLE

6300 University Parkway, Sarasota, FL 34240
(941) 907-3224, (800) 226-3224
www.fcci-group.com