2010 Annual Report

FCCI INSURANCE GROUP

BUILDING MOMENTUM >>>

BREAKING THE MOLD

The Next 50 Years

FCCI® INSURANCE GROUP

PROTECTING BUSINESS, PROPERTY AND PEOPLE

ABOUT OUR THEME

Building Momentum, Breaking the Mold. Energy. Motion. Doing. At FCCI, we built a reputation on taking action. Whether we are streamlining our infrastructure or settling a claim, our focus is on doing the job with passion – and doing it right. Every day at FCCI is a new opportunity to exceed our customers' expectations and to set ourselves apart. And we do. And we will. Again and again.

Our momentum is palpable. Our vision is clear. Our future is now.

To view FCCI's 2010 Annual Report online, please visit:
fcci-group.com/FCCI_2010_Annual_Report/index.html

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EMBRACING CHANGE

A MOMENTOUS TIME >>>

To our valued customers,

There are moments in time that define us, both as individuals and as organizations. One such moment for me occurred at 10 o'clock in the morning on March 15, 2011. On that day, and at that hour, I sat down for the job interview of my life. I wanted to become the next President & CEO of FCCI Insurance Group, a property and casualty insurance industry leader with a rich past and a promising future.

Eventually, when the interviewing was complete and a decision was imminent, another, infinitely better moment occurred. G.W. Jacobs, FCCI's President & CEO since 1999, came into my office while I was having a discussion with my assistant, Arlene Cueman, and told me to "Take a left out of your office, walk 30 feet and make another left, open the door and make an immediate right."

At that point, I found myself in the board room, where FCCI's Board of Directors stood waiting to welcome me with broad smiles and generous applause. A new chapter had officially begun.

Transitioning from FCCI's executive vice president/CFO & treasurer to president & CEO evoked three responses in me: Honor that G.W. and the Board had chosen me to lead FCCI and our 675 employees into the future (there were other qualified candidates); satisfaction that the hard work had paid dividends; and humility that I was about to assume responsibility of an organization 52 years strong and built on a legacy of trust.

FCCI is far superior today than it was when G.W. first became president in April 1999.

During G.W.'s tenure, we significantly expanded FCCI's product and geography, we invested more in our people and our technology, and we reevaluated and strengthened our relationship with the independent agent, a critical component of FCCI's success.

(From left) Craig Johnson, FCCI president & CEO, and G.W. Jacobs, his predecessor, developed a close relationship during the last eight years of Jacobs' 12-year tenure. Throughout the leadership transition, Johnson spoke light-heartedly of Jacobs' personal style, including his statement ties. "When you walk down the street," he claims Jacobs would say, "You don't want to see yourself coming." Johnson assumed Jacobs' position in June 2011.

Today, FCCI is thriving with $1.8 billion in total assets, $1.3 billion in cash and investments, and a healthy $479 million-plus in statutory surplus, providing a strong and stable choice to our select agency partners and 18,000 policyholders in 14 states.

We could not have done it without G.W. We could not have done it without our employees. And, certainly, we could not have done it without you. Thank you for your business and your trust.

(From left) John T. Stafford, FCCI chairman of the board, and Craig Johnson, FCCI president & CEO, convene in the board room of FCCI's corporate headquarters in Sarasota, Fla. Stafford voiced strong support for Johnson and FCCI's outgoing president and CEO, G.W. Jacobs, during employee farewell visits held in Jacobs' honor in Sarasota, Fla.; Lake Mary, Fla.; Duluth, Ga.; Carmel, Ind.; and Jackson, Miss.

As FCCI continues to grow, our focus remains on those elements of our success that helped define us: Our employees, our agency relationships, our underwriting discipline, our local presence, our mutual structure, our financial prudence, and our claims philosophy.

Most important, we will continue the tradition of doing what we say we are going to do. It is the FCCI Way, and it is the guiding principle that will navigate our company and my decision-making going forward.

FCCI's reputation is on my watch. Accordingly, I will do everything I can to uphold it.

I feel an enormous sense of purpose to help take FCCI to the next level. Thankfully, I have an amazing workforce by my side, and a great example to follow.

FCCI's time has come. Our momentum is palpable. Our vision is clear. *Our future is now.*

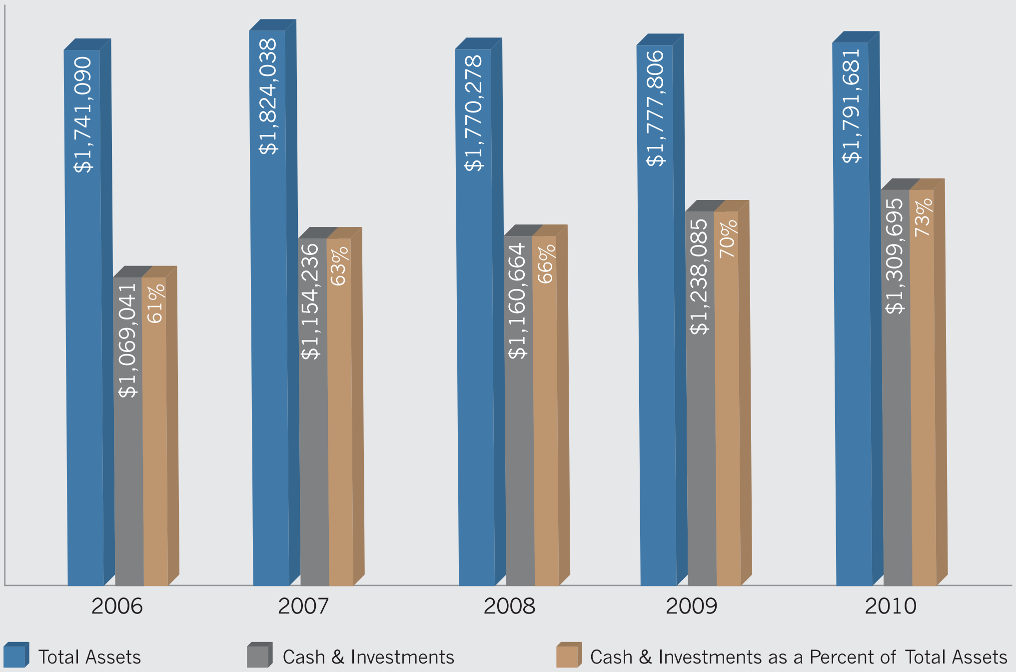
Craig Johnson

Craig Johnson
President & CEO

REALIZING GAINS

KEY INDICATORS >>>

TOTAL ASSETS AND CASH & INVESTMENTS
(in thousands)



**Numbers in both graphs based on Generally Accepted Accounting Principles (GAAP). As of December 31, 2010, the company's statutory surplus was $479 million.*

MEMBERS' EQUITY
(in thousands)

FCCI is rated A- (Excellent) by A.M. Best Company. FCCI's rating is based on a comprehensive quantitative and qualitative analysis of FCCI's balance sheet strength, operating performance and business profile.

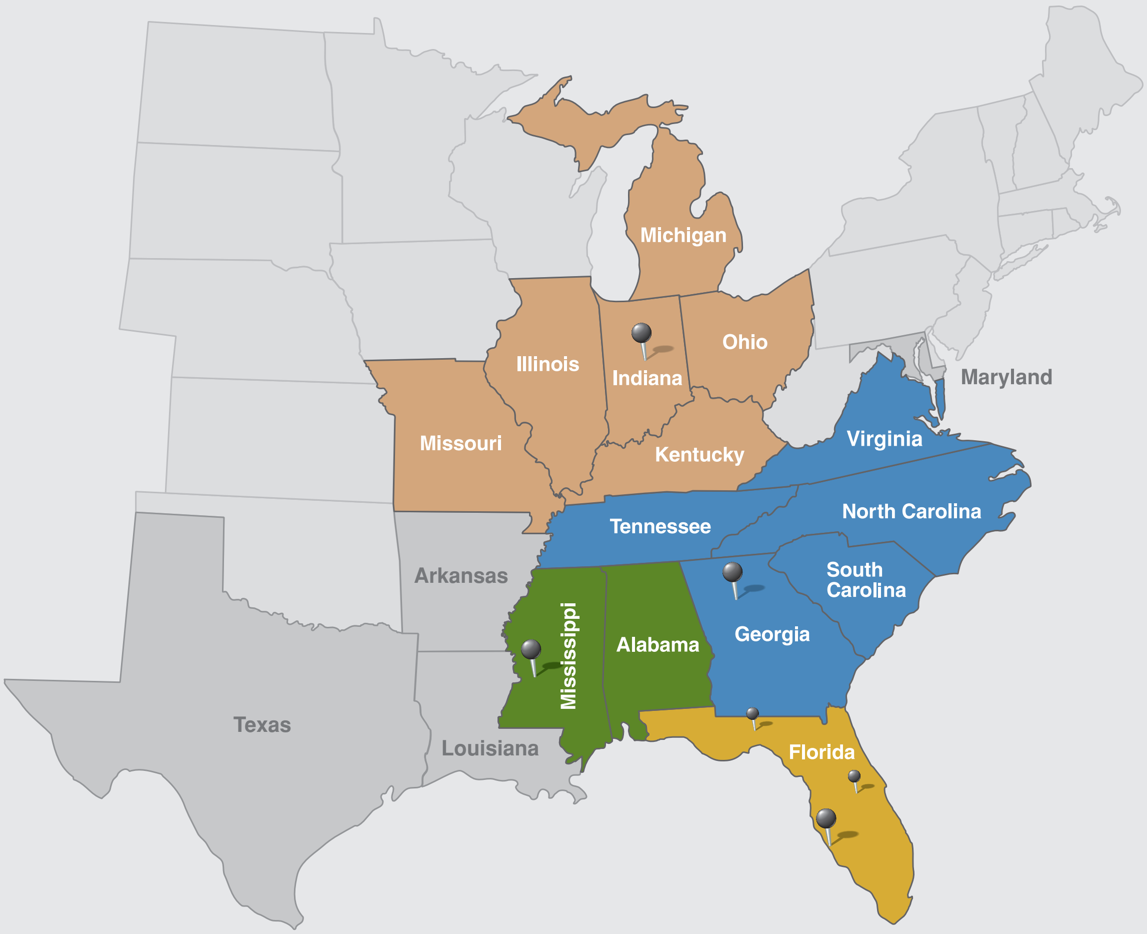
FORWARD LOOKING

Healthy financials provide an insurance company with more opportunities to invest in infrastructure. In 2010, FCCI invested more than $3.3 million in new technologies, including ClaimCenter. A streamlined, modernized platform and enhanced data capture capabilities are among the new claim system's key features.

Cross-functional teams at FCCI work together to design and implement infrastructure improvements. Garth Crow, senior vice president claims (standing right), and Terry Cherry, claim systems manager (to his right), lead the ClaimCenter initiative.

EXPANDING OUR REACH

WHERE TO FIND US >>>



FLORIDA

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

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

Government Affairs Office
150 South Monroe Street
Tallahassee, FL 32301
800-224-9994

GEORGIA

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

INDIANA

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

MISSISSIPPI

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

FCCI INSURANCE GROUP

Brierfield Insurance Company
FCCI Advantage Insurance Company
FCCI Commercial Insurance Company
FCCI Insurance Company
Monroe Guaranty Insurance Company
National Trust Insurance Company

FCCI is licensed in 26 states and actively writing in 14. Our expansion states include Maryland, Louisiana, Texas and Arkansas.

LEADING THE WAY

PRODUCT KNOWLEDGE >>>

FCCI offers a diverse portfolio of commercial property and casualty insurance products including agribusiness, automobile, crime, general liability, inland marine, property, surety, umbrella, and workers' compensation. FCCI's products come with the expertise and local knowledge you can expect from a top regional carrier.

In 2011, FCCI introduced contract surety and expanded commercial surety to all FCCI states. Scott Paice, FCCI assistant vice president surety (center), and Joyce Willis, FCCI commercial surety manager (far left), demonstrate FCCI ExpressWrite Surety℠ to Bonnie Robbins, bond account manager (seated), and Bill Simpson, national director of surety, both of Insurance Office of America, an FCCI Chairman's Club agency, Longwood, Fla.

In small farming communities like Belle Glade, your word is your bond. (From left) Jeff Hooker, agent partner, Atlantic Pacific Insurance, Belle Glade, Fla.; Earl Price, FCCI senior vice president agribusiness; Frank Zayas, FCCI director underwriting agribusiness; and John E. "Buddy" McKinstry, president, JEM Farms, Inc., Loxahatchee, Fla.

WE SPEAK AG!

FCCI knows Ag. It shows in our people, our products, and most of all, it shows in our approach to doing business. Partnership and trust guide every action. Since entering the Ag market in 1999, FCCI has proven itself a reliable partner that can meet the unique needs of this specialized risk. We only bring Ag professionals to the table who understand it. We speak Ag, and our Ag expertise yields results.

**YOU ASKED.
WE LISTENED.**

Coming in the fourth quarter of 2011, FCCI's Premier Package Policy℠ will provide a competitively priced, easy to administer, top tier coverage option for select industry classes and their business owners including:

Distributors
Golf & country clubs
Hotels and hospitality
Manufacturers
Merchants
Offices
Restaurants
Services
Warehouses

Our new product reflects FCCI's commitment to constant improvement. You asked. We listened!

Premier
PACKAGE POLICY℠

BEING ACCESSIBLE

PARTNERSHIP FIRST >>>

FCCI welcomes customer feedback. During agents' advisory council meetings, our independent agents engage in strategic discussions with FCCI on behalf of their constituents. FCCI management and board members actively participate in council meetings held throughout the year.

John T. Stafford, FCCI chairman of the board (center), introduces himself to (from left) Kraig Blancher of CGB Insurance, Lutz, Fla., and Edward Ellsasser of PrimeGroup Insurance Services, Tampa. Blancher and Ellsasser represent two of several agent partners the company extended special invitations to in 2011 so that FCCI's Board of Directors could learn more about them and their agencies.

At FCCI, the focus on partnership extends to all levels of the organization. FCCI board members Tim Clarke (far left) and Robert "Doc" Benjamin (far right) converse post-meeting with FCCI Southeast Agents' Advisory Council members (middle, from left) Garrett Fleming, Fleming Insurance Agency, Albany, Ga., and Steve Santee, Knauff Insurance Agency, Charlotte, N.C.

SETTING THE PACE

OUTSTANDING AGENTS >>>

We recognize and support agency excellence. The FCCI Chairman's Club and the FCCI President's Club include agent partners who consistently outperform their peers. Integrity, tenure and strength of partnership inform which agents earn distinction. With pleasure, we present the following members:

FCCI CHAIRMAN'S CLUB

FLORIDA REGION

Danny Anderson
Insurance Office of America
Longwood

Ray Bouchard
Bouchard Insurance
Clearwater

Bob Gerry
Risk Management Insurance
Fort Myers

Colin Lowe
Brown & Brown of Florida
Miami Lakes

John J. Nelson
Lykes Insurance
Fort Myers

Cynthia Payne
CHAPP, Inc.
Dundee

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

David Stanton
Gateway Insurance Agency
Fort Lauderdale

Mike Welch
Commercial Insurance Marketing
Sarasota

LaVerne Wicks
Brown & Brown of Florida
Fort Myers

MIDWEST REGION

Jon Loftin
MJ Insurance
Indianapolis, Ind.

Bill Pridgeon
Hylant Group
Toledo, Ohio

Keith Stone
Gibson Insurance Group
South Bend, Ind.

SOUTHEAST REGION

John Graham
Graham-Naylor Agency
Marietta, Ga.

GULF COAST OPERATIONS

Jerry Veazey, Jr.
Fisher Brown Bottrell Insurance
Jackson, Miss.

FCCI PRESIDENT'S CLUB

FLORIDA REGION

Associates Insurance Agency
Temple Terrace

Atlantic Pacific Insurance
Palm Beach Gardens

BB&T/J. Rolfe Davis Insurance
Maitland

Ben Brown Insurance Agency
Sarasota

Five County Insurance Agency
Fort Myers

Frank H. Furman Insurance
Pompano Beach

Herndon & Associates Insurance
Lakeland

Innovative Insurance Consultants
Coral Springs

Keyes Coverage
Tamarac

Lutgert Insurance
Naples

Premier Insurance Corp.
Cape Coral

MIDWEST REGION

The Horton Group
Orland Park, Ill.

J. L. Hubbard Insurance and Bonds
Forsyth, Ill.

SOUTHEAST REGION

Bernard Williams & Company
Savannah, Ga.

Yates Insurance Agency
Atlanta, Ga.

GULF COAST OPERATIONS

Insurance and Risk Managers
Brookhaven, Miss.

Mike Ledkins Insurance Agency
Thomasville, Ala.

SouthGroup Insurance Services
Ridgeland, Miss.

FCCI CHAIRMAN'S CLUB

FCCI PRESIDENT'S CLUB

STRENGTHENING TIES

GENERATIONAL EXPERTISE >>>

Good business begins with good relationships. FCCI underwriters reach out to agents and policyholders to learn more about them. Over time, many of these good relationships have developed into life-long partnerships.

Drew McMullan (center), sales manager of McMullan Motors in Hattiesburg, Miss., takes his insurance team on a tour of the business with his father, Wyche McMullan, president (far right). Joining them are (from left) Elizabeth Walker, commercial lines underwriter, FCCI Gulf Coast Operations; Bobbie Channell, senior commercial lines underwriter, FCCI Gulf Coast Operations; Ryan Galey, risk manager, SouthGroup Insurance Services, Hattiesburg Division, an FCCI President's Club agency; and, Ryan's father, Glenn E. Galey, president, SouthGroup Insurance Services, Hattiesburg Division.

ALL IN THE FAMILY

FCCI partners with a large number of family-run businesses. We feel privileged to get to know our partner families who, along with their committed staffs, have worked so hard to make their operations a success. Likewise, we at FCCI commit ourselves to providing the service and protection our customers need to stay successful for many generations to come.

P. Dan Yates, Jr. (second from right), founder and chairman of the board of the Yates Insurance Agency in Atlanta, Ga., started his business more than 60 years ago, in 1949. Today, his agency is one of the largest independent agencies in the Southeast and is one of less than four percent of FCCI agencies earning membership in the FCCI President's Club. Seated with him are (from left) Patsy Garrett, senior commercial lines underwriter, FCCI Southeast Region; Susan Riebel, senior marketing underwriter, FCCI Southeast Region; and Brian Hughes, producer, Yates Insurance Agency.

CLAIMS BLAZING TRAILS >>>

Every day, FCCI's dedicated claims staff commits itself to doing the right thing. Our job is to treat our claimants and insureds right, and to make good on our promises. And we do.

SECOND CHANCES

Richard Patrick is lucky to be alive. In July 2010, he narrowly escaped death when his tow truck loaded with a vehicle in tow impacted the side of a tractor trailer.

FCCI handled the claim.

Steve Herron, FCCI claim specialist, promptly investigated the loss and determined there was coverage as a result of the accident involving Mr. Patrick and FCCI's insured. He then contacted Mr. Patrick and his family to determine how best FCCI could deliver on our promise.

We communicate early and often.

Through continued personal meetings and phone calls, the Patrick family and Herron established an open and trusting relationship that aided in the resolution of the loss.

Our professionalism makes a difference.

We work closely with our policyholders to prevent accidents, but it is inevitable that they will occur. This is when the diligence and professionalism of the FCCI Claims Department can really make a difference.

For Richard Patrick, it was a second chance at life.

For FCCI, it was another chance to make it right.

Fair treatment can ease the burden of a life-altering event. After surviving a near-fatal accident in 2010, Richard Patrick (far left, with dog "Petey") developed a close relationship with Steve Herron, claim specialist, FCCI Southeast Region. Today, Patrick is doing well and feeling lucky to have a second chance at life. He credits FCCI and Herron for helping him put his life back together.

SECOND WIND

In 2001, Earl Hielm, a construction worker, fell 42 feet from the platform of a house. He became a paraplegic and his life changed forever.

Well, sort of.

Hielm liked to waterski. He still does.

Hielm liked to play harmonica, sing songs, and perform as front-man of a band. He still does.

Hielm liked to command an audience and make people laugh. He still does.

Waterskiing, playing tennis and using the recumbent bicycle FCCI purchased for him after his accident are just some of the ways "Swervin-Earl" Hielm stays fit. Here in his garage in Port Charlotte, Fla., the corporate headquarters of Swervin-Earl Productions, Inc., Hielm is joined by (from left) Cindy Gaul, vice president claims, FCCI Florida Region, and Kelly Jensen, FCCI corporate claim examiner.

The amazing thing about "Swervin-Earl" – a man who owns his own production company, invented the E-Z Pull Door Closer™ and entertains crowds as a "sit-down comedian" – *is his drive*.

Even his wheelchair is extraordinary, adorned with flames and blue ground effects lighting.

According to Hielm, the accident did not change who he was or what he did as much as it changed how he did it.

Who would have thought you could be disabled and still bowl and play tennis? he marvels.

And waterskiing is much easier sitting down than it is standing up, anyway, he admits.

The irony is, Earl Hielm never sits down.

THE ROAD TO INDEPENDENCE

FCCI uses the services of the Craig Hospital in Denver, Colo. and the Shepherd Center in Atlanta, Ga. to rehabilitate those suffering from spinal cord and traumatic brain injuries.

Both hospitals specialize in helping patients and their families learn more about the injury and how to manage ongoing medical care after returning home.

The goal is to maximize independence while providing individuals with the support and encouragement they need to adjust to a new way of life.

In 2010, more than 15,000 workers' compensation claims were reported to FCCI. Five were classified as catastrophic. There are claim adjusters at FCCI who specialize in catastrophic claims and who help restore quality of life to the individuals affected.

EFFECTING CHANGE

LOSS CONTROL LEADERS >>>

FCCI's loss control consultants help reduce exposures and prevent loss – saving both dollars and lives. Our desire to inform and educate is complemented by an equal desire to listen and learn. Together we accomplish more.

The more we get to know our policyholders, the more we can help them protect business, property and people. (From left) Lori Rock, claim specialist, FCCI Southeast Region, and Kevin Bishop, loss control consultant, FCCI Southeast Region, tour the new 104,000-square-foot structural steel fabrication facility at Reinicke Athens, Inc., in Athens, Ga. Conducting the tour are RAI's president, Mark Christopherson, and Victor Woloschinow, account manager.

The right attitude about loss control can make or break a business. (From left) Brian Waters, president, Waters & Sons Construction & Paving, Inc., Macon, Ga.; Shane Mullennix, loss control consultant, FCCI Southeast Region; and Jerome Waters, vice president, Waters & Sons Construction & Paving, Inc. The Waters family has always welcomed FCCI loss control ideas and assistance, resulting in a safer business and a healthier bottom line.

HEROES IN OUR MIDST

I want to thank FCCI for the professionalism and efforts exhibited by Mr. Jeff Webber over the past year.

Following the death of my father, Mr. Webber made it easy for me to transition to the role of General Manager. This could have been a stressful transition; however, Mr. Webber was very professional and took the time to explain my new responsibilities pertaining to guest and staff safety. He has also provided, at my request, assistance in reviewing the $200,000+ expansion to our riverfront on the Chattahoochee River. He has provided me with several written programs that have assisted me and my staff in reducing our overall losses, which has been a cost savings to me and my hotel.

Sincerely,

Catherine Gay Cleiman,
General Manager
Helendorf River Inn
Suites & Conference Center
Helen, Ga.

Jeff Webber, senior loss control consultant, FCCI Southeast Region, is serving his second tour of active military duty in Afghanistan. We look forward to his safe return in May/June 2012.

WORKING TOGETHER

RELATIONSHIP EXPERTS >>>

They say that teamwork divides the task and multiplies the success. We agree! FCCI specializes in relationships. Through teamwork and relationship-building, we set ourselves apart.

FCCI enjoys close relationships with our customers. (From left) Bob Nelson, senior marketing underwriter, FCCI Florida Region; David Humphreys, loss control consultant, FCCI Florida Region; Mike Rogers, president, Associates Insurance Agency, an FCCI President's Club agency, Temple Terrace, Fla.; Justin Floyd, chief executive officer, Cornerstone Solutions Group, Dade City, Fla.; and John Faulkner, president, Cornerstone Solutions Group.

INSURANCE HAS A FACE

During FCCI TeamWorks!SM meetings, cross-functional teams meet with the agent and the policyholder in person to discuss services, outline commitments, and ensure accountability. Face time with our customers facilitates information-sharing and strengthens relationships, the cornerstone of FCCI's success.

FCCI's agency partners value teamwork and relationship-building, like we do. Jan R. Bednarz (second from left), vice president at MJ Insurance in Indianapolis, Ind., an FCCI Chairman's Club agency, meets with (from left) David A. Zahrt, vice president, Tippecanoe Beverages, Inc., Winamac, Ind.; Michele Relias, loss control consultant, FCCI Midwest Region; Frederick K. Zahrt, president, Tippecanoe Beverages, Inc.; Jerry A. Smith, treasurer/controller, Tippecanoe Beverages, Inc.; and Stephanie Winegar, underwriting supervisor, FCCI Midwest Region.

INSPIRING EXCELLENCE

EMPOWERED EMPLOYEES >>>

FCCI's 675 employees throughout our regions are committed to excellence in everything we do. It shows in our values and it shows in our results. We put people first.

Financial acumen and people skills are among the qualities that ushered FCCI's new president & CEO Craig Johnson (center) to the top. Loyal supporters include (from left) Lori Richards, director, governance, risk management & compliance; Eileen Wolfe, commercial lines underwriter, FCCI Florida Region; Morton Hellwig, supervisor, IS application services; Litha John-Rose, actuary; and Stanley Eding, director, planning, purchasing & accounts payable.

HAIL TO THE CHIEF

In June 2011, Craig Johnson became FCCI's new president and CEO. One of the first things he did was to establish "Coffee with Craig" sessions with employees.

But don't let the name fool you.

If you were one of the first 16 employees randomly chosen to participate, you had homework.

Among other things, participants were required to consult the book *A Legacy of Trust: The Story of FCCI*, identify two ways employees can hold each other more accountable, two ways we can act more collaboratively, and two things we can do to improve FCCI's bottom line.

Frances Alonso Dupuis, FCCI marketing associate, presented her case on FCCI's newest and most ambitious expansion state yet, Texas.

Frances shared her passion with Craig and her peers for the growing number of Hispanics and Latinos living and working in the Lone Star State.

In order for FCCI to remain committed to our local presence and local knowledge, she implored, we must continue to focus on and meet the diverse cultural needs of FCCI's expanding customer base.

Her words are worth a million.

That she can share them with the CEO in the board room of a $1.8 billion company, *priceless*.

Gina O'Dell-Warren, FCCI director, actuary, educates new employees concerning the critical work actuaries do to help ensure FCCI's financial stability. During "Our Company's Business," various subject matter experts review their roles, FCCI's mission, and how every employee at FCCI contributes to our success.

GIVING BACK

WHEELS IN MOTION >>>

ACCELERATING JOY

At FCCI, giving back is more than a mantra. *It's an adventure!*

In November 2010, more than 80 employees representing FCCI's Home Office Marketing, Home Office Underwriting, Product Management, Human Resources, Campus Operations, and Support Services departments spent the afternoon together in Sarasota, Fla. assembling 16 children's bicycles.

The event challenged employees to collaborate and communicate as a team, earning a piece of the bike for each task completed.

Building the bikes was cake.

The icing? Finding out the bicycles would be given to area youth, and then seeing their delighted faces when they came to pick them up!

Jamarion Summers is going places! There to support him are (from left) Bill Litchfield, product design specialist, FCCI; J. Mack Reid, chief executive officer, Boys & Girls Clubs of Sarasota County, Sarasota, Fla.; Phyllis Barnsley, HR generalist, FCCI; and Rosanne Pryer, policy print specialist, FCCI.

RAISING THE BAR

FCCI supports many charitable organizations, including United Way.

In 2010, we raised more than $160,000 for United Way companywide, including $52,000 in golf tournaments and more than $11,000 in Friday Jeans Day dollars.

Over the years, donations collected have gone to all FCCI regions to aid the homeless and the hungry, to prevent child abuse, to provide special needs programs for adults and children with disabilities, and to pay for childcare service for families in need.

FCCI's reputation as a top fundraising, employee-involved company has drawn the attention of local employers who want to emulate our success.

We get what we give.

United Way

STEERING THE COURSE

DIRECTORS & OFFICERS >>>

FCCI BOARD OF DIRECTORS

John T. Stafford, Chairman

Charles R. Baumann, CPA/CFF

Robert W. Benjamin, Esq.

Timothy J. Clarke

Robert W. Flanders

Marvin S. Haber

G.W. Jacobs, JD

Roy A. Yahraus

FCCI OFFICERS

Craig Johnson, MBA, CPA
President & Chief Executive Officer

Chris Shoucair, MST, CPA
Executive Vice President/Chief Financial Officer & Treasurer

Rupert L. Willis
Executive Vice President & Chief Regional Officer

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

Joseph A. Keene
Executive Vice President, Corporate Claims

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

Brenda M. Davis
Senior Vice President/Chief Information Officer

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

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

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

Tracey J. Pfab
Senior Vice President, Midwest Region

Earl E. Price
Senior Vice President, Agribusiness

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

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

William D. Speaker, CPCU, AU
Senior Vice President, Florida Region

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

Warren Edwards, CIC
Vice President, Underwriting, Florida Region

Kaye H. Garruto
Vice President, Underwriting, Southeast Region

Cynthia L. Gaul
Vice President, Claims, Florida Region

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

Michelle Jalbert, CPA
Vice President, Controller & Assistant Treasurer

Gregory L. Kramer
Vice President, Underwriting, Midwest Region

Duane L. Padgett, CIC, AU, AINS
Vice President, Marketing

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

Ned B. Wilson, PhD, CPCU
Vice President, Treasury Operations

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

FCCI Mutual Insurance Holding Company and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT >>>

The Board of Directors and Shareholder
FCCI Mutual Insurance Holding Company and Subsidiaries

We have audited the accompanying consolidated balance sheets of FCCI Mutual Insurance Holding Company and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of earnings, members' equity, comprehensive income, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinions.

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, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

March 31, 2011

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

CONSOLIDATED BALANCE SHEETS

(in thousands)

As of December 31,

	2010	2009
Assets		
Investments:		
Securities available for sale, at fair value		
Fixed maturity securities	$ 1,153,293	1,156,409
Common stocks	129,813	73,734
Other invested assets	2,139	-
Total investments	1,285,245	1,230,143
Cash and cash equivalents	24,450	7,942
Accrued investment income	12,567	11,690
Amounts due from policyholders, net	191,283	191,316
Reinsurance recoverable and prepaid reinsurance premium	132,918	174,319
Amounts due from Florida Special Disability Trust Fund	10,174	11,693
Deferred policy acquisition costs	31,155	32,157
Land, building and equipment, net	48,577	49,928
Deferred income taxes, net	22,113	37,858
Goodwill	21,438	18,776
Other assets	11,761	11,984
Total assets	$ 1,791,681	1,777,806
Liabilities and Members' Equity		
Liabilities:		
Loss and loss adjustment expenses	819,753	878,215
Unearned premiums	217,337	219,845
Accrued expenses and other liabilities	86,604	94,267
Accrued policyholder dividends	12,182	11,382
Premiums refundable and loss fund deposits	3,425	3,475
Income tax payable	2,690	6,515
Debt	99,882	59,750
Total liabilities	1,241,873	1,273,449
Commitments and Contingencies (Note 15)		
Members' equity:		
Accumulated earnings	526,562	491,554
Accumulated other comprehensive income	23,246	12,803
Total members' equity	549,808	504,357
Total liabilities and members' equity	$ 1,791,681	1,777,806

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands)

Year Ended December 31,

	2010	2009
Revenues		
Net premiums earned	$ 429,878	438,379
Net investment income	46,489	44,743
Net realized gain	14,427	12,996
Service fees and other income	2,704	2,966
Total revenues	493,498	499,084
Expenses		
Losses and loss adjustment expenses incurred	281,912	292,711
Policy acquisition expenses	73,238	81,234
General and administrative expenses	78,185	74,458
Policyholder dividends	7,867	7,701
Other	1,248	1,488
Total expenses	442,450	457,592
Income before income taxes	51,048	41,492
Income tax expense	16,040	13,902
Net income attributable to members	$ 35,008	27,590

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

(in thousands)

For the Year Ended December 31,

	Accumulated Earnings	*Accumulated Other Comprehensive Income (Loss)*	*Total Members' Equity*
December 31, 2008	$ 464,051	(12,149)	451,902
Comprehensive income:			
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
Comprehensive income:			
Net income	35,008	-	35,008
Unrealized gain on available-for-sale securities net of deferred tax	-	10,443	10,443
December 31, 2010	$ 526,562	23,246	549,808

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

For the Year Ended December 31,

	2010	2009
Net income attributable to members	$ 35,008	27,590
Other comprehensive income, net of taxes:		
Increase in unrealized gains on investments, net of taxes of $11,677 and $19,974	19,460	32,987
Reclassification adjustments for realized (gains) in net income, net of taxes of $(5,410) and $(4,874)	(9,017)	(8,122)
	10,443	24,865
Total comprehensive income	$ 45,451	52,455

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Year Ended December 31,

	2010	2009
Cash flow from operating activities:		
Net income	$ 35,008	27,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	5,175	5,490
Deferred tax expense	9,478	756
Net realized losses (gains) on equipment sold and retired	154	(42)
Net realized gains on investments sold	(14,427)	(12,996)
Net amortization of discounts and premiums on fixed maturity securities	6,184	4,368
Changes in assets and liabilities:		
Decrease (increase) in:		
Accrued investment income	(877)	(1,280)
Amounts due from policyholders	33	8,886
Reinsurance recoverables and prepaid reinsurance premium	41,401	42,166
Amounts due from Florida Special Disability Trust Fund	1,519	5,072
Deferred policy acquisition costs	1,002	1,743
Income tax recoverable	-	2,221
Other assets	223	1,360
Increase (decrease) in:		
Loss and loss adjustment expenses	(58,462)	(53,523)
Unearned premiums	(2,508)	(2,781)
Accrued expenses and other liabilities	(6,449)	(16,199)
Accrued policyholder dividends	800	(2,385)
Premiums refundable and loss fund deposits	(50)	95
Income tax payable	(3,825)	6,515
Net cash provided by operating activities	14,379	17,056
Cash flow from investing activities:		
Sales and maturities of investments	476,677	534,144
Purchases of investments	(508,041)	(579,024)
Purchases of business	(2,662)	(1,965)
Proceeds from sales of property and equipment	106	89
Purchases of property and equipment	(3,951)	(3,475)
Net cash used in investing activities	(37,871)	(50,231)
Cash flow from financing activities:		
Principal payments on notes payable	-	(12,000)
Proceeds from credit facility	45,050	36,500
Principal payments on credit facility	(5,050)	(8,750)
Net cash flow provided by financing activities	40,000	15,750
Net increase (decrease) in cash, cash equivalents	16,508	(17,425)
Cash, cash equivalents, beginning of year	7,942	25,367
Cash, cash equivalents, end of year	$ 24,450	7,942
Cash paid during the year for:		
Interest	$ 1,652	1,710
Income taxes	$ 10,387	4,410

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. The Company 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. 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 Significant 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 (MGIC)
      - 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.

Effective November 2, 2010, Mississippi Insurance Managers, Inc. was dissolved. FCCI Staffing Solutions, Inc. was merged with FCCI Services, Inc. on November 30, 2010.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible to known amounts of cash. 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 a 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 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 expense 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 intangibles 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 under ASC 820, 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:

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.

Recently Issued Accounting Standards

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements.* This update amends ASC 820 and requires new and clarified disclosures for fair value measurements. The guidance requires that transfers in and out of Levels 1 and 2 be disclosed separately, including a description of the reasons for such transfers. Additionally, the reconciliation of fair value measurements of Level 3 assets should separately disclose information about purchases, sales, issuance and settlements in a gross, rather than net disclosure presentation. The guidance further clarifies that fair value disclosures should be separately presented for each class of asset and liabilities and disclosures should be provided for valuation techniques and inputs for both recurring and non-recurring fair value measurements related to the Level 2 and Level 3 categories. The disclosure guidance provided in the update was effective for reporting periods beginning after December 15, 2009. The Company implemented this guidance effective January 1, 2010. Implementing this guidance did not have an effect on the Company's financial position or results of operations.

(in thousands)

In October 2010, the FASB issued ASU No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may not elect to capitalize those costs. The updated guidance is effective for periods ending after December 15, 2011. The adoption of this guidance is not expected to have any impact on the Company's results of operations, financial position or liquidity.

Subsequent Events

The Company has evaluated events subsequent to December 31, 2010, and through the consolidated financial statement issuance date of March 31, 2011.

3. Investments

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

2010	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
US Treasury and US government agencies and corporations	$ 72,762	2,582	(310)	75,034
State and political subdivisions	319,865	5,761	(4,506)	321,120
Mortgage-backed and asset-backed securities	332,376	9,819	(874)	341,321
Corporate bonds	291,652	11,702	(1,008)	302,346
Foreign government and foreign corporate bonds	108,486	5,539	(553)	113,472
Total fixed maturity securities	1,125,141	35,403	(7,251)	1,153,293
Common stock	120,771	9,490	(448)	129,813
Total available-for-sale securities	$ 1,245,912	44,893	(7,699)	1,283,106

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

The amortized cost and fair value of fixed maturity securities as of December 31, 2010 by contractual maturities follow:

	Amortized Cost [1]	*Fair Value* [1]
Due in one year or less	$ 50,847	51,608
Due after one year through five years	563,031	583,625
Due after five years through ten years	282,054	291,010
Due after ten years	229,209	227,050
Total fixed maturities	$ 1,125,141	1,153,293

[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:

	Less Than 12 Months		**12 Months or More**		**Total**	
2010	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*
Available for sale:						
Bonds	$ 6,186	189,016	191	1,875	6,377	190,891
Equity securities	121	8,622	327	9,145	448	17,767
Mortgage-backed and asset-backed securities	722	82,796	152	3,464	874	86,260
	$ 7,029	280,434	670	14,484	7,699	294,918

	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

The Company's other-than-temporary impairment assessment includes reviewing the extent and duration of declines in fair values of investments, 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 macro-economic changes, including government policy initiatives. The largest single unrealized loss was $451 thousand, representing a 5% decline, on a municipal investment in Clark County, Nevada.

During 2010 and 2009, the Company recognized $36 thousand and $1.5 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.

(in thousands)

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, 2010. 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, 2010. 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, 2010 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:

	2010	2009
Bonds	$ 49,070	47,892
Equity securities	2,337	1,098
Other invested assets	(253)	-
Cash, cash equivalents and short-term investments	11	43
Gross investment income	51,165	49,033
Investment expenses	(4,676)	(4,290)
Net investment income	$ 46,489	44,743

Proceeds from sales or maturities of fixed maturity securities during 2010 and 2009 were $475,930 and $518,020, respectively. Proceeds from sales of equity securities during 2010 and 2009 were $747 and $16,124, 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:

	2010	2009
Fixed maturity securities:		
Gross gains	$ 16,285	12,714
Gross losses	(2,344)	(843)
Equity securities:		
Gross gains	522	2,650
Gross losses	-	(10)
Net realized gains before income taxes	14,463	14,511
OTTI charges incurred on fixed maturity securities (1)	(36)	(915)
OTTI charges incurred on equity securities (1)	-	(600)
Total realized investments gain	$ 14,427	12,996

(1) $898 of the OTTI charges in 2009 related to securities the Company held in its investment portfolio as of December 31, 2009, which were subsequently sold in 2010.

The Company recorded $36 thousand of impairment write-downs during the year, and $21 thousand of realized gains from paydowns of the related security, and realized $69 thousand of losses from the subsequent sale.

At December 31, 2010 and 2009, bonds, cash, and cash equivalents with fair values of $17,788 and $15,485, 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 12% and 10% of members' equity at December 31, 2010 and 2009, respectively.

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:

	Actual Cost	*Book/ Adjusted Carrying Value*	*Fair Value*	*Unrealized Losses*	*Other-Than-Temporary Impairment Losses Recognized to Date*
Other Structures	$ 1,196	1,196	1,141	(55)	-
Residential mortgage-backed securities	846	846	792	(53)	-
	$ 2,042	2,042	1,933	(108)	-

Other Invested Assets

Three subsidiaries of the Company, FCCI Insurance Company, National Trust Insurance Company, and Monroe Guaranty Insurance Company, entered into an Operating Agreement to form FCCI Tax Credit, LLC for the purpose of investing in low-income housing property to obtain low-income housing credits in the state of Georgia. This agreement was approved by the Florida Office of Insurance Regulation (OIR) on November 22, 2010. Each low-income property is subject to an annual regulatory review.

The Company's carrying cost of $2,139 consists of the cost of $2,392 less amortization of $253. The investment is amortized over ten years.

The Company has nine years of remaining unexpired tax credits, and the required holding period for this investment is thirteen years.

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.

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 these 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

(in thousands)

(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.

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, 2010:

		Quoted Prices in Active Markets for Identical Assets	*Significant Observable Inputs*	*Significant Unobservable Inputs*
	Total	*Level 1 Inputs*	*Level 2 Inputs*	*Level 3 Inputs*
US Treasury and US government agencies and corporations	$ 75,034	50,781	24,253	-
State and political subdivisions	321,120	-	321,120	-
Mortgage-backed and asset-backed securities	341,321	-	341,321	-
Corporate bonds	302,346	-	302,346	-
Foreign government and foreign corporate bonds	113,472	-	113,472	-
Total fixed maturity securities	1,153,293	50,781	1,102,512	-
Common stock [1]	122,723	122,723	-	-
Total investment securities	$ 1,276,016	173,504	1,102,512	-

[1] The Company holds $7,090 of other common stock carried at its contractually specified redemption value.

4. Amounts Due from Policyholders

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

	2010	2009
Premiums in course of collection	$ 15,130	29,071
Premiums deferred not yet due	175,818	164,242
Premiums due on retrospectively rated policies	1,699	2,207
Amounts due on deductible policies	1,079	1,174
Amounts due from policyholders, gross	193,726	196,694
Allowance for doubtful accounts	(2,443)	(5,378)
Amounts due from policyholders, net	$ 191,283	191,316

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:

	2010	2009
January 1,	$ 32,157	33,900
Capitalized costs	68,657	72,232
Amortized costs	(69,659)	(73,975)
December 31,	$ 31,155	32,157

6. Land, Building and Equipment

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

	2010	2009
Land	$ 4,515	4,515
Building and improvements	49,978	49,939
Furniture and equipment	12,136	11,177
Software in use	31,082	28,493
Software under development	1,012	1,226
Property held for sale	-	186
Land, building and equipment, at cost	98,723	95,536
Accumulated depreciation and amortization	(50,146)	(45,608)
Land, building and equipment, net	$ 48,577	49,928

Depreciation and amortization expense for land, building and equipment for the years ended December 31, 2010 and 2009 amounted to $5,175 and $5,490, respectively.

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*, 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 2010 and 2009, the Company paid $2,662 and $1,965 in additional purchase price, respectively, increasing total gross goodwill to $22,747 at December 31, 2010.

As of December 31, 2010, 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, 2010:

	2010		2009	
	Goodwill	*Other Intangibles* (1)	*Goodwill*	*Other Intangibles* (1)
Monroe Guaranty Insurance Company	$ 18,120	-	18,120	-
Mississippi Insurance Managers, Inc.	4,627	4,949	1,965	4,949
Goodwill and other intangible assets, gross	22,747	4,949	20,085	4,949
Accumulated amortization (2)	(1,309)	(990)	(1,309)	(495)
Goodwill and other intangible assets, net	$ 21,438	3,959	18,776	4,454

(1) Reported as a component of other assets

(2) Goodwill amortization recorded in 2001 prior to SFAS 142, *Goodwill and Other Intangible Assets*, now ASC 350-20, *Goodwill*

(in thousands)

Intangible amortization expense for the year ended December 31, 2010 and 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:

	2010	2009
January 1, gross	$ 878,215	931,737
Less:		
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
January 1, net	697,748	709,448
Incurred related to:		
Current year	366,804	363,514
Prior years	(84,892)	(70,803)
	281,912	292,711
Paid related to:		
Current year	131,835	116,123
Prior years	169,911	188,288
	301,746	304,411
December 31, net	677,914	697,748
Plus:		
Reinsurance recoverable, unpaid losses	124,526	161,830
Florida Special Disability Trust Fund recoverable (Note 9)	10,174	11,693
Salvage and subrogation recoverables	4,566	4,013
Reinsurance reserves assumed	1,494	1,757
Liability for loss and LAE on deductible policies	1,079	1,174
December 31, gross	$ 819,753	878,215

The liability for LAE developed favorably in 2010 and 2009 by $84,892 and $70,803, 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,	2010	2009
Amounts paid by the Company submitted to the SDTF pending reimbursement	$ 4,821	5,033
Amounts paid by the Company not yet submitted to the SDTF	815	1,442
Amounts not yet paid by the Company	4,538	5,218
	$ 10,174	11,693

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

For the years ended December 31, 2010 and 2009, assessments were $3,509 and $4,702, respectively, and the Company collected $3,009 and $4,950, respectively, in reimbursements.

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:

	2010	2009
Recoverable for loss and LAE reserves	$ 124,526	161,830
Recoverable for paid loss and LAE	1,155	2,679
Prepaid reinsurance premium	7,237	9,810
	$ 132,918	174,319

Commutation of Reinsurance

The Company commuted seven ceded reinsurance treaties in the current year with Munich Reinsurance America, Inc. The Company recognized the amounts received from the reinsurer 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 reinsurer from its obligations under the treaties. The net effect of the commutations was an increase in net losses and loss adjustment expenses of $3,528. This amount is detailed in the table below:

	Amount
Losses Incurred	$ 3,408
Loss adjustment expenses incurred	120
	$ 3,528

(in thousands)

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

	Direct	Assumed	Ceded	Net
2010				
Written premiums	$ 461,394	3,401	34,602	430,193
Earned premiums	463,533	3,520	37,175	429,878
2009				
Written premiums	$ 471,793	3,851	38,865	436,779
Earned premiums	474,260	3,946	39,827	438,379

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

	Direct	Assumed	Ceded	Net
2010	$ 274,626	3,663	(3,623)	281,912
2009	296,466	2,871	6,626	292,711

11. Income Tax

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

	2010	2009
Current income tax expense		
Federal	$ 5,854	11,293
State	708	1,853
Total current income tax expense	6,562	13,146
Deferred income tax expense (benefit)		
Federal	8,620	(982)
State	858	1,738
Total deferred income tax expense	9,478	756
Total income tax expense	$ 16,040	13,902

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

	2010	2009
Deferred income tax assets:		
Discount of liability for loss and LAE	$ 22,959	26,365
Discount of unearned and advance premiums	15,958	15,972
Deferred compensation	5,818	7,538
Unrealized loss on investment securities	2,719	3,548
Allowance for doubtful accounts	916	2,017
AMT credit	686	1,785
Accrued policyholder dividends	3,496	2,202
Disallowed capital losses	91	311
Net state operating loss carryforwards	3,155	3,178
Subsequent injury tax	1,003	1,959
Other	2,195	4,054
Total gross deferred income tax assets	58,996	68,929
Less valuation allowance	(3,155)	(3,178)
Total net deferred income tax assets	55,841	65,751
Deferred income tax liabilities:		
Deferred policy acquisition costs	11,684	12,060
Unrealized gain on investment securities	16,668	11,230
Other	5,376	4,603
Total deferred income tax liabilities	33,728	27,893
Net deferred income tax asset	$ 22,113	37,858

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 $3,155 related to net operating losses in the state of Indiana, the Company will need to generate future taxable income of approximately $151,204 prior to the expiration of the net operating loss carryforwards in 2019 to 2026. Indiana taxable income for the years ended December 31, 2010 and 2009 was $116 and $264, 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, 2010. 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.

Following is a reconciliation of the provision for federal income tax at the U.S. corporate rate (35% for December 31, 2010 and 2009) to the expense recorded for the years ended December 31:

	2010	2009
Expected tax	$ 17,867	14,522
Tax-exempt interest	(3,376)	(3,345)
State income taxes, net of federal benefit	1,015	2,008
Provision to return adjustment	(39)	207
Other, net	573	510
Actual income tax expense	$ 16,040	13,902

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. The Company's policy is to classify interest and penalties related to unrecognized tax positions in income before income taxes. As of December 31, 2010, the Company has no accrued interest or penalties related to unrecognized tax positions.

12. Debt

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 expiring on June 27, 2011. Bonds with a carrying value of $22,349 have been pledged as collateral. There is no balance outstanding on the LOC as of December 31, 2010 and 2009.

FHLB Credit Facility

The Company is a member of the Federal Home Loan Bank of Atlanta (FHLB). As a requirement of membership, the Company owns FHLB stock in an amount that is 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, 2010 and 2009, the Company owned FHLB stock in the amount of $7,090 and $5,290, respectively. As of December 31, 2010, the Company's borrowing limit is $250,000. 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 August 18, 2010 and August 26, 2010 in the amounts of $10,000 for each borrowing, for a total of $20,000. These notes carry ten-year fixed interest rates of 3.165% and 3.137%, respectively. The notes mature on August 18, 2020 and August 26, 2020, respectively. The Company also has a line of credit (LOC) with FHLB maturing on April 19, 2011. There is a balance due of $47,750 on the LOC as of December 31, 2010. The company also has borrowings of $20,000 and $12,000 with five-year fixed rates of 4.258% and 3.9075%, respectively. These notes mature on July 24, 2013 and September 5, 2013.

Capital Lease

The company entered into a $174 three year capital lease with CISCO Systems Capital on March 17, 2010. There is a balance due on the capital lease of $132 as of December 31, 2010.

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 2010 and 2009 were $4,441 and $4,439, 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 2010 and 2009, the Company recognized expense related to these units of $1,374 and $1,471, respectively. As of December 31, 2010 and 2009, the Company has a liability for the Performance Units outstanding of $7,299 and $8,793, 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 2010 and 2009, the Company recognized expense related to Appreciation Rights of $4,211 and $1,252, respectively. As of December 31, 2010 and 2009, the Company has a liability for the Appreciation Rights outstanding of $10,361 and $9,868, 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, 2010 and 2009, the Company's liability for such deferred compensation, not funded by Performance Units, was $1,454 and $1,485, respectively. For the years 2010 and 2009, the Company recognized a reduction in expense of $31 and $49, 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.

Risk-Based Capital

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 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, 2010 and 2009, 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:

	2010	2009
Net income	$ 44,048	37,232
Policyholders' surplus	479,119	427,390

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, 2010 follow:

	Amount
2011	$ 1,870
2012	1,573
2013	1,582
2014	1,580
Thereafter	3,371
	$ 9,976

Rent expense for the years ended December 31, 2010 and 2009 was $2,157 and $2,161, respectively.

ACKNOWLEDGMENTS >>>

We would like to thank the following individuals and businesses for contributing to FCCI's 2010 Annual Report:

FCCI AGENTS

Associates Insurance Agency
Temple Terrace, Fla.

Atlantic Pacific Insurance
Belle Glade, Fla.

CGB Insurance
Lutz, Fla.

Fleming Insurance Agency
Albany, Ga.

Graham-Naylor Agency
Marietta, Ga.

Insurance Office of America
Longwood, Fla.

Knauff Insurance Agency
Charlotte, N.C.

MJ Insurance
Indianapolis, Ind.

PrimeGroup Insurance Services
Tampa, Fla.

SouthGroup Insurance Services
Hattiesburg, Miss.

Yates Insurance Agency
Atlanta, Ga.

FCCI POLICYHOLDERS

Cornerstone Solutions Group
Dade City, Fla.

Helendorf River Inn
Suites & Conference Center
Helen, Ga.

JEM Farms, Inc.
Loxahatchee, Fla.

McMullan Motors
Hattiesburg, Miss.

Reinicke Athens, Inc.
Athens, Ga.

Tippecanoe Beverages, Inc.
Winamac, Ind.

Waters & Sons Construction & Paving, Inc.
Macon, Ga.

OTHER SPECIAL CONTRIBUTORS

Boys & Girls Clubs of Sarasota County
Sarasota, Fla.

The Craig Hospital
Denver, Colo.

FCCI's Southeast Agents' Advisory Council

Mr. Earl Hielm

Mr. Richard Patrick

Jamarion Summers & Family

United Way of Sarasota County
Sarasota, Fla.

Gil Ford Photography, Inc.
Jackson, Miss.

Mark Najjar Studios
Duluth, Ga.

Villetto Photography & Design
Bradenton, Fla.

Thank you!

DEDICATION

We dedicate this annual report to G.W. Jacobs, who for 12 years and countless hours led the employees of FCCI Insurance Group on an incredible journey of growth and expansion. We are honored that G.W. will continue to serve on our board of directors, and we are inspired by his example.

G.W., the best is yet to come!

FCCI® INSURANCE GROUP

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