$472.7 million

657

$$\frac{a}{b}=\frac{a+b}{a}=\varphi$$

230.2

$$\lim_{x\to\infty} e^{x}=\infty$$

$589.2 million

15

on 17,467 040159

R=f(T,V,A) $1.8 billion

.4 million

060311

$$f(x)=cx^{a}$$

36=3×3×2×2

2011 Annual Report

Strength in Numbers

FCCI® INSURANCE GROUP

PROTECTING BUSINESS, PROPERTY AND PEOPLE

Contents

Crack the code. To learn what our cover numbers mean, download a free QR reader for your phone and scan the code.

To view FCCI's 2011 Annual Report online, visit:
www.fcci-group.com/FCCI_2011_Annual_Report/index.html

The Golden Mean

The desirable middle between two extremes

For centuries, humankind has used the Golden Mean, or golden ratio, to achieve beauty, equilibrium, balance and proportion. Transcending cultures and belief systems, the golden ratio is found throughout nature, biology, art and architecture.

Here at FCCI, we believe that business success, too, lies in finding the desirable middle between extremes.

$$\frac{a}{b} = \frac{a+b}{a} = \varphi$$

Between recklessness and timidity lies courage. And courage breeds the conviction to stand for what you believe in, to do what you say you will do and to live and work with integrity.

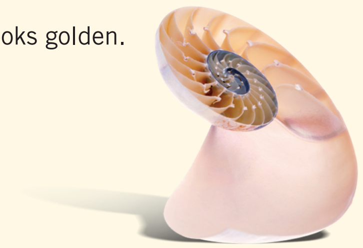
Here, we strive to achieve the Golden Mean in our relationships with our agents, our policyholders, our claimants, our vendors, our communities and each other.

Here, we seek to grow our business, not through excess or deficit, but through financial strength, stability and prudence.

And here, we pursue our passions and expertly fulfill our promises while embracing the guiding principles that define us: Loyalty, Integrity, Vision, Excellence and Service.

Navigating success requires balancing risk and reward. At FCCI, we have more than courage and conviction, we have Strength in Numbers.

And from here, the future looks golden.



Calculating Risk

To ascertain by computation, to reckon, to predict and evaluate

FCCI's Strength in Numbers is based on financial prudence, conservative reserving and investing, and a disciplined, long-term approach to expansion and growth.

A key differentiator for FCCI is our status as a privately-held mutual insurance holding company, which allows us to sustain our long-range focus and remain a strong and stable choice for our customers today, tomorrow and into the future.

$$R=f(T,V,A)$$

In 2011's challenging market, FCCI generated $472.7 million in direct written premium and realized our 10th consecutive year of profit. We also achieved a 103.9% combined ratio, a result several points better than the industry average for regional companies our size.

Also in 2011, FCCI's equity based on generally accepted accounting principles, or the difference between our assets and liabilities, increased to $589.2 million, and our statutory surplus increased to $491.4 million, achieving the highest levels of both in our 53-year history.

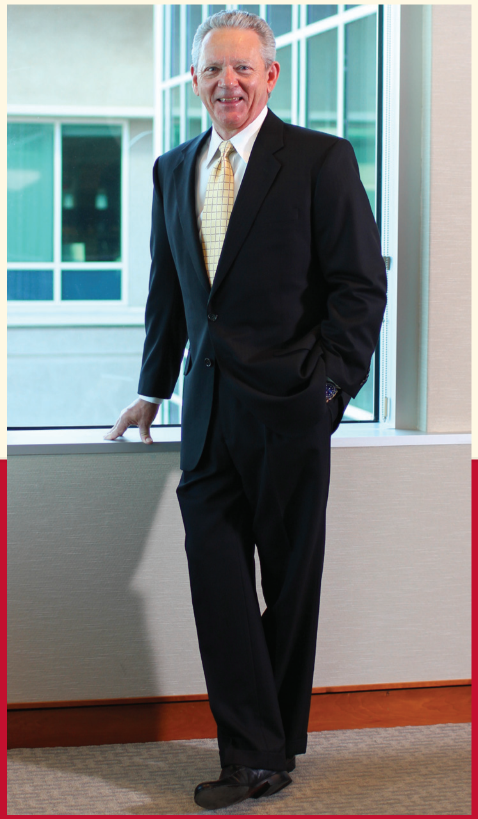
With approximately $1.8 billion in total cash and investments and an investment portfolio exceeding $1.3 billion, FCCI is positioned to continue serving our customers well going forward, while providing the stability and peace of mind that is critical to today's business owner.

Adding Up to Excellence

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

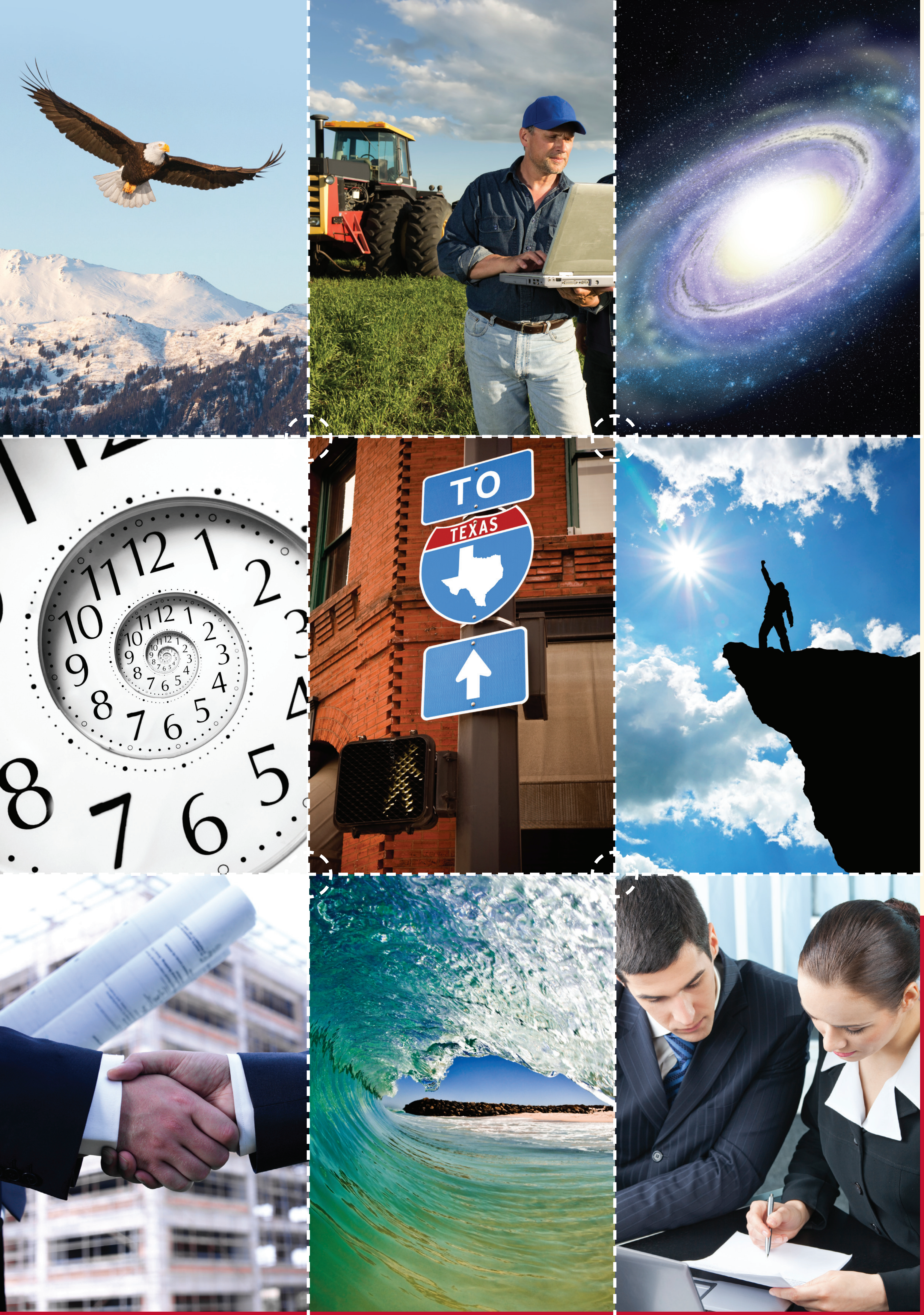
CRAIG JOHNSON
082003

"I have called on every one of our employees to be good stewards of our resources. In addition to premium growth, product additions and geographic expansion in 2011, we also created substantial savings by cutting administrative expenses. The collaborative efforts, energy and support of every department are what makes FCCI special and continues to propel our success."



JOHN T. STAFFORD
053096

"This was a year of transition and FCCI didn't just survive, we thrived. Our total assets, cash and investments, and statutory surplus are all up. We're growing, and our customers know we are here for the long haul."



Infinite Potential

Boundless possibilities, without limit or end, immeasurable

At first glance, insurance is all about limits. But through FCCI's independent agents, loss control consultants, underwriters, claims adjusters and many others, we provide the foundation for boundless possibilities.

$$\lim_{x \to \infty} e^x = \infty$$

FCCI's carefully maintained financial strength and stability allow us to pursue and achieve vast goals.

In 2011, we expanded into Virginia. With each new account written, we increase FCCI's reach and form relationships with principals, producers and policyholders that will carry into the future.

In 2011, we added to our product portfolio. FCCI's comprehensive Premier Package Policy^{SM} has quickly proven itself in new business written.

In 2011, FCCI's Agribusiness and Surety speciality divisions experienced considerable growth. Both are well positioned to meet increasing market needs.

And in 2011, FCCI's Gulf Coast Regional Office moved to a larger location, a result of our carefully orchestrated growth in a competitive market.

Our achievements don't end there.

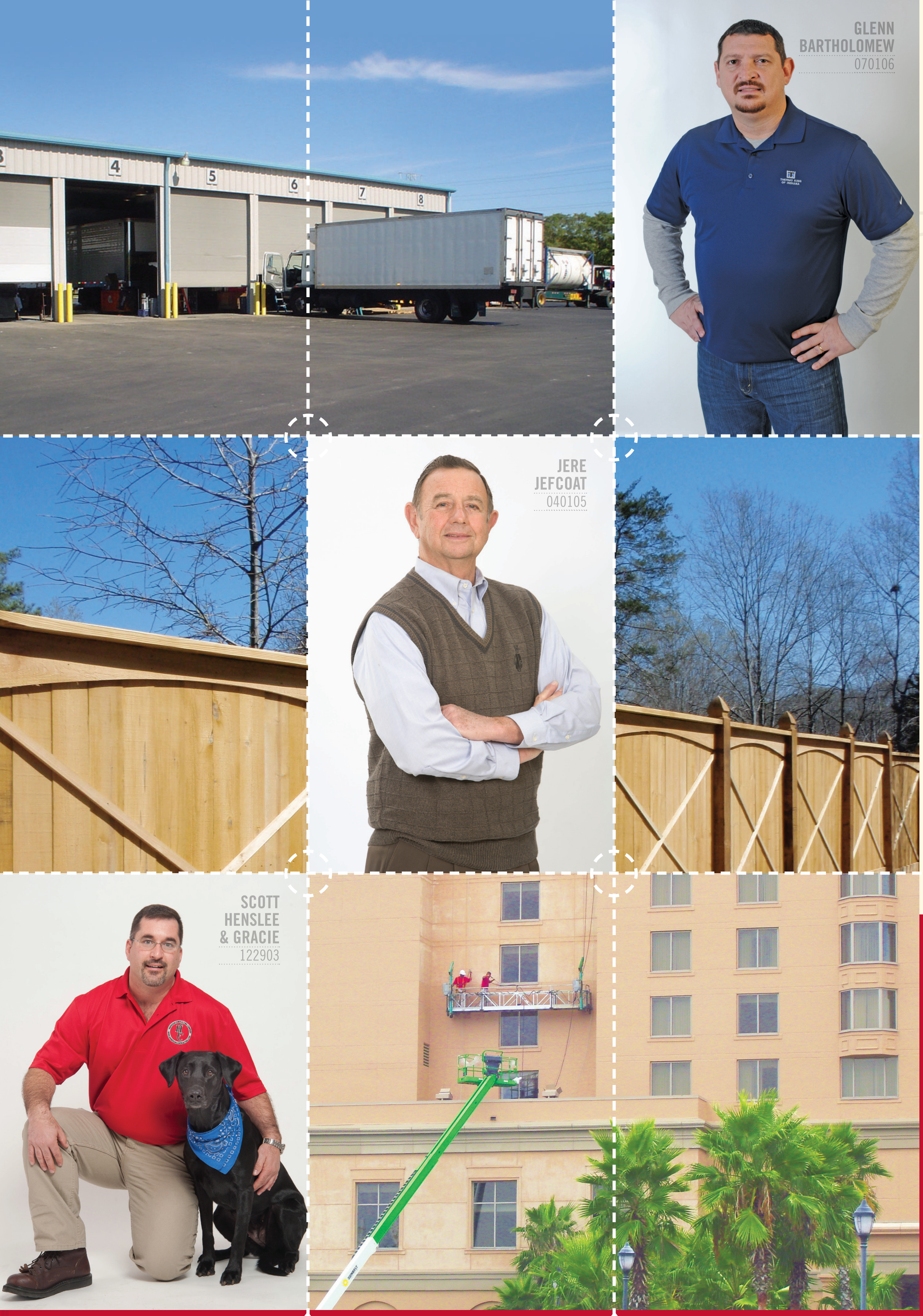
In 2012, our state expansion continues. In January, we entered Maryland, and we plan to enter Texas by the fourth quarter. In preparation, we have opened a new Southwest Regional Office in Richardson, Texas.

Our vision for 2015 and 2020 anticipates additional state expansion.

Our products will continue to evolve to meet our customers' needs, and our regions and regional offices will continue to grow.

Our Strength in Numbers is built one employee, one agent, one policy and one relationship at a time.

Our vision is boundless. Our potential, infinite.



Absolute Value

The distance between a number and the origin, magnitude without regard to sign, never negative

Absolute value is not determined by positives or negatives, but by total magnitude. At FCCI, our absolute value lies in the magnitude of our people and the services we provide.

We endeavor to eliminate negatives by preventing and minimizing loss. We get to know agents, policyholders and their businesses on a local level to ensure workplaces are safe and assets are protected – fully, affordably and responsibly.

$$|a| = \begin{cases} a, & \text{if } a \geq 0 \\ -a, & \text{if } a < 0 \end{cases}$$

Our underwriters make decisions quickly and ensure our members' businesses, employees and peace of mind are secure.

Our loss control consultants make recommendations that result in lower premiums, fewer accidents and saved lives.

And when losses do occur, our claim adjusters, medical case managers and customer service representatives work diligently to restore and resolve, equitably and reliably.

Through it all, whether we are underwriting an account, settling a claim or answering a question, we continually strive to meet and exceed your expectations.

From the business owners who founded FCCI in 1959 to our newest colleagues, FCCI employees continue to share the universal properties of caring, integrity and the desire to do the right thing.

That's our absolute value to you.

Customer service

Partnership

Local presence

Loss control

Financial strength

Special investigation unit

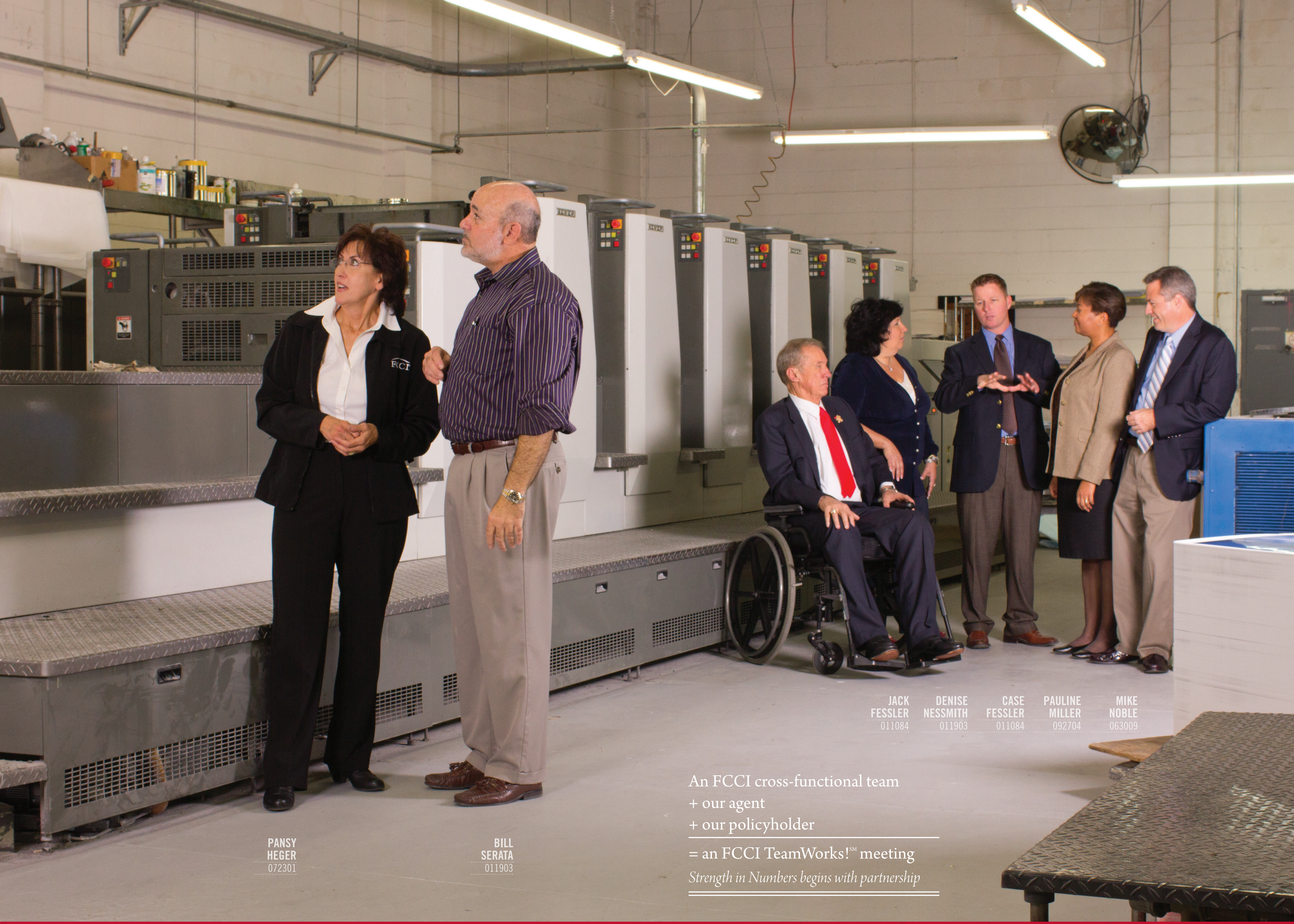
Medical case management

Online services

Expertise

Claim resolution

Mutual structure



PANSY HEGER
072301

BILL SERATA
011903

JACK FESSLER
011084

DENISE NESSMITH
011903

CASE FESSLER
011084

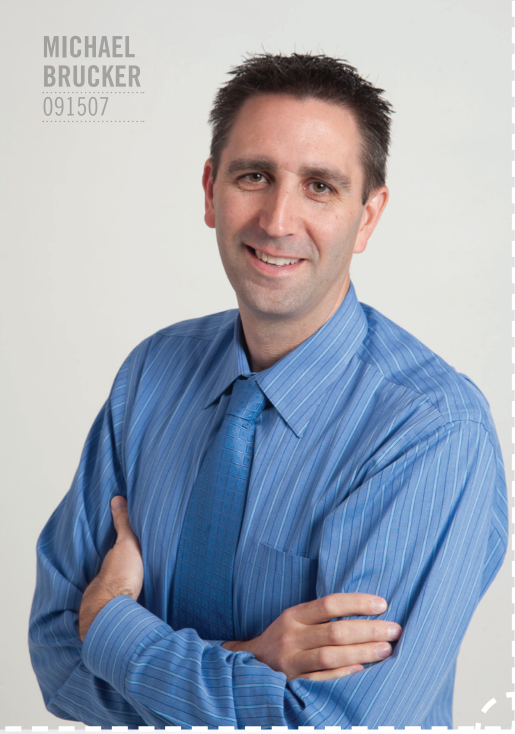
PAULINE MILLER
092704

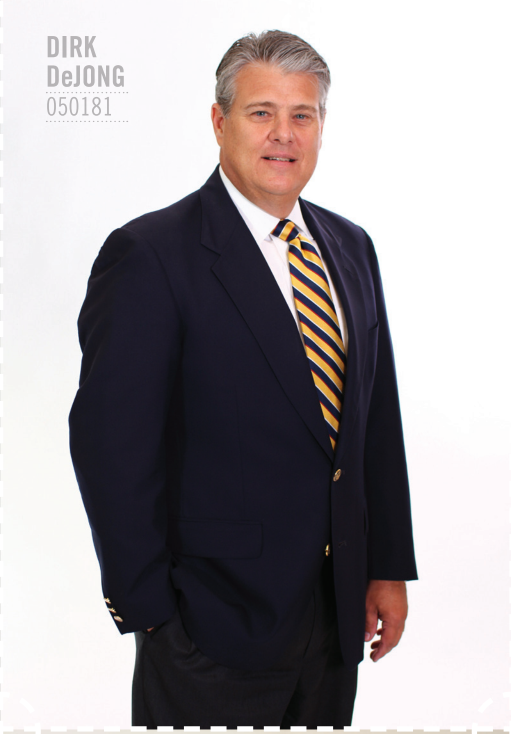
MIKE NOBLE
063009

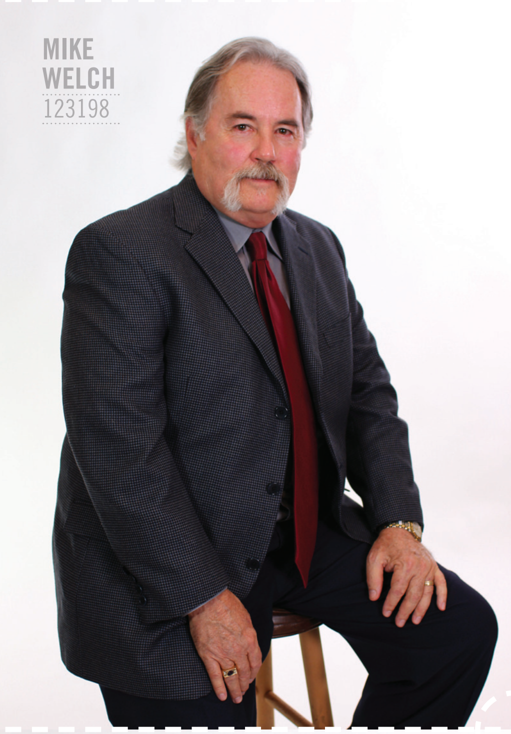
An FCCI cross-functional team
+ our agent
+ our policyholder

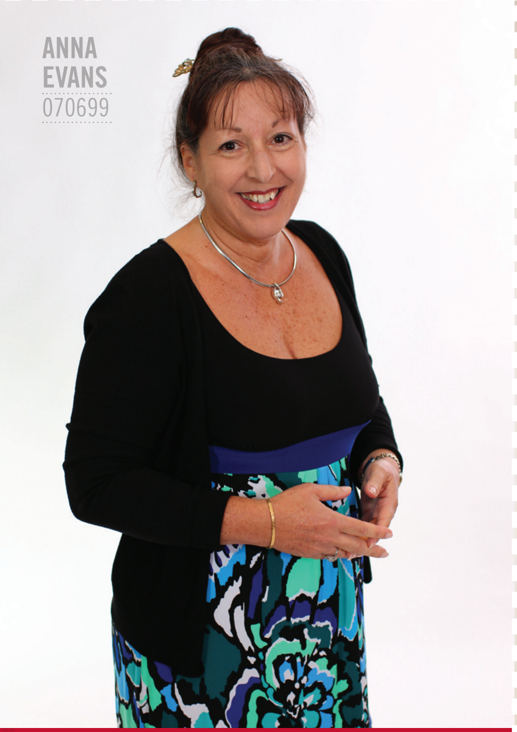
= an FCCI TeamWorks!℠ meeting

Strength in Numbers begins with partnership









The Common Denominator

A quantity into which all denominators of a set of fractions may be divided without remainder, a commonly shared factor

The common denominator between FCCI and our policyholders is our agents. And the common denominator among our agents is integrity.

We partner with 479 contracted agencies and have 3,846 appointed producers, each selected because they share our commitment to quality service and doing the right thing.

$$\frac{a}{b}+\frac{c}{d}=\frac{a\times d+b\times c}{b\times d}$$

Through these close and often long-standing partnerships, we work together to meet policyholders' needs in a way we can all take pride in.

And because we depend on each other for success, we always find common ground.

We invite feedback through Agents' Advisory Councils, new agents' meetings, invitational principals' meetings and agency visits designed to strenghten our relationships.

As we enter additional states and invite new agents into the FCCI family, we hope that every person we encounter sees just how special FCCI is.

Because the common factors we share are extraordinary.

Above the Axis

We value our agents, and we recognize and reward the ones who consistently deliver results while conducting themselves ethically and honorably. With gratitude and appreciation, we present the FCCI Chairman's and President's clubs.

Chairman's Club Members

Danny Anderson
Insurance Office of America
Longwood, Fla.

Ray Bouchard
Bouchard Insurance
Clearwater, Fla.

John Brabson
Lykes Insurance
Tampa, Fla.

Bob Gerry
Risk Management Insurance
Ft. Myers, Fla.

John Graham
Graham-Naylor Agency
Marietta, Ga.

Jon Loftin
MJ Insurance
Indianapolis, Ind.

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

Cynthia Payne
CHAPP, Inc.
Dundee, Fla.

Bill Pridgeon
Hylant Group
Toledo, Ohio

Keith Stone
Gibson
South Bend, Ind.

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

Mike Welch
Commercial Insurance Marketing
Sarasota, Fla.

LaVerne Wicks
Brown & Brown of Florida
Ft. Myers, Fla.

President's Club 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.

Brown & Brown of Florida
Ft. Lauderdale, Fla.

Five County Insurance Agency
Fort Myers, Fla.

Frank H. Furman
Pompano Beach, Fla.

The Horton Group
Orland Park, Ill.

Innovative Insurance Consultants
Coral Springs, Fla.

Insurance and Risk Managers
Brookhaven, Miss.

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

Keyes Coverage
Tamarac, Fla.

Lutgert Insurance
Naples, Fla.

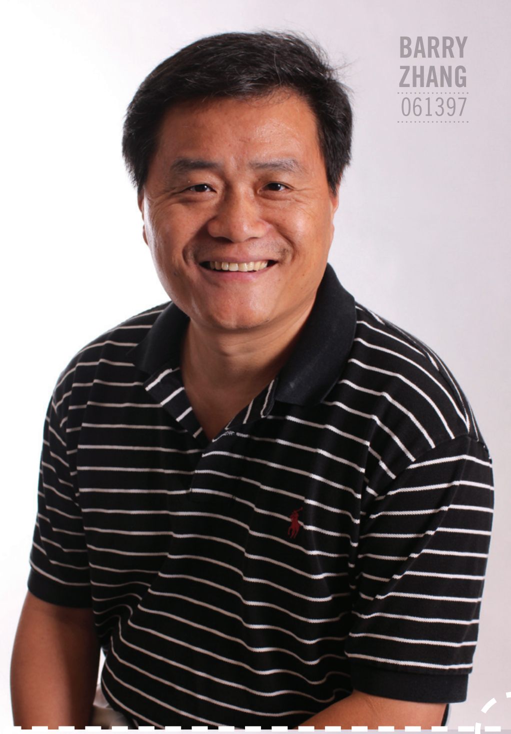
Mike Ledkins Insurance Agency
Thomasville, Ala.

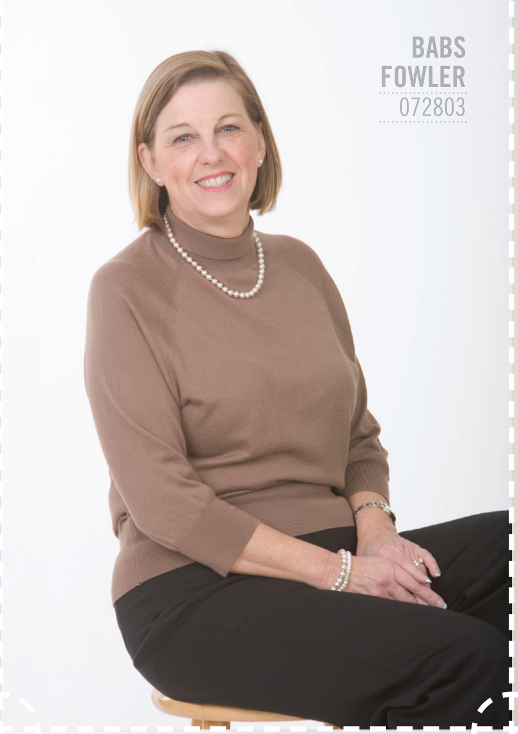
Premier Insurance Corp.
Cape Coral, Fla.

SouthGroup Insurance Services
Ridgeland, Miss.

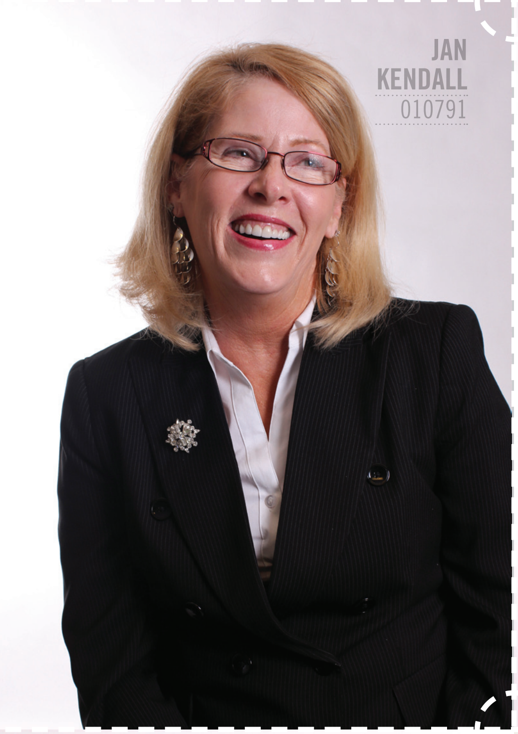
Stahl & Associates
St. Petersburg, Fla.

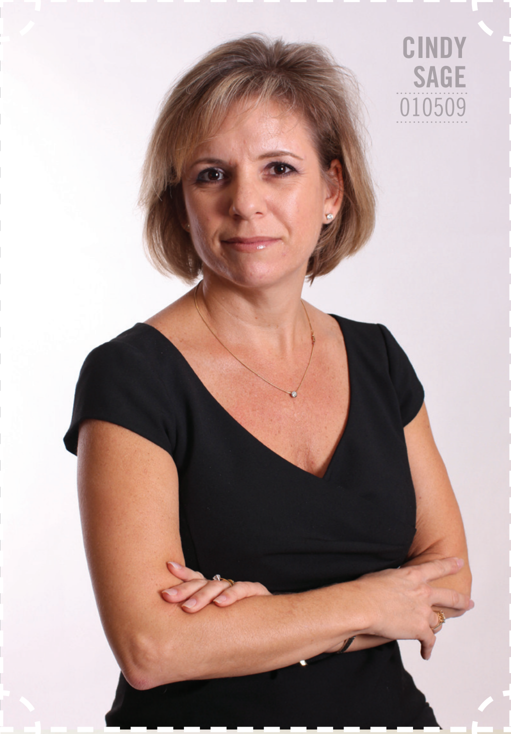
Yates Insurance Agency
Atlanta, Ga.


BARRY
ZHANG
061397

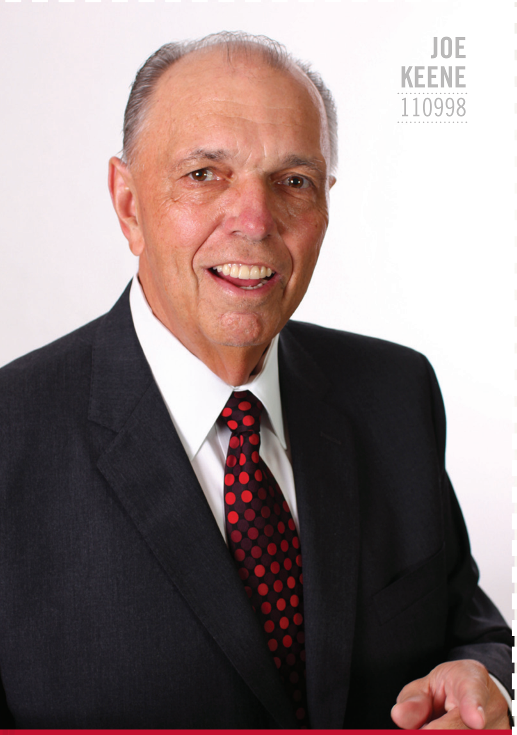

BABS
FOWLER
072803


DENITA
BUICE
060302

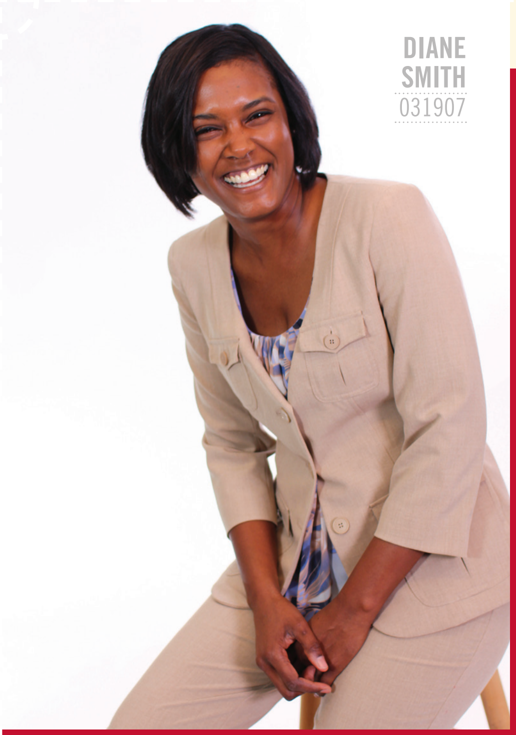

JAN
KENDALL
010791


CINDY
SAGE
010509


JAMIE
WOOD
031411


JOE
KEENE
110998


LISA
DALTON
072111


DIANE
SMITH
031907

The Power Function

A variable base raised to a fixed exponent, exhibiting many distinctive behaviors

FCCI is powered by a base of 657 employees doing their best work every day. We function by being accountable, being collaborative and giving back in ways that matter for our customers and our communities.

$$f(x) = cx^a$$

FCCI employees demonstrate an ongoing commitment to values, results and continuous improvement. In 2011, more than 10 FCCI employees earned CPCUs, and hundreds more received other professional designations or took continuing education classes.

We believe our customers deserve our best.

And so do our communities. FCCI employees donate time and raise money for many charitable organizations and causes.

One special focus of our giving is United Way. Each year, FCCI sponsors a monthlong fundraiser including a golf event, a Texas Hold 'em tournament, a bake sale, an employee "garage" sale, relay races and FCCI's unique Fall Fest – a half-day of activities including skits, auctions and a special luncheon hosted by FCCI leadership.

The fun has a purpose. In 2011, FCCI's fundraisers across all our regions collected more than $158,000 for United Way.

These donations are being used to fund programs that provide affordable housing, job training and employment; child advocacy, literacy and drop-out prevention; affordable and accessible healthcare for lower-income families, abuse victims, and adults and children with disabilities; and many other needs throughout our regions.

At the corporate level, FCCI also sponsors All Faiths Food Bank, Children First, Step Up for Students, Suncoast Charities for Children and the Westcoast Black Theatre Troupe, among others.

Ultimately, we know that good work multiplies and the more positive work we generate, the more comes back to us. But we also know that FCCI employees would choose to do the right thing anyway.

It's who we are.

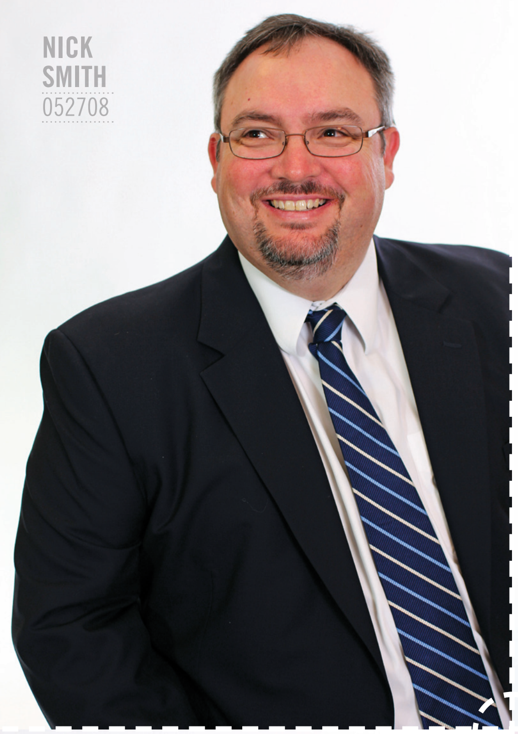
2,628 Hours

Effective April 1, 2012, FCCI implemented a new policy that provides employees with four hours per year of paid time to volunteer at the community organizations of their choice. If each employee uses this time, 2,628 hours will be donated to serving our communties.

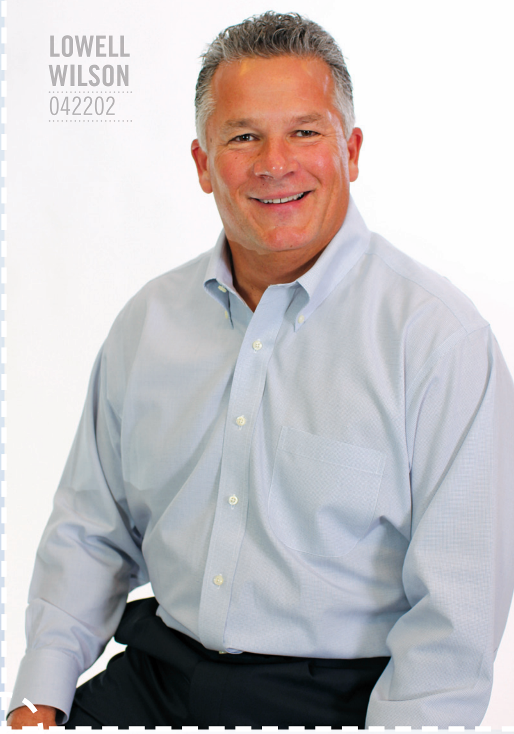

RUBEN
MARTE
080888


LINDA
HUDSON
032802


ALICE
HAMMOND
041999

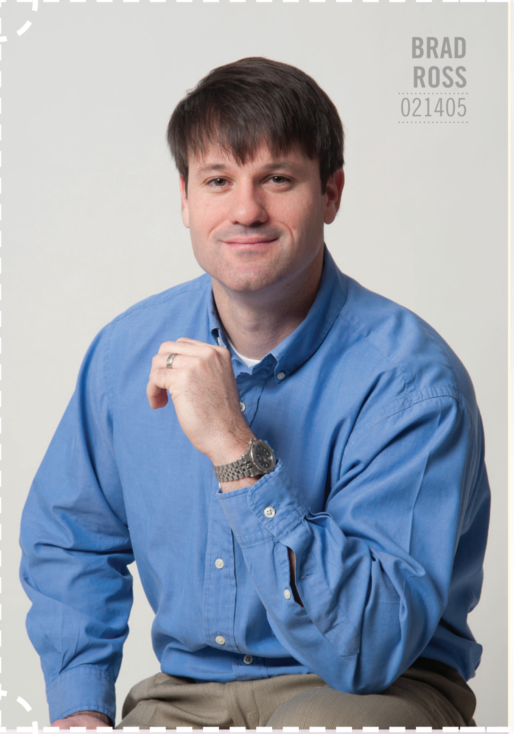

NICK
SMITH
052708


CAROL
MASON
030585


LOWELL
WILSON
042202


MIKE
OLSHEFSKI
042611


LISA
KROUSE
041204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ROSS
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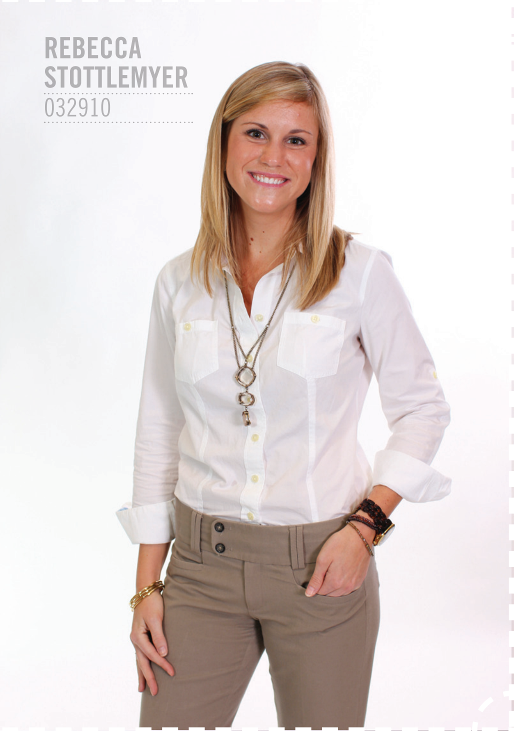
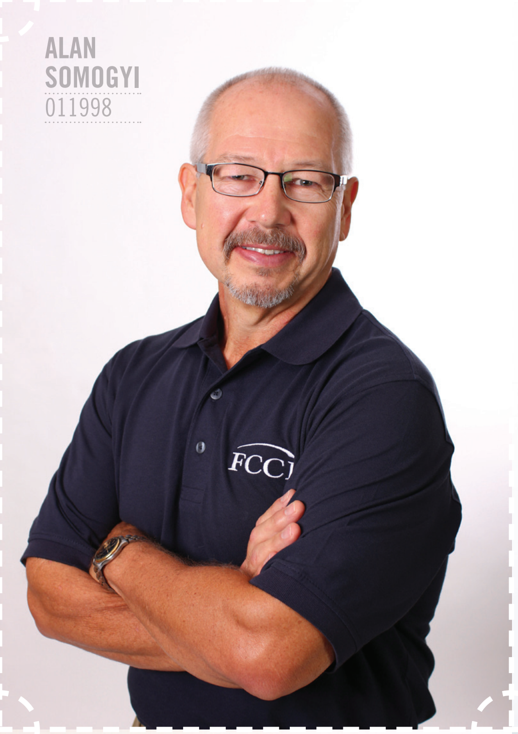

REBECCA
STOTTLEMYER
032910


ALAN
SOMOGYI
011998


BRAD
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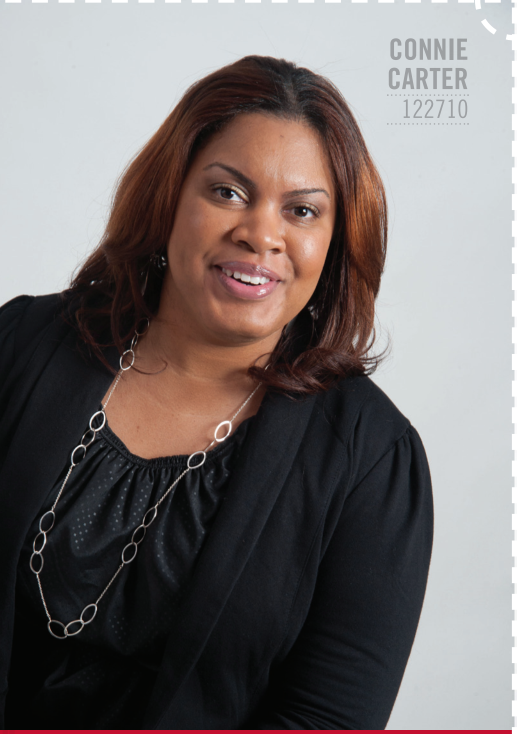
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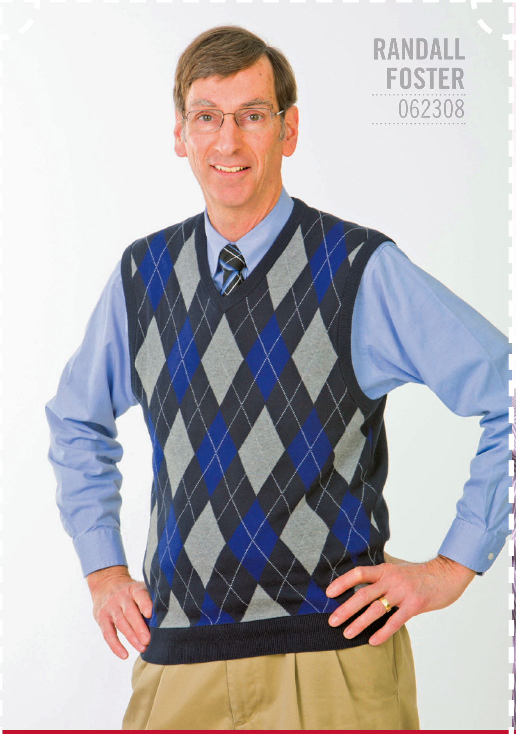
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FOSTER
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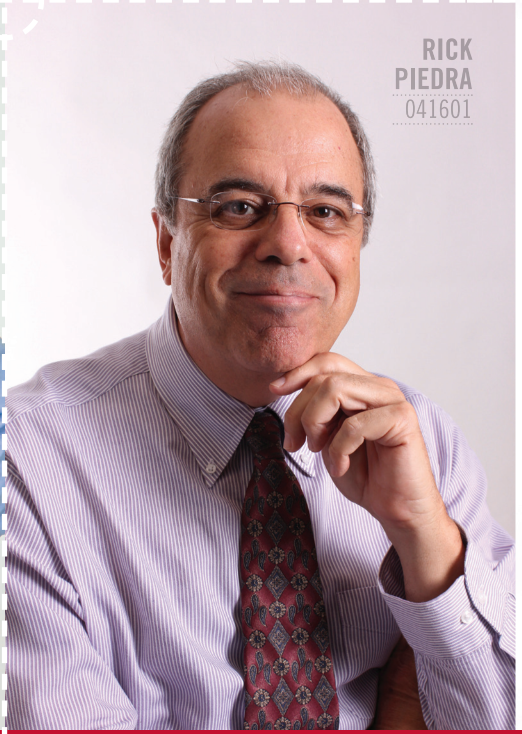
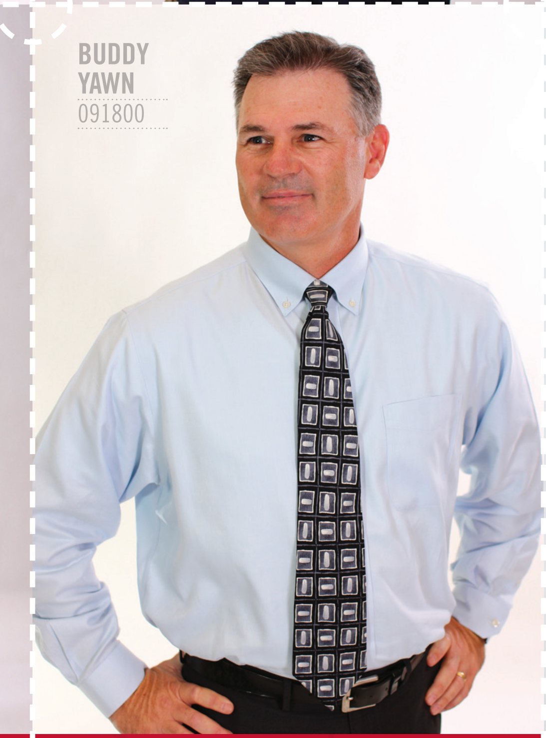

RICK
PIEDRA
041601


JACKIE
HARRIS
051793


BUDDY
YAWN
091800


KATRINA
TURNER
061906

Prime Factors

Every integer can be broken down to a product of prime factors

Positions of leadership at FCCI are both an entrustment of responsibility and an acknowledgement of ethical business practices.

$$36=3\times3\times2\times2$$

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

Joseph A. Keene
Executive Vice President, Corporate Claims

Paul Ayoub, AINS
Senior Vice President & Chief Information Officer

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

Warren Edwards, CIC
Senior Vice President, Florida Region

Thomas A. Koval, Esq.
Senior Vice President, General Counsel & Government Affairs

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

Christopher Piela, CPA
Senior Vice President, Southeast Region

Earl E. Price
Senior Vice President, Agribusiness

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

Richard E. Rueger, CPCU, AIC, ARe, AFSB, ARM
Senior Vice President, Business Development & Strategic Initiatives

William D. Speaker, CPCU, AU
Senior Vice President, Home Office Underwriting

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

Cynthia L. Gaul
Vice President, Claims

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

James L. Harms, CPCU, CIC
Vice President, Southwest Region

Michelle Jalbert, CPA
Vice President, Controller & Assistant Treasurer

Gregory L. Kramer
Vice President, Underwriting, Midwest Region

Duane L. Padgett, CIC, AU, AINS
Vice President, Home Office Marketing & Corporate Communications

Tracy L. Stoeckel, CPCU
Vice President, Underwriting, Florida Region

Christina D. Welch, Esq., CPCU
Vice President, Assistant General Counsel & Chief Risk Officer

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

Ann Driscoll
Assistant Vice President, Human Resources

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

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
Craig Johnson, MBA, CPA
Roy A. Yahraus

Contents

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Financial Statements

As of and for the years ended December 31, 2011 and 2010

Independent Auditors' Report

The Board of Directors and Members
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, 2011 and 2010, and the related consolidated statements of income, comprehensive income, members' equity, 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 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, 2011 and 2010, 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 28, 2012
Atlanta, Georgia

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.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Balance Sheets

As of December 31,
(in thousands)

	2011	2010
Assets		
Investments:		
Securities available for sale, at fair value		
Fixed maturity securities	$ 1,149,860	1,153,293
Common stocks	134,651	129,813
Other invested assets	1,885	2,139
Total investments	1,286,396	1,285,245
Cash and cash equivalents	23,011	24,450
Accrued investment income	11,765	12,567
Amounts due from policyholders, net	184,575	191,283
Reinsurance recoverable and prepaid reinsurance premium	115,563	132,918
Amounts due from Florida Special Disability Trust Fund	6,633	10,174
Deferred policy acquisition costs	27,746	31,155
Land, building and equipment, net	48,009	48,577
Deferred income taxes, net	11,450	22,113
Goodwill	24,151	21,438
Other assets	11,491	11,761
Total assets	$ 1,750,790	1,791,681
Liabilities and Members' Equity		
Liabilities:		
Loss and loss adjustment expenses	$754,121	819,753
Unearned premiums	206,918	217,337
Accrued expenses and other liabilities	86,646	86,604
Accrued policyholder dividends	9,056	12,182
Premiums refundable and loss fund deposits	3,094	3,425
Income tax payable	1,965	2,690
Debt	99,824	99,882
Total liabilities	1,161,624	1,241,873
Commitments and Contingencies (Note 15)		
Members' equity:		
Accumulated earnings	554,228	526,562
Accumulated other comprehensive income	34,938	23,246
Total members' equity	589,166	549,808
Total liabilities and members' equity	$ 1,750,790	1,791,681

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Income

For the years ended December 31,

(in thousands)

	2011	2010
Revenues		
Net premiums earned	$ 452,297	429,878
Net investment income	46,826	46,489
Net realized gain	8,566	14,427
Service fees and other income	2,730	2,704
Total revenues	510,419	493,498
Expenses		
Losses and loss adjustment expenses incurred	301,946	281,912
Policy acquisition expenses	80,860	73,238
General and administrative expenses	79,237	78,185
Policyholder dividends	8,229	7,867
Other	1,286	1,248
Total expenses	471,558	442,450
Income before income taxes	38,861	51,048
Income tax expense	11,195	16,040
Net income attributable to members	$ 27,666	35,008

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(in thousands)

	2011	2010
Net income attributable to members	$ 27,666	35,008
Other comprehensive income, net of taxes:		
Increase in unrealized gains on investments, net of taxes of $10,229 and $11,677	17,046	19,460
Reclassification adjustments for realized gains in net income, net of taxes of $3,212 and $5,410	(5,354)	(9,017)
	11,692	10,443
Total comprehensive income	$ 39,358	45,451

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Members' Equity

For the years ended December 31,

(in thousands)

	Accumulated Earnings	*Accumulated Other Comprehensive Income*	*Total Members' Equity*
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
Comprehensive income:			
Net income	27,666	-	27,666
Unrealized gain on available-for-sale securities net of deferred tax	-	11,692	11,692
December 31, 2011	$ 554,228	34,938	589,166

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31,

(in thousands)

	2011	2010
Cash flow from operating activities:		
Net income	$ 27,666	35,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	4,647	5,175
Deferred tax expense	3,646	9,478
Net realized losses on equipment sold and retired	5	154
Net realized gains on investments sold	(8,566)	(14,427)
Net amortization of discounts and premiums on fixed maturity securities	7,351	6,184
Changes in assets and liabilities:		
Decrease (increase) in:		
Accrued investment income	802	(877)
Amounts due from policyholders	6,708	33
Reinsurance recoverables and prepaid reinsurance premium	17,355	41,401
Amounts due from Florida Special Disability Trust Fund	3,541	1,519
Deferred policy acquisition costs	3,409	1,002
Other assets	270	223
Increase (decrease) in:		
Loss and loss adjustment expenses	(65,632)	(58,462)
Unearned premiums	(10,419)	(2,508)
Accrued expenses and other liabilities	42	(6,449)
Accrued policyholder dividends	(3,126)	800
Premiums refundable and loss fund deposits	(331)	(50)
Income tax payable	(725)	(3,825)
Net cash (used in) provided by operating activities	(13,357)	14,379
Cash flow from investing activities:		
Sales and maturities of investments	349,251	476,677
Purchases of investments	(330,478)	(508,041)
Purchases of business	(2,713)	(2,662)
Proceeds from sales of property and equipment	677	106
Purchases of property and equipment	(4,819)	(3,951)
Net cash provided by (used in) investing activities	11,918	(37,871)
Cash flow from financing activities:		
Principal payments on notes payable	-	-
Proceeds from credit facility	5,250	45,050
Principal payments on credit facility	(5,250)	(5,050)
Net cash provided by financing activities	-	40,000
Net (decrease) increase in cash, cash equivalents	(1,439)	16,508
Cash, cash equivalents, beginning of year	24,450	7,942
Cash, cash equivalents, end of year	$ 23,011	24,450
Cash paid during the year for:		
Interest	$ 2,166	1,652
Income taxes	$ 8,274	10,387

See accompanying notes to consolidated financial statements.

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 (MGI)
      - National Trust Insurance Company (NTI)
      - FCCI Commercial Insurance Company (FCIC)
      - FCCI Advantage Insurance Company (FAIC)
      - Brierfield Insurance Company (BIC)
      - FCCI Tax Credit, LLC (FTC)
      - FCCI Services, Inc. (FSI)
        - FCCI Agency, Inc. (FAI)

All of the above are wholly owned subsidiaries.

Effective November 2, 2010, Mississippi Insurance Managers, Inc., a wholly owned subsidiary of FIG, was dissolved. FCCI Staffing Solutions, Inc. was merged with its parent, 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. 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 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 seven 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, *Fair Value Measurements and Disclosures* (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. The policy period for contract surety business is determined based on the estimated completion date of the contract. 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.

Concentrations of Business Risks

The Company is inherently subject to various business risks. Following is a description of the most significant risks facing property and 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 reinsurance 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 SDTF, accrued policyholder dividends, guaranty fund assessments, final premium audits, allowance for doubtful accounts, and retrospectively rated premiums.

Recently Issued Accounting Standards

In June and December 2011, the FASB issued Accounting Standards Updates (ASU) No. 2011-05, *Comprehensive Income: Presentation of Comprehensive Income* and ASU No. 2011-12, *Comprehensive Income: Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income In Accounting Standards Update No 2011-05*. Under the new guidance, a reporting entity has the option to present comprehensive income in a single continuous statement or in two separate but consecutive statements. The updated guidance is to be applied retrospectively and is effective for fiscal years ending after December 15, 2012. Early adoption is permitted, as compliance with the amendments is already permitted. The Company adopted this new guidance as of December 31, 2011 by presenting the comprehensive income in two separate but consecutive statements. The adoption does not have any impact on the Company's results of operations, financial position or liquidity.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles – Goodwill and Other: Testing for Goodwill Impairment*. The new guidance intends to simplify how entities test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The previous guidance required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount (step one). If the fair value of the reporting unit is less than its carrying value, then the second step of the test must be performed to measure the amount of impairment loss. The updated guidance is effective for reporting periods beginning after December 15, 2011 with early adoption permitted. The adoption of this guidance is not expected to have any impact on the Company's results of operations, financial position or liquidity.

In April 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S GAAP and IFRS*. This guidance clarifies the application of existing fair value measurement and disclosure requirements and amends certain fair value measurement principles, requirements and disclosures. Changes were made to improve consistency in global application. The guidance is to be applied prospectively for reporting periods beginning after December 15, 2011, and early adoption is not permitted. The impact of adoption 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, 2011, and through the consolidated financial statements issuance date of March 28, 2012.

3. Investments

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

2011	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
US Treasury and US government agencies and corporations	$ 47,960	3,363	(6)	51,317
State and political subdivisions	339,382	19,683	(11)	359,054
Mortgage-backed and asset-backed securities	363,847	20,498	(165)	384,180
Corporate bonds	255,518	10,337	(1,447)	264,408
Foreign government and foreign corporate bonds	86,923	4,752	(774)	90,901
Total fixed maturity securities	1,093,630	58,633	(2,403)	1,149,860
Common stock	134,977	3,054	(3,380)	134,651
Total available-for-sale securities	$ 1,228,607	61,687	(5,783)	1,284,511

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

The amortized cost and fair value of fixed maturity securities as of December 31, 2011 by contractual maturities follow:

	Amortized Cost (1)	*Fair Value* (1)
Due in one year or less	$ 42,250	42,715
Due after one year through five years	552,254	580,063
Due after five years through ten years	283,162	300,026
Due after ten years	215,964	227,056
Total fixed maturities	$ 1,093,630	1,149,860

(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**	
2011	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*
Available for sale:						
Bonds	$ 2,137	69,393	101	5,165	2,238	74,558
Equity securities	3,380	39,235	-	-	3,380	39,235
Mortgage-backed and asset-backed securities	104	13,172	61	1,647	165	14,819
	$ 5,621	121,800	162	6,812	5,783	128,612

	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

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 $3.1 million, representing a 12% decline, on the Vanguard FTSE All-World ex US Index Fund.

During 2011, the Company did not recognize any other-than-temporary impairment losses. During 2010, the Company recognized $36 thousand of other-than-temporary impairment losses on certain fixed maturity securities due to issuer-specific credit events, consistent with management's criteria for recognizing other-than-temporary declines in fair values.

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, 2011. 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, 2011. 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, 2011 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:

	2011	2010
Bonds	$ 44,680	49,070
Equity securities	5,993	2,337
Other invested assets	(253)	(253)
Cash, cash equivalents and short-term investments	9	11
Gross investment income	50,429	51,165
Investment expenses	(3,603)	(4,676)
Net investment income	$ 46,826	46,489

Proceeds from sales or maturities of fixed maturity securities during 2011 and 2010 were $300,081 and $475,930, respectively. Proceeds from sales of equity securities during 2011 and 2010 were $49,170 and $747, 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:

	2011	2010
Fixed maturity securities:		
Gross gains	$ 7,473	16,285
Gross losses	(842)	(2,344)
Equity securities:		
Gross gains	2,326	522
Gross losses	(391)	-
Net realized gains before income taxes	8,566	14,463
OTTI charges incurred on fixed maturity securities	-	(36)
Total realized investments gain	$ 8,566	14,427

The Company recorded no impairment write-downs during the year, and realized no gains or losses from subsequent sales.

At December 31, 2011 and 2010, bonds, cash, and cash equivalents with fair values of $18,115 and $17,788, 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% and 12% of members' equity at December 31, 2011 and 2010, 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*
Residential mortgage-backed securities	$ 1,688,715	1,686,603	1,696,241	9,638	-

Other Invested Assets

FCCI Insurance Company, Monroe Guaranty Insurance Company and National Trust Insurance Company, all companies within the FCCI Insurance Group, entered into an Operating Agreement to form FCCI Tax Credit, LLC for the purpose of investing in low-income housing property in order to obtain low-income housing tax credits in the state of Georgia. This agreement was approved by the Florida Office of Insurance Regulation (OIR) on November 22, 2010 and the Indiana Department of Insurance on November 12, 2010.

The Company's carrying value of $1,885 consists of the cost of $2,392 less amortization of $253 in both 2011 and 2010. The investment is amortized over ten years.

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

Fair Value Measurements

The Company has adopted the provisions of ASC 820, which 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.

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 (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, 2011:

		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	$ 51,317	45,190	6,127	-
State and political subdivisions	359,054	-	359,054	-
Mortgage-backed and asset-backed securities	384,180	-	384,180	-
Corporate bonds	264,408	-	264,408	-
Foreign government and foreign corporate bonds	90,901	-	90,901	-
Total fixed maturity securities	1,149,860	45,190	1,104,670	-
Common stock (1)	127,526	127,526	-	-
Total investment securities	$ 1,277,386	172,716	1,104,670	-

(1) The Company holds $7,125 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:

	2011	2010
Premiums in course of collection	$ 20,115	15,130
Premiums deferred not yet due	164,885	175,818
Premiums due on retrospectively rated policies	2,179	1,699
Amounts due on deductible policies	1,119	1,079
Amounts due from policyholders, gross	188,298	193,726
Allowance for doubtful accounts	(3,723)	(2,443)
Amounts due from policyholders, net	$ 184,575	191,283

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:

	2011	2010
January 1,	$ 31,155	32,157
Capitalized costs	65,733	68,657
Amortized costs	(69,142)	(69,659)
December 31,	$ 27,746	31,155

6. Land, Building and Equipment

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

	2011	2010
Land	$ 4,269	4,515
Building and improvements	49,714	49,978
Furniture and equipment	12,658	12,136
Software in use	32,796	31,082
Software under development	1,914	1,012
Land, building and equipment, at cost	101,351	98,723
Accumulated depreciation and amortization	(53,342)	(50,146)
Land, building and equipment, net	$ 48,009	48,577

Depreciation and amortization expense for land, building and equipment for the years ended December 31, 2011 and 2010 amounted to $4,647 and $5,175, respectively.

7. Goodwill and Other Intangible Assets

The balance sheets include goodwill attributable to the Company's purchase of MGI in November 2000. 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 is being amortized over ten years and is reported as a component of other assets in the consolidated balance sheets. The purchase contract included a three-year earn-out provision in which the final payout was made in 2011. All amounts paid in connection with this earn-out provision are recorded as an increase to goodwill. During 2011 and 2010, the Company paid $2,713 and $2,662 in additional purchase price, respectively, increasing total gross goodwill to $25,460 at December 31, 2011.

As of December 31, 2011, the Company tested the underlying goodwill and intangible assets for recoverability, and the test indicated that the fair values exceeded the carrying values of the assets.

The following table details goodwill and intangible assets as of December 31, 2011:

	2011		2010	
	Goodwill	*Other Intangibles* (1)	*Goodwill*	*Other Intangibles* (1)
Monroe Guaranty Insurance Company	$ 18,120	-	18,120	-
Mississippi Insurance Managers, Inc.	7,340	4,949	4,627	4,949
Goodwill and other intangible assets, gross	25,460	4,949	22,747	4,949
Accumulated amortization(2)	(1,309)	(1,485)	(1,309)	(990)
Goodwill and other intangible assets, net	$ 24,151	3,464	21,438	3,959

(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

Intangible amortization expense for the year ended December 31, 2011 and 2010 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 as follows:

	2011	2010
January 1, gross	$ 819,753	878,215
Less:		
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
January 1, net	677,914	697,748
Incurred related to:		
Current year	378,990	366,804
Prior years	(77,044)	(84,892)
	301,946	281,912
Paid related to:		
Current year	146,647	131,835
Prior years	200,425	169,911
	347,072	301,746
December 31, net	632,788	677,914
Plus:		
Reinsurance recoverable, unpaid losses	107,028	124,526
Florida Special Disability Trust Fund recoverable (Note 9)	6,633	10,174
Salvage and subrogation recoverables	4,839	4,566
Reinsurance reserves assumed	1,714	1,494
Liability for loss and LAE on deductible policies	1,119	1,079
December 31, gross	$ 754,121	819,753

The liability for LAE developed favorably in 2011 and 2010 by $77,044 and $84,892 and, 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 as of December 31:

	2011	2010
Amounts paid by the Company submitted to the SDTF pending reimbursement	$ 2,141	4,821
Amounts paid by the Company not yet submitted to the SDTF	717	815
Amounts not yet paid by the Company	3,775	4,538
	$ 6,633	10,174

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

For the years ended December 31, 2011 and 2010, assessments were $1,499 and $3,509, respectively, and the Company collected $3,844 and $3,009, 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:

	2011	2010
Recoverable for loss and LAE reserves	$ 107,028	124,526
Recoverable for paid loss and LAE	1,142	1,155
Prepaid reinsurance premium	7,393	7,237
	$ 115,563	132,918

Commutation of Reinsurance

The Company commuted three ceded reinsurance treaties in the current year with Midstates Reinsurance Corporation. 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 a decrease in net losses and loss adjustment expenses of $108. This amount is detailed in the table below:

	Amount
Losses Incurred	$ (99)
Loss adjustment expenses incurred	(9)
	$ (108)

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

	Direct	*Assumed*	*Ceded*	*Net*
2011				
Written premiums	$ 472,697	3,427	34,222	441,902
Earned premiums	483,029	3,333	34,065	452,297
2010				
Written premiums	$ 461,394	3,401	34,602	430,193
Earned premiums	463,533	3,520	37,175	429,878

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

	Direct	*Assumed*	*Ceded*	*Net*
2011	$ 286,228	3,306	(12,412)	301,946
2010	$ 274,626	3,663	(3,623)	281,912

11. Income Tax

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

	2011	2010
Current income tax expense		
Federal	$ 5,874	5,854
State	1,675	708
Total current income tax expense	7,549	6,562
Deferred income tax expense		
Federal	3,626	8,620
State	20	858
Total deferred income tax expense	3,646	9,478
Total income tax expense	$ 11,195	16,040

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

	2011	2010
Deferred income tax assets:		
Discount of liability for loss and LAE	$ 20,576	22,959
Discount of unearned and advance premiums	15,155	15,958
Deferred compensation	5,213	5,818
Accrued policyholder dividends	3,339	3,496
Net state operating loss carryforwards	3,142	3,155
Unrealized loss on investment securities	2,169	2,719
Allowance for doubtful accounts	1,396	916
Subsequent injury tax	984	1,003
AMT credit	-	686
Disallowed capital losses	-	91
Other	2,429	2,195
Total gross deferred income tax assets	54,403	58,996
Less valuation allowance	(3,142)	(3,155)
Total net deferred income tax assets	51,261	55,841
Deferred income tax liabilities:		
Unrealized gain on investment securities	23,134	16,668
Deferred policy acquisition costs	10,406	11,684
Other	6,271	5,376
Total deferred income tax liabilities	39,811	33,728
Net deferred income tax asset	$ 11,450	22,113

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 $3,142 related to net operating losses in the state of Indiana, the Company will need to generate future taxable income of approximately $182,466 prior to the expiration of the net operating loss carryforwards in 2019 to 2026. Indiana taxable income for the years ended December 31, 2011 and 2010 was $254 and $153, 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, 2011. 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, 2011 and 2010) to the expense recorded for the years ended December 31:

	2011	2010
Expected tax	$ 13,601	17,867
Tax-exempt interest	(3,811)	(3,376)
State income taxes, net of federal benefit	782	1,015
Provision to return adjustment	151	(39)
Other, net	472	573
Actual income tax expense	$ 11,195	16,040

The Company has 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 guidance 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, 2011, 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 23, 2014. Bonds with a carrying value of $25,128 have been pledged as collateral. There is no balance outstanding on the LOC as of December 31, 2011 and 2010.

FHLB Credit Facility

The Company is as 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, 2011 and 2010, the Company owned FHLB stock in the amount of $7,125 and $7,090, respectively. As of December 31, 2011, 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, 2012. There is a balance due of $47,750 on the LOC as of December 31, 2011. 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 $74 as of December 31, 2011.

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 2011 and 2010 were $4,656 and $4,441, 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 2011 and 2010, the Company recognized expense related to these units of $1,928 and $1,374, respectively. As of December 31, 2011 and 2010, the Company has a liability for the Performance Units outstanding of $8,171 and $7,299, 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 2011 and 2010, the Company recognized expense related to Appreciation Rights of $434 and $4,211, respectively. As of December 31, 2011 and 2010, the Company has a liability for the Appreciation Rights outstanding of $6,380 and $10,361, 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 vesting criteria, which is to be partially funded through a special grant of Performance Units, described above. As of December 31, 2011 and 2010, the Company's liability for such deferred compensation, not funded by Performance Units, was $1,543 and $1,454, respectively. For 2011, the Company recognized expense of $89; and for 2010, recognized a reduction in expense of $31.

Costs for retirement and deferred compensation plans are allocated to each subsidiary based on the direct written premiums and the level of claims transactions to the totals for the consolidated company.

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, 2011 and 2010, 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:

	2011	2010
Net income	$ 35,241	44,048
Policyholders' surplus	491,350	479,119

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 2018. The minimum rentals on these operating leases as of December 31, 2011 follow:

	Amount
2012	$ 1,789
2013	2,041
2014	2,054
2015	2,075
Thereafter	2,904
	$ 10,863

Rent expense for the years ended December 31, 2011 and 2010 was $2,091 and $2,157, respectively.

The Sum of All Parts

The whole amount, aggregate

Aristotle said, “The whole is more than the sum of its parts.” We agree. Through partnership and collaboration, we find mutual success.

$$\sum_{i=1}^{n} i = \frac{n(n+1)}{2}$$

We would like to thank the following individuals and businesses for contributing to FCCI’s 2011 Annual Report:

Page 6

Glenn Bartholomew
Thermo King of Indiana
Indianapolis, Ind.

Jere Jefcoat
Jefcoat Fence Company
Pearl, Miss.

Scott Henslee and Gracie
Harrison Contracting Company
Villa Rica, Ga.

Pages 8 & 9

Bill Serata
Denise Nessmith
C&D Printing Company
St. Petersburg, Fla.

Jack Fessler
Case Fessler
The Fessler Agency
Clearwater, Fla.

Page 10

Michael Brucker
Brown & Brown Insurance of Georgia
Duluth, Ga.

Dirk DeJong
Frank H. Furman Insurance
Pompano Beach, Fla.

Jason Peacock
Insurance Office of America
Gainesville, Ga.

Mike Welch
Commercial Insurance Marketing
Sarasota, Fla.

Shawna Neilson
Gibson
South Bend, Ind.

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

Anna Evans
Lykes Insurance
Ft. Myers, Fla.

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

Ray Robertson
Marchetti, Robertson & Brickell Insurance & Bonding
Ridgeland, Miss.

657 Strong

Featured FCCI employees represent the following departments:

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$$|a| = \begin{cases} a, & \text{if } a \geq 0 \\ -a, & \text{if } a < 0 \end{cases}$$

581

$1.3 billio

479 3,846

$$\frac{a}{b} + \frac{c}{d} = \frac{a \times d + b \times c}{b \times d}$$

7,868

$491

2015 2020

022712

103.9%

$472.7 million

657

$$\frac{a}{b} = \frac{a+b}{a} = \varphi$$

230.2

$$\lim_{x \to \infty} e^{x} = \infty$$

$589.2 million

15

on 17,467 040159

8 $R=f(T,V,A)$ $1.8 billion

.4 million

060311

$$f(x) = cx^{a}$$

36=3×3×2×2

2011 Annual Report

Strength in Numbers

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