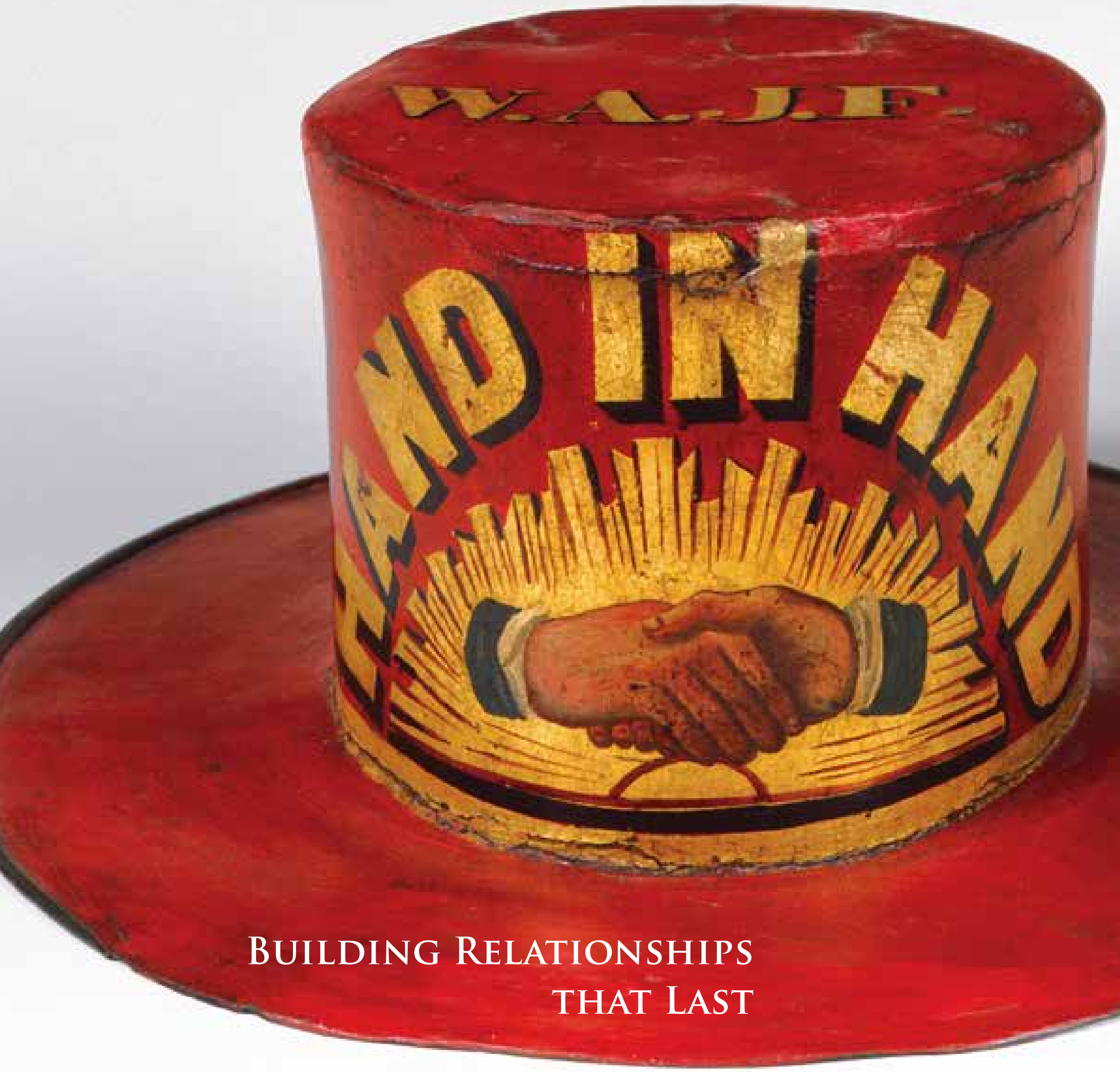

Building Relationships that Last

The Philadelphia Contributionship

261st Annual Report 2013

The Philadelphia Contributionship Mutual Holding Company

TPC Holdings, Inc.

Vector Security Holdings, Inc.

The Philadelphia Contributionship for the Insurance of Houses from Loss By Fire, Inc.

The Philadelphia Contributionship Insurance Company

Germantown Insurance Company

First Insurance Company of America

Franklin Agency, Inc.

At A Glance

The Philadelphia Contributionship Mutual Holding Company is a mutual holding company serving as the ultimate controlling parent in the corporate structure. The principal business of The Philadelphia Contributionship Mutual Holding Company is to hold the stock of TPC Holdings, Inc.

TPC Holdings, Inc. is a stock holding company whose principal business is to hold the stock of The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, Inc. and Vector Security Holdings, Inc.

The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, Inc. is the oldest successful property and casualty insurance company in the United States, having been founded in 1752. The company was converted from a mutual company to a stock company in 2009.

The Philadelphia Contributionship is our group of insurance companies writing residential business in predominantly urban communities. Our Company was founded by Benjamin Franklin and his fellow fire-fighters to provide insurance to urban Philadelphia homeowners. We provide homeowners, fire and liability insurance to customers in New Jersey, Pennsylvania and Delaware. We have earned the distinction of an A rating or higher from A.M. Best Company for 91 years. We currently enjoy an A.M. Best rating of A+ (Superior).

Vector Security Holdings, Inc., our residential and commercial security subsidiary, is the ninth largest security company in the United States. Vector provides electronic and physical security to the commercial and residential markets. Subsidiary Vector Intelligent Solutions provides VISA PCI DDS validated customized managed network services. Product and service offerings include security, fire alarm, video, access control, electronic article surveillance, medical alerts, uniformed guards, asset tracking, broadband and broadband-enabled services, network deployment, network management and mobile applications. Vector has received numerous awards for its outstanding quality of service and has earned a reputation as an industry leader.

OUR MISSION

THE PHILADELPHIA CONTRIBUTIONSHIP is committed to providing insurance protection for the urban community and surrounding areas. We are dedicated to producing an underwriting profit by providing responsive insurance services to our members and policyholders as well as maintaining a stable market for our agency partners. We value our employees and are committed to providing them professional development opportunities. We will continue to support the community that we've been a part of since 1752.

Letter to Policy Holders

Relationships matter. In a business that is constantly striving for improvements in efficiency and effectiveness achieved through technology, in the end, it is still a business centered on people, service and relationships. And so, we at The Philadelphia Contributionship are committed to building and maintaining solid relationships with our customers, both agents and policyholders. Those relationships build familiarity, they build commitment and they build trust. Familiarity, commitment and trust bring tangible benefits that manifest themselves through financial performance. With those elements in place, our business can thrive for the mutual benefit of our members.

Relationships matter. At The Philadelphia Contributionship, we have been building relationships with our customers for 262 years, longer than any other fire insurance company in the United States. Those relationships have helped to build the strength we now enjoy and the relationships of today and tomorrow will carry us to new levels of strength in the future.

Our financial performance in 2013 was outstanding with both our insurance and security operations having very profitable results. Net income in 2013 nearly doubled to $23.7 million from $11.8 million in 2012. With total equity of $322.4 million, up 17.2% from last year, our members can rest assured that our legacy of financial strength is intact.

Insurance Operations

2013 was an outstanding year for the insurance operations that benefited from mild weather conditions throughout the year. That was a welcome change from the three previous years that were marked by a number of severe weather events, including two hurricanes that had a significant impact on the lives and property of our policyholders. Without the effect of severe weather events in 2013, the quality of our underlying business was able to shine through and that quality produced excellent financial results.

Direct written premiums grew 4.3% in 2013. That growth was generated primarily through rate increases and increases in the amount of coverage provided in order to keep pace with changes in repair costs. Premium growth occurred while policy counts declined slightly indicating improved product pricing. We continue to execute on our strategy to geographically diversify our risk portfolio and growth in those targeted territories outpaced overall growth. Net written premium in 2013 was $119.5 million, up 8.1% over 2012. Net premiums earned for 2013 were $116.8 million, up 11.3%.

Income from the investment portfolio was $10.5 million in 2013 compared to $11.4 million in 2012. Net realized gains on investments were $9.6 million during 2013 compared to $10.5 million in 2012.

In total, revenues from insurance operations for the year ending December 31, 2013 were $136.9 million compared to $126.8 million for 2012, an increase of 7.9%.

Losses and loss adjustment expenses were down 20.5% from the prior year. That decline was impacted by significant hurricane losses in 2012 that did not repeat in 2013 and a greater level of favorable reserve development from claims occurring in prior years. In total, 2013 losses and loss adjustment expenses improved to $71.5 million compared to $89.9 million in 2012.

Underwriting expenses were up 9.8% in 2013 to $33.7 million related to acquisition expenses that come with premium growth and ongoing investment in the resources necessary to produce quality underwriting results. Investment expenses decreased 1.4% to $2.3 million.

Finally, we continued our consistent record of returning capital to our members with dividend payments totaling $1.0 million.

Overall, the insurance operations produced income before income taxes of $28.8 million in 2013 compared to $3.4 million in 2012.

The Philadelphia Contributionship's legacy of financial strength was again recognized by AM Best Company when it affirmed our A+ (Superior) financial strength rating. It was our thirteenth consecutive year with that rating and the 91st consecutive year that the company was rated A (Excellent) or better. That track record is one that few companies in our industry can claim and should give our members comfort that The Philadelphia Contributionship remains strong for the security of our members and policyholders.

Security Operations

Vector Security, Inc. experienced 9.6% revenue growth in 2013. Installation, service and central station segments all showed positive growth for the year. We continue to see broader adoption of interactive services in the residential market which include locks, thermostats, cameras and remote arming and disarming of security systems. The commercial market is capitalizing on affordable internet based cameras, which are more frequently, replacing antiquated analog equipment. In addition, we introduced a cloud based video platform this year for commercial customers under the CloudControl brand. Our National Accounts Division continues to benefit from innovative offerings under our InSite alarm management tool. These include: InSite Mobile, the first security system mobile app for retailers allowing customers to manage schedules, call lists and alarm activity details; as well as, InSite POS that integrates cameras with point of sale systems.

Revenues for 2013 were $256.2 million compared to revenues of $233.9 million in 2012. Earnings before interest, taxes, depreciation and amortization (EBITDA) were $50.1 million in 2013 compared to $51.1 million in 2012. This change was driven by an increase in our strategic focus on internal growth.

Income before taxes for the security operation in 2013 was $6.0 million.

In August of 2013, Vector Security formed a subsidiary called Vector Intelligent Solutions to house the acquisition of Industry Retail Group (IRG). IRG is an established provider of customized managed network services. Focused on the retail industry, IRG offers a comprehensive portfolio of broadband and broadband-enabled services through the design, provisioning, logistics and deployment of networks. This acquisition enables us to capitalize on the increased demand for bandwidth within the retail sector and creates a platform upon which we can deliver our security, fire, access and video offerings.

With its outstanding product offerings and internal skill sets, Vector Security is strongly positioned to increase market share in both the residential and commercial markets.

Consolidated Balance Sheet

With both the insurance and security operations producing a significant net profit, our consolidated balance sheet gained additional strength in 2013. Total assets as of December 31, 2013 were $783.6 million, a 5.6% increase from $742.3 million in 2012. Overall liabilities declined 6.8% to $435.5 million from $467.3 million in 2012. Total equity as of December 31, 2013 is $322.4 million – up 17.2% from $275.0 million at the end of 2012.

The Philadelphia Contributionship is in outstanding financial condition.

The financial success of The Philadelphia Contributionship's insurance and security operations is made possible through the hard work and commitment of our employees who build relationships with our customers every day. On behalf of the Board of Directors, we thank them for their dedication.

Scott M. Jenkins	Robert G. Whitlock, Jr., FCAS, MAAA
Chairman of the Board	President and Chief Executive Officer

Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2013 AND 2012

(In Thousands, Unless Otherwise Noted)

ASSETS	**2013**	2012
INSURANCE GROUP ASSETS		
Investments:		
Fixed income securities	**$ 147,464**	$145,268
Convertible bonds	**10,624**	8,162
Preferred stocks	**2,477**	2,071
Convertible preferred stocks	**1,564**	1,559
Common stocks	**243,176**	189,361
Other invested assets	**4,587**	3,874
	409,892	350,295
Cash and cash equivalents	**9,039**	15,358
Reinsurance recoverable and receivable	**29,250**	97,967
Prepaid reinsurance premiums	**2,018**	2,019
Premiums receivable	**9,197**	9,664
Other receivables	**675**	312
Accrued income from investments	**1,595**	1,510
Deferred acquisition costs	**13,136**	13,321
Property and equipment, net	**6,185**	4,668
Other assets	**238**	194
Total Insurance Group assets	**481,225**	495,308
SECURITY GROUP ASSETS		
Current assets:		
Cash and cash equivalents	**1,236**	20
Trade accounts receivable, less allowance for doubtful accounts of $1,239 in 2013 and $1,518 in 2012	**23,013**	17,491
Unbilled revenue	**11,904**	14,297
Inventories	**4,544**	4,573
Prepaid expenses and other current assets	**2,994**	2,389
Income taxes receivable	**451**	1,152
Total current assets	**44,142**	39,922
Property and equipment, net	**22,194**	19,295
Intangible assets, net	**174,138**	167,836
Goodwill	**44,364**	5,044
Deferred income taxes	**15,431**	13,435
Other noncurrent assets	**2,148**	1,497
Total Security Group assets	**302,417**	247,029
Total assets	**$783,642**	$742,337

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2013 AND 2012

(In Thousands, Unless Otherwise Noted)

LIABILITIES AND EQUITY	2013	2012
INSURANCE GROUP LIABILITIES		
Unpaid losses and loss adjustment expenses	**$ 101,366**	$169,681
Unearned premiums	**70,763**	68,052
Advance premiums	**3,060**	2,308
Deposit premiums	**16,297**	16,759
Deferred income taxes	**29,863**	16,368
Income taxes payable	**861**	1,417
Ceded premium payable	**311**	4,864
Other liabilities	**7,769**	8,414
Total Insurance Group liabilities	**230,290**	287,863
SECURITY GROUP LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	**2,110**	2,914
Accounts payable and accrued expenses	**22,054**	22,452
Customer deposits	**932**	914
Unearned revenue	**9,934**	9,907
Purchase holdbacks	**2,901**	4,070
Deferred income taxes	**870**	2,032
Total current liabilities	**38,801**	42,289
Long-term debt, less current maturities	**160,608**	134,222
Long-term purchase holdbacks	**2,507**	—
Interest rate swap payable	**661**	1,236
Other long-term liabilities	**2,659**	1,700
Total Security Group liabilities	**205,236**	179,447
Total liabilities	**435,526**	467,310
REDEEMABLE NONCONTROLLING INTEREST (NOTE 8)	**25,710**	—
EQUITY		
Retained earnings	**261,843**	238,458
Accumulated other comprehensive income	**60,563**	36,569
Total equity	**322,406**	275,027
Total liabilities and equity	**$783,642**	$742,337

CONSOLIDATED STATEMENT OF OPERATIONS
YEARS ENDED DECEMBER 31, 2013 AND 2012

(In Thousands, Unless Otherwise Noted)

	2013	2012
INSURANCE GROUP		
Revenue:		
Net premiums earned	**$116,818**	$104,958
Gross investment income	**10,461**	11,377
Net realized gains on investments	**9,595**	10,502
Total revenue	**136,874**	126,837
Losses and expenses:		
Losses and loss adjustment expenses	**71,509**	89,929
Underwriting expenses	**33,658**	30,649
Investment expenses	**2,289**	2,321
Total losses and expenses	**107,456**	122,899
Income before other income, dividends to policyholders, and income tax expense	**29,418**	3,938
Other income, net	**367**	580
Dividends to policyholders	**(993)**	(1,070)
Insurance Group income before income tax expense	**28,792**	3,448
SECURITY GROUP		
Revenue	**256,204**	233,855
Cost of sales	**146,470**	128,503
Gross profit	**109,734**	105,352
Operating expenses:		
Selling, general, and administrative	**59,616**	54,241
Acquisition-related costs	**877**	68
Depreciation	**7,738**	6,661
Amortization and impairment of intangible assets and goodwill	**30,763**	27,138
Total operating expenses	**98,994**	88,108
Operating income	**10,740**	17,244
Other:		
Interest expense	**(4,963)**	(4,658)
Other income, net	**265**	61
	(4,698)	(4,597)
Security Group income before income tax expense	**6,042**	12,647
Income before income tax expense	**34,834**	16,095
Income tax expense	**11,449**	4,270
Net income	**23,385**	11,825
Net loss attributable to redeemable noncontrolling interest	**313**	—
Net income attributable to the Company	**$ 23,698**	$ 11,825

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2013 AND 2012

(In Thousands, Unless Otherwise Noted)

	2013	2012
Net income	**$23,385**	$11,825
Other comprehensive income net of tax:		
Unrealized gains on securities available-for-sale:		
Unrealized net holding gains arising during the year (net of tax of $15,552 in 2013 and $6,555 in 2012)	**28,883**	12,176
Less: reclassification adjustment for net realized gains included in net income (net of tax of $3,432 in 2013 and $3,845 in 2012)	**6,374**	7,141
	22,509	5,035
Cash flow hedge:		
Change in fair value of cash flow hedge (net of tax of $(5) in 2013 and $(515) in 2012)	**(9)**	(956)
Less: reclassification adjustment for settlement of cash flow hedge included in net income (net of tax of $(206) in 2013 and $(82) in 2012)	**(382)**	(153)
	373	(803)
Defined benefit pension plan:		
Change in actuarial assumptions	**532**	(321)
Asset gain and amortization of net loss	**618**	122
Experience loss	**(38)**	(29)
Defined benefit pension plan, net actuarial gain (loss) arising during the year (net of tax of $599 in 2013 and $(123) in 2012)	**1,112**	(228)
Other comprehensive income	**23,994**	4,004
Comprehensive income	**47,379**	15,829
Comprehensive loss attributable to redeemable noncontrolling interest	**313**	—
Comprehensive income attributable to the Company	**$ 47,692**	$15,829

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF EQUITY
YEARS ENDED DECEMBER 31, 2013 AND 2012

(In Thousands, Unless Otherwise Noted)

	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, JANUARY 1, 2012	$226,633	$32,565	$259,198
Net income	11,825	—	11,825
Other comprehensive income, net of tax	—	4,004	4,004
BALANCE, DECEMBER 31, 2012	238,458	36,569	275,027
Net income attributable to the Company	**23,698**	**—**	**23,698**
Loss attributable to redeemable noncontrolling interest	**(313)**	**—**	**(313)**
Other comprehensive income, net of tax	**—**	**23,994**	**23,994**
BALANCE, DECEMBER 31, 2013	**$261,843**	**$60,563**	**$322,406**

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

(In Thousands, Unless Otherwise Noted)

	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES		
Net income	**$23,385**	$11,825
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized gains on investments	**(9,595)**	(10,502)
Depreciation and amortization	**40,707**	35,720
Deferred income taxes	**(2,583)**	(773)
Gains on disposals of property and equipment	**(172)**	(633)
Change in assets and liabilities, net of effects of acquisitions:		
Reinsurance recoverable and receivable	**68,717**	(71,972)
Prepaid reinsurance premiums	**1**	47
Premiums receivable	**467**	(1,205)
Accrued income from investments	**(85)**	213
Deferred acquisition costs	**185**	(1,689)
Unpaid losses and loss adjustment expenses	**(68,315)**	64,401
Unearned premiums	**2,711**	5,614
Advance premiums	**752**	(319)
Deposit premiums	**(462)**	(493)
Other liabilities and ceded premium payable	**(4,112)**	6,129
Income taxes and other receivables	**338**	(206)
Prepaid expenses and other assets	**(823)**	(412)
Trade accounts receivable, unbilled revenue, and inventories	**(2,532)**	2,062
Accounts payable, accrued expenses and purchase holdbacks	**(100)**	4,515
Unearned revenue and customer deposits	**(1,315)**	(184)
Swap liability	**—**	(189)
Net cash provided by operating activities	**$ 47,169**	$41,949

(In Thousands, Unless Otherwise Noted)

	2013	2012
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid for acquisitions, net of cash received	**$(48,167)**	$(43,567)
Purchases of property, plant and equipment	**(10,880)**	(8,783)
Proceeds from disposals of property and equipment	**187**	916
Purchases of fixed income securities	**(50,072)**	(23,749)
Purchases of convertible bonds	**(6,747)**	(2,740)
Purchases of common stocks	**(55,584)**	(80,456)
Purchases of convertible preferred stocks	**(266)**	(85)
Purchases of other invested assets	**(764)**	(4,109)
Proceeds from sales of fixed income securities	**28,609**	19,214
Proceeds from sales of convertible bonds	**5,266**	3,288
Proceeds from maturities/calls of fixed income securities	**12,377**	8,579
Proceeds from the sales of common stocks	**50,067**	87,186
Proceeds from the sales of convertible preferred stocks	**371**	—
Proceeds from capital distributions of other invested assets	**416**	—
Net cash used in investing activities	**(75,187)**	(44,306)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from revolving credit agreements	**111,313**	74,690
Payments on revolving credit agreements	**(86,332)**	(68,488)
Cash paid for debt issuance costs	**(588)**	—
Principal payments on capital leases	**(1,478)**	(1,110)
Net cash provided by financing activities	**22,915**	5,092
Net increase (decrease) in cash and cash equivalents	**(5,103)**	2,735
CASH AND CASH EQUIVALENTS, BEGINNING	**15,378**	12,643
CASH AND CASH EQUIVALENTS, ENDING	**$ 10,275**	$ 15,378
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 4,516**	$ 4,259
Income taxes paid	**$ 11,000**	$ 2,600
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
In conjunction with acquisitions, the Security Group:		
Recorded purchase holdbacks	**$ 4,981**	$ 3,961
Recorded purchase price adjustments	**$ (67)**	$ (1,761)
Capital leases	**$ 2,079**	$ 1,534

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of The Philadelphia Contributionship Mutual Holding Company (the Company), a mutual holding company, and its wholly-owned subsidiaries: TPC Holdings, Inc., The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, Inc. (The Contributionship), and Vector Security Holdings, Inc. (Vector).

The consolidated financial statements include the accounts of The Contributionship, a stock company, and its wholly-owned subsidiaries, The Philadelphia Contributionship Insurance Company, Germantown Insurance Company, First Insurance Company of America, and Franklin Agency, Inc. (collectively, the Insurance Group), and Vector. Vector is the parent company of the following wholly-owned subsidiaries: Vector Security, Inc., The Jupiter Group, Inc., Vector International Holdings, Inc., Vector Security Canada, Inc., and Vector Security de Mexico, S.A. de C.V., as well as partially owned subsidiary Vector Intelligent Solutions, LLC (VIS), of which Vector owns 70% of the outstanding membership units (collectively, the Security Group). The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which differ in some regard from those followed in reports to insurance regulatory authorities. All significant intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein.

The Insurance Group writes property and casualty insurance for homeowners and multi-family dwellings principally in urban communities in Pennsylvania, New Jersey and Delaware. The Insurance Group had approximately 126,000 policyholders at December 31, 2013.

Vector sells, installs, and services security systems and provides security monitoring services through advanced electronic systems designed to detect intrusion, as well as fire, water, temperature, and medical emergencies. As a result of the acquisition of selected assets of Industry Retail Group, LLC (IRG), Vector now installs, services, and manages network services for multi-location companies. Vector has approximately 285,000 residential and commercial customers as of December 31, 2013 located primarily in Pennsylvania, Ohio, New Jersey, Maryland, Virginia, New York, West Virginia, Delaware, Massachusetts, North Carolina, South Carolina, Florida, California, and Washington, DC to which it provides security monitoring services and other services. Vector also has several large national commercial accounts to which it provides equipment and installation and monitoring services. One customer accounted for approximately 12% of the December 31, 2012 trade accounts receivable balance. No such customer accounted for more than 10% of the December 31, 2013 trade accounts receivable balance.

Premiums

The Contributionship issues perpetual fire and homeowners insurance policies. When a perpetual policy is issued, a deposit premium is received, which is reflected as a liability. The premium is returned if coverage terminates.

The Insurance Group also issues term policies for property and casualty coverage. Premiums on such policies are reflected in income over the effective period of the policies. Unearned premiums are calculated on the monthly pro rata basis.

Reinsurance

Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Assessments

The Insurance Group is subject to involuntary assessments in the states in which it is licensed. Assessments consist primarily of charges from guaranty fund associations. These charges are proportionately allocated to the Insurance Group based upon premiums written in prior years.

A liability is established based upon historical experience and actual correspondence from the assessing associations. Based upon assessments paid, certain states allow credits against future premium taxes due. The Insurance Group recorded a liability of $375 and $764 (net of estimated premium tax credits of $-0- in 2013 and 2012) for such assessments as of December 31, 2013 and 2012, respectively.

Acquisition Costs

Acquisition costs, such as commissions, premium taxes, and certain other underwriting and agency expenses that vary with and are directly related to the production of new and renewal business, are deferred and amortized over the effective period of the related insurance policies. The Insurance Group determines whether acquisition costs are recoverable considering future losses and loss adjustment expenses, policy maintenance costs and anticipated investment income. To the extent that acquisition costs are determined not to be recoverable, the difference is charged to income in the period identified. All deferred acquisition costs at December 31, 2013 and 2012 were determined to be recoverable.

In October 2010, the Financial Accounting Standards Board (FASB) issued updated guidance to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must relate directly to the successful acquisition of a new or renewal insurance contract to qualify for deferral. The updated guidance was effective for periods ending after December 15, 2011. Company management adopted this new guidance prospectively in 2012. The amount of acquisition costs capitalized during 2012 did not change materially from the amount of acquisition costs that would have been capitalized had management's previous policy been applied during the period. The adoption of this new guidance did not have a material impact on the consolidated financial position, consolidated results of operations, or consolidated cash flows as of and for the year ended December 31, 2012.

Liability for Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses includes management's best estimate for the ultimate net cost of all reported and unreported losses and loss adjustment expenses incurred through December 31.

The Insurance Group believes that the liability for losses and loss adjustment expenses is adequate to provide for the ultimate cost of losses and loss adjustment expenses, but this liability is necessarily based on estimates, and the amount ultimately paid may vary significantly from such estimates. Those estimates are subject to the effects of trends in loss severity and frequency. This liability is continually reviewed and changes in estimates are reflected in earnings currently.

Investments

All fixed income securities, preferred and common stocks, and other invested assets are classified as available-for-sale and are carried at fair value. Management reviews the securities in its investment portfolio on a periodic basis to specifically identify individual securities that have incurred an other-than-temporary decline in fair value below cost or amortized cost. As part of its periodic review process, management utilizes information received from its outside professional asset manager to assess each issuer's current credit situation. This review encompasses among other things recent issuer activities, such as defaults, quarterly earnings announcements, recent developments and economic outlook for particular industries, rating agency actions and the extent and duration of the investment's unrealized loss position. When management's review identifies an other-than-temporary impairment in the valuation of a fixed income security, it compares its projected discounted cash flows to the amortized cost in order to determine the credit related portion and the non-credit related portion of the loss. The credit related portion is recorded as a charge in the consolidated statement of operations while the non-credit related portion is recorded through other comprehensive income and included as a component of accumulated other comprehensive income in the consolidated balance sheet. For preferred and common stocks, the cost of the security is adjusted and recognized as a realized loss in the statement of operations.

For structured securities, management projects cash flows using loss adjusted cash flows that contemplate current market factors such as prepayment assumptions, expected default assumptions, and the current condition of the guarantor of the security. For structured securities, the discount rate used in the present value calculation is the security's current effective interest rate. The discount rate used for other fixed income securities is the security's effective interest rate at the date of acquisition.

In addition to issuer-specific financial information, general economic data and management's projections of discounted cash flows, management also assesses whether it has the intent to sell a particular security or whether it is more-likely-than-not it will be required to sell the security before its anticipated recovery. When management determines that it either intends to sell or is no longer more likely than not to hold the security until its anticipated recovery, a realized loss is recorded in the consolidated statement of operations for the full amount of the difference between fair value and amortized cost.

Dividends and interest income are recognized when earned. Premiums and discounts on fixed income securities are amortized or accreted based upon the effective-interest method. Realized gains and losses on investments are determined by the specific identification method.

Other invested assets consist of an investment acquired in 2012 in a limited partnership, formed in 2011 for the purpose of acquiring and developing oil and gas interests. The investment is classified as an available-for-sale investment and is carried at fair value. Net unrealized gains (losses) are reported as a component of accumulated other comprehensive income. See Note 3 for more information on the determination of fair value.

Convertible Bonds and Preferred Stocks
The Company's investments in convertible bonds and convertible preferred stocks are considered hybrid financial instruments and are carried at estimated fair value, with changes in estimated fair value reported in net realized gains on investments in the consolidated statements of operations and comprehensive income.

Property and Equipment - Insurance Group
Property and equipment, which primarily consist of the Insurance Group's home office, electronic data processing equipment, software license, and furniture and fixtures, are stated at cost, less accumulated depreciation of $7,371 and $6,581 at December 31, 2013 and 2012, respectively. Depreciation is provided using the straight-line method over the estimated useful lives of depreciable assets. Land is not subject to depreciation.

Property and Equipment - Security Group
Property and equipment are stated at cost less accumulated depreciation. Equipment under capital leases is stated at the present value of minimum lease payments. Vector provides for depreciation over the estimated useful lives of the related assets utilizing the straight-line method. Estimated useful lives range from 3 to 12 years, with the exception of buildings, which are depreciated over approximately 25 years.

Vector installs certain home security package systems in residences if the customer commits to a monitoring arrangement for a minimum period of time. These security systems remain the property of Vector. The costs of the security systems, including costs of installation, are capitalized and depreciated over their estimated useful life of 7 years.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

Balances consist of the following as of December 31:

	2013	2012
Land	**$ 200**	$ 200
Buildings and improvements	**4,277**	3,980
Home security package systems	**30,259**	26,989
Furniture and fixtures	**4,939**	4,321
Vehicles and equipment	**20,340**	19,036
Construction-in-progress	**24**	13
	60,039	54,539
Less accumulated depreciation	**(37,845)**	(35,244)
	$22,194	$19,295

Revenue Recognition

Vector's major sources of revenue are equipment sales, installation, monitoring and managed network services as described below. While Vector frequently sells these elements in a bundled arrangement, it also sells each element individually, with no discounts given for the elements included in a bundled arrangement. Accordingly, when elements are included in a bundled arrangement, each element is treated as a separate unit of accounting. The revenue recognition policy with respect to each of the three major elements is as follows:

- Installation and equipment revenue - Recognized as services are performed on a percentage-of-completion basis calculated on a cost-to-cost comparison.
- Service revenue - Recognized as services are performed for time and material agreements and recognized ratably over the service period for those agreements entered into under a fixed fee arrangement.
- Monitoring and managed network revenue - Recognized ratably over the service period with amounts billed in advance of service delivery deferred and amortized over the applicable period of service.

Vector's overall arrangement fee for bundled arrangements is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by vendor-specific objective evidence or third-party evidence or are based on the entity's estimated selling price. Application of the "residual method" of allocating an overall arrangement fee between delivered and undelivered elements is not permitted.

Inventories

Inventories, consisting primarily of security equipment, are stated at the lower of average cost or market.

Intangible Assets

In accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, as of January 1, 2013 goodwill is amortized over ten years and tested when a triggering event occurs. A triggering event draws into question whether the fair value of the entity may be below its carrying amount.

In accordance with Impairment or Disposal of Long-Lived Assets subsections of ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, long-lived assets, such as property, plant, and equipment, and purchased intangible assets 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 or asset group be tested for possible impairment, the Company first compares the undiscounted future cash flows of that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is greater than the undiscounted future cash flows, an impairment is recognized to the extent that the carrying value exceeds its estimated fair value. The Company recorded impairment expense, through amortization expense, on their customer service agreements of $2,538 and $1,699 during 2013 and 2012, respectively.

Customer service agreements, which have been acquired through Vector's authorized dealer program or as a result of an acquisition, are amortized on a straight-line basis over periods ranging from 10 to 13 years.

Customer relationships, which were recorded in connection with acquisitions, are amortized on a straight-line basis over a period of 13 years.

Covenants not-to-compete are generally amortized on a straight-line basis over periods ranging from 3 to 5 years, depending upon the length of the agreement. All intangible assets have been recorded in connection with acquisitions.

Covenants not to solicit, which were recorded in connection with acquisitions, are amortized on a straight-line basis over a period of 8 years.

Trade names, which were recorded in connection with acquisitions, are amortized on a straight-line basis over period of 5 years.

Technology, which was recorded in connection with acquisitions, is amortized on a straight-line basis over period of 5 years.

All fully amortized intangible assets are removed from Vector's asset system in the year following full amortization.

Redeemable Noncontrolling Interest

On August 15, 2013, Vector issued membership interest units to IRG, the noncontrolling interest holder of VIS, which are redeemable either at the option of the holder or upon the occurrence of an event that is not solely within Vector's control. Under the terms of an agreement related to the IRG acquisition, the noncontrolling interest holder has the right to require Vector to purchase its 30% interest in Vector's subsidiary for an amount equal to a specified multiple of trailing twelve-month gross margin multiplied by the noncontrolling interest holder's percentage interest in Vector's subsidiary at the time of redemption. The noncontrolling interest becomes redeemable within 10 days after the earliest of the third anniversary of the date of the acquisition or the date on which certain principals of IRG no longer control IRG. The conditions for redemption of the noncontrolling interest had not been met as of December 31, 2013.

Income Taxes

Deferred income taxes are recognized in the consolidated financial statements for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred income tax expense is the result of changes in deferred tax assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred income tax asset will not be realized.

A tax position is recognized as a benefit at the largest amount that is more likely than not to be sustained in a tax examination solely on its merits. An uncertain tax position will not be recognized if it has a less than 50% likelihood of being sustained. The Company recognizes interest and penalties accrued related to uncertain tax positions as a component of income tax expense. The Company has no such uncertain tax positions as of December 31, 2013 or 2012.

Cash Equivalents

Cash equivalents consist of highly liquid short-term investments with an expected maturity at date of purchase of three months or less.

Credit Risk

The Company maintains cash balances in major financial institutions in excess of the federally insured limit of $250 by the Federal Deposit Insurance Corporation (FDIC). The Company has not experienced any losses and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Derivative Instruments and Hedging Activities

Vector accounts for derivatives and hedging activities as either assets or liabilities in the balance sheet at their respective fair values.

Vector only enters into derivative contracts that it intends to designate as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships, Vector formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. Vector also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. For derivative instruments that are designated and qualify as a cash-flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Vector discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is dedesignated as a hedging instrument because it is unlikely that a forecasted transaction will occur, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, Vector continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, Vector discontinues hedge accounting and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

Deferred Financing Costs

Deferred financing costs represent loan fees and other related costs incurred in obtaining the debt financing currently in place, which are being amortized over the term of the related debt.

Comprehensive Income

Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investments, changes in fair value of certain hedges, defined benefit pension plans, and unrealized losses related to factors other than credit on fixed income securities are reported as a separate component of the equity section of the consolidated balance sheet. Such items, along with net income, are components of comprehensive income and reflected in the consolidated statement of comprehensive income.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

Changes in the balances of each component of accumulated other comprehensive income at December 31 are as follows:

	UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES	CASH FLOW HEDGE	DEFINED BENEFIT PENSION PLAN	ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance, January 1, 2012	$34,772	$ 3	$(2,210)	$32,565
Current year other comprehensive income (loss)	5,035	(803)	(228)	4,004
Balance, December 31, 2012	39,807	(800)	(2,438)	36,569
Current year other comprehensive income	22,509	373	1,112	23,994
Balance, December 31, 2013	**$62,316**	**$(427)**	**$(1,326)**	**$60,563**

Legal Matters

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Recently Issued Accounting Pronouncements

On January 1, 2013, Vector adopted the provisions of Financial Accounting Standards Board (FASB) issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 does not change the requirements for reporting net income or other comprehensive income in financial statements. These provisions are effective for reporting periods beginning after December 15, 2013. Early adoption is permitted. The adoption of ASU No. 2013-02 did not have an effect on Vector's consolidated financial statements. The Company's Insurance Operations will adopt the provisions of this ASU effective January 1, 2014. The adoption of this standard is not expected to have an impact on the Company's financial position, results of operations or cash flows upon adoption.

On January 1, 2013, Vector adopted the provisions of FASB ASU No. 2014-02, Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council). ASU No. 2014-02 allows private companies an alternative to amortize goodwill on a straight-line basis over a ten-year period, or less if the company demonstrates that another useful life is more appropriate. In addition, private companies are allowed to use a simplified impairment model to evaluate goodwill. The accounting alternative, which has been elected by Vector, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill. The adoption of ASU No. 2014-02 during the current year resulted in a $2,056 reduction to goodwill, with an offsetting amount recorded to amortization expense.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 3, 2014, the date the consolidated financial statements were available to be issued.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

Note 2: Investments

The cost or amortized cost and estimated fair values of investments at December 31 are as follows:

	2013			
	COST OR AMORTIZED COST	**GROSS UNREALIZED GAINS**	**GROSS UNREALIZED LOSSES**	**ESTIMATED FAIR VALUE**
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 16,500**	**$ 1,093**	**$ (435)**	**$ 17,158**
Obligations of states and political subdivisions	**50,850**	**2,465**	**(990)**	**52,325**
Corporate securities	**28,700**	**1,337**	**(174)**	**29,863**
Mortgage-backed and asset-backed securities	**47,213**	**1,699**	**(794)**	**48,118**
Total fixed income securities	**143,263**	**6,594**	**(2,393)**	**147,464**
Preferred stocks	**2,277**	**633**	**(433)**	**2,477**
Common stocks	**151,838**	**92,585**	**(1,247)**	**243,176**
Other invested assets	**4,456**	**131**	**—**	**4,587**
Total	**$301,834**	**$99,943**	**$(4,073)**	**$397,704**

	2012			
	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 9,349	$ 1,844	$ (18)	$ 11,175
Obligations of states and political subdivisions	50,604	4,339	(152)	54,791
Corporate securities	34,158	2,897	(81)	36,974
Mortgage-backed and asset-backed securities	39,097	3,633	(402)	42,328
Total fixed income securities	133,208	12,713	(653)	145,268
Preferred stocks	2,277	75	(281)	2,071
Common stocks	139,739	51,698	(2,076)	189,361
Other invested assets	4,109	—	(235)	3,874
Total	$279,333	$64,486	$(3,245)	$340,574

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

The amortized cost and estimated fair value of fixed income securities and convertible bonds at December 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or repayment penalties.

	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less	**$ 6,083**	**$ 6,302**
Due after one year through five years	**24,748**	**26,016**
Due after five years through ten years	**42,074**	**44,159**
Due after ten years	**32,513**	**33,493**
	105,418	**109,970**
Mortgage-backed and asset-backed securities	**47,213**	**48,118**
Total	**$152,631**	**$158,088**

Net realized gains on investments consisted of the following:

	2013	2012
Realized gains on investments	**$8,469**	$16,661
Realized losses on investments	**(1,818)**	(6,667)
Change in fair value of convertible securities	**617**	980
Foreign currency transaction gains	**2,842**	843
Foreign currency transaction losses	**(418)**	(1,042)
Other-than-temporary impairment charges	**(97)**	(273)
	$9,595	$10,502

All of the other-than-temporary impairment charges noted above were related to mortgage-backed and asset-backed securities.

The Company had on deposit, as required by various state regulatory agencies, fixed income securities with a fair value of $3,783 and $4,074 and cash equivalents of $152 and $148 at December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the Company's investment portfolio had gross unrealized losses of $4,073 and $3,245, respectively. For securities that were in an unrealized loss position as of December 31, the lengths of time that such securities have been in an unrealized loss position, as measured by their year-end fair values, are as follows:

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2013:						
Fixed income securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 6,117**	**$ (283)**	**$ (98)**	**$ (152)**	**$ 6,019**	**$ (435)**
Obligations of states and political subdivisions	**12,170**	**(478)**	**2,674**	**(512)**	**14,844**	**(990)**
Corporate securities	**8,471**	**(157)**	**529**	**(17)**	**9,000**	**(174)**
Mortgage-backed and asset-backed securities	**18,478**	**(746)**	**423**	**(48)**	**18,901**	**(794)**
Total fixed income securities	**45,236**	**(1,664)**	**3,528**	**(729)**	**48,764**	**(2,393)**
Preferred stocks	**—**	**—**	**1,767**	**(433)**	**1,767**	**(433)**
Common stocks	**9,787**	**(973)**	**1,311**	**(274)**	**11,098**	**(1,247)**
Other invested assets	**—**	**—**	**4,587**	**—**	**4,587**	**—**
Total	**$55,023**	**$(2,637)**	**$11,193**	**$(1,436)**	**$66,216**	**$(4,073)**
December 31, 2012:						
Fixed income securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 745	$ (18)	$ —	$ —	$ 745	$ (18)
Obligations of states and political subdivisions	285	(1)	2,614	(151)	2,899	(152)
Corporate securities	—	—	899	(81)	899	(81)
Mortgage-backed and asset-backed securities	326	(83)	837	(319)	1,163	(402)
Total fixed income securities	1,356	(102)	4,350	(551)	5,706	(653)
Preferred stocks	—	—	1,919	(281)	1,919	(281)
Common stocks	17,199	(947)	2,916	(1,129)	20,115	(2,076)
Other invested assets	3,874	(235)	—	—	3,874	(235)
Total	$22,429	$(1,284)	$9,185	$(1,961)	$31,614	$(3,245)

There were 81 and 12 fixed income securities in an unrealized loss position as of December 31, 2013 and 2012, respectively. In management's opinion, the unrealized losses on fixed income securities reflect general market conditions. Management believes that the unrealized losses are temporary. The Company does not intend to sell these securities until maturity or market recovery, and it is more likely than not the Company has the ability to hold these securities until maturity or market recovery. Management performed cash flow testing on its mortgage-backed and asset-backed securities and based on this cash flow testing all principal of these securities was deemed to be recoverable at December 31, 2013. There were 61 and 34 common and preferred stocks in an unrealized loss position as of December 31, 2013 and 2012, respectively. Management has the intent and ability to hold these common and preferred stocks to market price recovery of original cost.

Total other-than-temporary impairments for mortgage-backed and asset-backed securities for the years ended December 31, 2013 and 2012 were $97 and $273, respectively.

Note 3: Fair Value Measurements

The Company measures fair value by categorizing assets and liabilities based upon the level of judgment associated with the inputs to measure their fair value. These levels are:

Level 1 - Inputs that are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 - Inputs other than quoted process included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 - Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The fair values for securities included in Level 1 are based on observable inputs either directly or indirectly, such as quoted prices in markets that are active, quoted prices for similar securities at the measurement date; quoted prices in markets that are not active; or other inputs that are observable. The Company classifies its investment in U.S. Treasury securities and common stocks as Level 1 assets.

The fair values for securities included in Level 2 are based upon fair values generated by external pricing models that vary by asset class and incorporate available trade, bid and other market information, as well as price quotes from other independent market participants which reflect fair value of that particular security. The Company considers its investments in U.S. government agency bonds, municipal bonds, corporate bonds, mortgage-backed and asset-backed securities, and one convertible bond as Level 2 assets.

In classifying the mortgage-backed and asset-backed securities owned as Level 2 securities, the Company considers the inputs as follows:

a. Quoted prices for similar assets or liabilities in active markets.

b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the assets or liabilities, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets) or in which little information is released publicly (for example, a principal-to-principal market).

The Company's determination of the fair value of its interest rate swap as Level 2 is calculated using a discounted cash flow analysis based on the terms of the swap contract and the observable interest rate curve.

Securities included in Level 3 are securities where inputs are based solely on a broker price or unobservable market data. The Company classifies its investment in other invested assets (limited partnership interest), convertible bonds, convertible preferred stocks, and a closely held equity security as Level 3 assets.

The fair value of the other invested assets (limited partnership interest) is determined by the investment company and is based upon fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information; however, in some instances current valuation information, for illiquid securities or securities in markets that are not active, may not be available from any third party source, or fund management may conclude that the valuations available from third party sources are not reliable. In these instances fund management may perform model-based analytical valuations that may be used to value these investments. The Company uses net asset value (NAV) per share (or its equivalent), as a practical expedient to estimate the fair value of its other invested assets, if NAV is calculated consistent with accounting principles generally accepted in the United States of America and sale of the investment at an amount different than NAV is not probable. The Company considered the nature, risk, and probability for the sale of the investment (at amounts different from NAV). The Company's considerations included (but were not limited to):

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

- Unfunded commitments (for additional investment)
- Redemption eligibility and frequency
- Required redemption notice

Based upon these considerations, the Company concluded that NAV for the other invested assets is calculated consistent with accounting principles generally accepted in the United States of America.

Investments carried at NAV may be adjusted based upon management's assumptions; therefore, these investments are classified as Level 3 assets. Any withdrawal, transfer, or sale of the limited partnership interest is subject to the general partner's discretion. At December 31, 2013 and 2012, the fair value using net asset value and unfunded commitments for the Company's other invested assets were $4,587 and $3,874, respectively.

The following table summarizes fair value measurements by level within the fair value hierarchy at December 31, 2013 and 2012 for assets and liabilities measured at fair value on a recurring basis:

	2013			
		FAIR VALUE MEASUREMENTS USING:		
DESCRIPTION	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets				
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 17,158**	**$ 13,666**	**$ 3,492**	**$ —**
Obligations of states and political subdivisions	**52,325**	**—**	**52,019**	**306**
Corporate securities	**29,863**	**—**	**29,863**	**—**
Mortgage-backed and asset-backed securities	**48,118**	**—**	**48,118**	**—**
Total fixed income securities	**147,464**	**13,666**	**133,492**	**306**
Convertible bonds	**10,624**	**—**	**376**	**10,248**
Preferred stocks	**2,477**	**—**	**1,928**	**549**
Convertible preferred stocks	**1,564**	**—**	**—**	**1,564**
Common stocks	**243,176**	**243,093**	**—**	**83**
Other invested assets	**4,587**	**—**	**—**	**4,587**
	$409,892	**$256,759**	**$135,796**	**$17,337**
Liabilities				
Interest rate swap payable	**$ 661**	**$ —**	**$ 661**	**$ —**

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

DESCRIPTION	2012 TOTAL	FAIR VALUE MEASUREMENTS USING: QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets				
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 11,175	$ 7,205	$ 3,970	$ —
Obligations of states and political subdivisions	54,791	—	54,791	—
Corporate securities	36,974	—	36,974	—
Mortgage-backed and asset-backed securities	42,328	—	42,328	—
Total fixed income securities	145,268	7,205	138,063	—
Convertible bonds	8,162	—	458	7,704
Preferred stocks	2,071	—	1,636	435
Convertible preferred stocks	1,559	—	—	1,559
Common stocks	189,361	189,285	—	76
Other invested assets	3,874	—	—	3,874
	$ 350,295	$ 196,490	$ 140,157	$ 13,648
Liabilities				
Interest rate swap payable	$ 1,236	$ —	$ 1,236	$ —

For fair value measurements using Level 3 inputs, a reconciliation of the beginning and ending balances is as follows at December 31:

2013	FIXED INCOME SECURITIES	CONVERTIBLE BONDS	PREFERRED STOCKS	CONVERTIBLE PREFERRED STOCKS	COMMON STOCKS	OTHER INVESTED ASSETS	TOTAL
Balance, January 1, 2013	**$ —**	**$ 7,704**	**$435**	**$1,559**	**$76**	**$3,874**	**$13,648**
Purchases	**306**	**4,484**	**—**	**130**	**—**	**764**	**5,684**
Sales	**—**	**(3,515)**	**—**	**(337)**	**—**	**—**	**(3,852)**
Distributions	**—**	**—**	**—**	**—**	**—**	**(417)**	**(417)**
Transfers in from Level 2	**—**	**457**	**—**	**—**	**—**	**—**	**457**
Transfers out to Level 2	**—**	**(222)**	**—**	**—**	**—**	**—**	**(222)**
Total gains:							
Included in earnings (reported in net realized gains on investments)	**—**	**1,340**	**—**	**212**	**—**	**—**	**1,552**
Included in other comprehensive income	**—**	**—**	**114**	**—**	**7**	**366**	**487**
Balance, December 31, 2013	**$306**	**$10,248**	**$549**	**$1,564**	**$83**	**$4,587**	**$ 17,337**

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

	2012						
	FIXED INCOME SECURITIES	CONVERTIBLE BONDS	PREFERRED STOCKS	CONVERTIBLE PREFERRED STOCKS	COMMON STOCKS	OTHER INVESTED ASSETS	TOTAL
Balance, January 1, 2012	$—	$7,052	$351	$1,364	$76	$ —	$ 8,843
Purchases	—	2,249	—	86	—	4,138	6,473
Sales	—	(2,325)	—	—	—	—	(2,325)
Distributions	—	—	—	—	—	(29)	(29)
Transfers in from Level 2	—	859	—	—	—	—	859
Transfers out to Level 2	—	—	—	—	—	—	—
Total gains (losses):							
Included in earnings (reported in net realized gains on investments)	—	(131)	84	109	—	—	62
Included in other comprehensive income	—	—	—	—	—	(235)	(235)
Balance, December 31, 2012	$—	$7,704	$435	$1,559	$76	$3,874	$13,648

The Company's policy is to transfer assets and liabilities into and out of Level 3 at the beginning of the reporting period when the circumstance is such that significant inputs can or cannot be corroborated with market observable data.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2013 and 2012. The fair value of a financial instrument is the amount that would be paid to transfer an asset or a liability in an orderly transaction between market participants at the measurement date.

	2013		2012	
	CARRYING VALUE	**FAIR VALUE**	CARRYING VALUE	FAIR VALUE
Financial assets:				
Insurance Group				
Investments:				
Fixed income securities	**$147,464**	**$147,464**	$145,268	$145,268
Convertible bonds	**10,624**	**10,624**	8,162	8,162
Preferred stocks	**2,477**	**2,477**	2,071	2,071
Convertible preferred stocks	**1,564**	**1,564**	1,559	1,559
Common stocks	**243,176**	**243,176**	189,361	189,361
Other invested assets	**4,587**	**4,587**	3,874	3,874
Cash and cash equivalents	**9,039**	**9,039**	15,358	15,358
Other receivables	**675**	**675**	312	312
Accrued income from investments	**1,595**	**1,595**	1,510	1,510
Security Group:				
Cash and cash equivalents	**1,236**	**1,236**	20	20
Trade accounts receivable	**23,013**	**23,013**	17,491	17,491

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

	2013		2012	
	CARRYING VALUE	**FAIR VALUE**	CARRYING VALUE	FAIR VALUE
Financial liabilities:				
Security Group:				
Accounts payable and accrued expenses	**22,054**	**22,054**	22,452	22,452
Interest rate swap payable	**661**	**661**	1,236	1,236
Long-term debt and current maturities thereof	**$162,718**	**$162,718**	$137,136	$137,136

The carrying amounts shown in the table are included in the consolidated balance sheet under the indicated captions.

Cash and cash equivalents, premiums receivable, other receivables, trade accounts receivable, accrued income from investments, accounts payable, and accrued expenses - the carrying amounts at face value approximate fair value because of the short maturity of these.

Interest rate swap payable - Vector's determination of the fair value of its interest rate swap is calculated using a discounted cash flow analysis based on the terms of the swap contract and the observable interest rate curve (Level 2 inputs).

Long-term debt - The fair value of long-term debt is estimated by discounting the future cash flows of each issuance at rates that the Company could obtain similar debt instruments of comparable maturities (Level 2 inputs).

The fair values of the financial instruments shown in the above table as of December 31, 2013 and 2012 represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances.

The fair value of long-term debt is estimated by discounting the future cash flows of each issuance at rates that the Company could obtain similar debt instruments of comparable maturities.

Vector has assets and liabilities that are required to be recorded at fair value on a nonrecurring basis when certain circumstances occur. In the case of intangible assets, upon the occurrence of an event or change in circumstance that may indicate that the fair value of a customer service agreement is less than its carrying value, Vector determines the fair value of the specific customer service agreement and record an impairment for the amount by which the carrying value exceeds the customer service agreement's fair value. The estimate of fair value of a customer service agreement is determined using Level 3 inputs, primarily an analysis of future expected cash flows. Vector recorded impairment expense, through amortization expense, on their customer service agreements of $2,538 and $1,699 during 2013 and 2012, respectively.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

Note 4: Liability for Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	2013	2012
Balance as of January 1	**$169,681**	$105,280
Less reinsurance recoverable	**(92,322)**	(25,153)
Net balance at January 1	**77,359**	80,127
Incurred related to:		
Current year	**81,216**	97,505
Prior years	**(9,707)**	(7,576)
Total incurred	**71,509**	89,929
Paid related to:		
Current year	**47,706**	63,324
Prior years	**27,100**	29,373
Total paid	**74,806**	92,697
Net balance as of December 31	**74,062**	77,359
Plus reinsurance recoverable	**27,304**	92,322
Balance at December 31	**$ 101,366**	$169,681

Due to changes in estimates of insured events in prior years, the Insurance Group decreased the liability for unpaid losses and loss adjustment expenses relative to prior accident years in 2013 and 2012 by $9,707 and $7,576, respectively. The decrease in 2013 is due to better than expected development of losses incurred, primarily in the homeowners and other liability lines of business, and mainly related to accident years 2011 and 2012. The decrease in 2012 is due to better than expected development of losses incurred, primarily in liability coverages, and mainly related to accident years 2008 through 2011.

Note 5: Reinsurance

The Insurance Group purchases quota share and per risk and catastrophic excess of loss reinsurance. The Insurance Group remains contingently liable in the event that the reinsurer is unable to meet its obligations assumed under the reinsurance agreements.

The Insurance Group assumed premiums earned in 2013 and 2012 of $35 and $-0-, respectively, and ceded premiums earned in 2013 and 2012 of $14,686 and $18,017, respectively. Losses and loss adjustment expenses are net of reinsurance recoveries of $22,463 and $91,561 in 2013 and 2012, respectively. Amounts paid to reinsurers related to the unexpired portion of reinsured contracts were $2,018 and $2,019 as of December 31, 2013 and 2012, respectively.

The Insurance Group had no significant concentration in risk from any one unaffiliated reinsurer as of December 31, 2013 and 2012.

Note 6: Dividends from Subsidiaries and Statutory Financial Information

The Contributionship and its subsidiaries prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the Pennsylvania Insurance Department.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

The Commonwealth of Pennsylvania requires that insurance companies domiciled in the Commonwealth of Pennsylvania prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners *Accounting Practices and Procedures* manual, subject to any deviations prescribed or permitted by the Commonwealth of Pennsylvania Insurance Commissioner. Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future.

The Contributionship and its subsidiaries are restricted by law as to the amount of dividends they may pay without the approval of regulatory authorities. During 2014, the maximum amount of dividends that can be paid by the Contributionship without such approval is $23,484. The Contributionship paid no ordinary dividends during 2013 and 2012.

The surplus of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is $234,838 and $187,483 at December 31, 2013 and 2012, respectively. The net income of the Contributionship and its subsidiaries, as determined in accordance with statutory accounting practices, is $20,132 and $1,974 for the years ended December 31, 2013 and 2012, respectively.

Risk-based capital is designed to measure the acceptable amount of capital an insurer should have based on the inherent risks of the insurer's business. Insurers failing to meet adequate capital levels may be subject to insurance department scrutiny and ultimately rehabilitation or liquidation. As of December 31, 2013 and 2012, the Contributionship and its subsidiaries maintained statutory-basis surplus in excess of the minimum prescribed risk-based capital requirements. As of December 31, 2013 and 2012, the Contributionship and its subsidiaries were in compliance with the minimum capital requirements under Commonwealth of Pennsylvania regulations.

Note 7: Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31 are as follows:

	2013	2012
Balance as of January 1	**$ 5,044**	$5,044
Goodwill acquired during the year	**41,376**	—
Amortization	**(2,056)**	—
Balance as of December 31	**$44,364**	$5,044

The following summarizes the gross carrying amount and accumulated amortization of intangible assets as of December 31:

	2013		2012	
	GROSS CARRYING AMOUNT	**ACCUMULATED AMORTIZATION**	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Customer service agreements	**$268,386**	**$ 110,179**	$298,977	$131,303
Customer relationships	**10,460**	**302**	—	—
Covenants not to compete	**857**	**224**	243	138
Covenants not to solicit	**2,084**	**98**	—	—
Technology	**2,740**	**205**	—	—
Trade Names	**669**	**50**	—	—
Other	**342**	**342**	562	505
Total	**$285,538**	**$111,400**	$299,782	$131,946

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

The estimated amortization expense for goodwill and other intangible assets for each of the five succeeding fiscal years is as follows:

2014	$32,021
2015	30,920
2016	29,941
2017	28,640
2018	26,424

Note 8: Acquisitions

Industry Retail Group

On August 15, 2013, Vector, through its VIS subsidiary, acquired selected assets of IRG. IRG provides virtual managed network services. As a result of the acquisition, Vector will begin cross-selling virtual managed network services to existing customers. Goodwill arising from the acquisition consists largely of Vector's specific synergies related to cross-selling. The results of the IRG acquisition have been included in the consolidated financial statements since the acquisition date. The acquisition was accounted for as a business combination.

The following table summarizes the consideration paid for the IRG acquisition and the amounts of estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

Consideration:	
Cash	$27,737
Purchase holdback	3,227
Redeemable noncontrolling interest	25,710
Fair value of total consideration transferred	$56,674
Recognized amounts of identifiable acquired and liabilities assumed:	
Current assets	$ 853
Intangible assets	16,561
Current liabilities	(2,116)
Total identifiable net assets assumed	15,298
Goodwill	41,376
Total	$56,674

Of the acquired intangible assets, $10,460 was assigned to customer relationships, which are amortized over 13 years, $2,740 was assigned to technology, which is amortized over 5 years, $2,084 was assigned to covenants not to solicit, which are amortized over 8 years, $669 was assigned to trade names, which are amortized over 5 years, and $608 was assigned to covenants not to compete, which are amortized over 5 years.

Funding for the acquisition consisted primarily of $27,737 in borrowings on Vector's existing revolving credit facility, a purchase holdback with a fair value at the acquisition date of $3,227, and issuance of 30% of the outstanding membership units of VIS to IRG (redeemable non-controlling interest) with a fair value at the acquisition date of $25,710. The payment of the purchase holdback is to be made in 24 monthly installments of $163 beginning in September 2014, and is contingent upon average monthly recurring charges billed to customers during the twelve months subsequent to the acquisition date. The redeemable noncontrolling interest is also contingent upon average monthly recurring charges billed to customers during the twelve months subsequent to the acquisition date.

Included within Vector's membership units in VIS is a call option to purchase IRG's membership units based on a multiple of trailing twelve-month gross margin at the exercise date. Included within IRG's membership units in VIS is a put option to sell IRG's membership units based on a multiple of trailing twelve-month gross margin at the exercise date. The put/call may be exercised for a ten-day period starting on the third anniversary of the closing date and every anniversary thereafter. Vector determined that the put/call option is embedded within the redeemable noncontrolling interest shares that are subject to the put/call option. Therefore, the put option is accounted for within redeemable noncontrolling interest in the consolidated balance sheets.

Vector initially measured the redeemable noncontrolling interest at fair value. The acquisition date fair value of IRG's redeemable noncontrolling interest in VIS was estimated by applying an income approach. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement. Key assumptions include a discount rate of 22.3% and the projected twelve-month trailing gross margin on the third anniversary of the acquisition date.

Subsequent measurement of the redeemable noncontrolling interest will be the greater of either the adjusted carrying value subject to a floor of initial measurement or the redemption value. As of December 31, 2013, adjusted carrying value exceeded redemption value. In 2013, net income (loss) of $3,829 and ($313) was attributable to Vector Security Holdings, Inc. and subsidiaries and to the redeemable noncontrolling interest, respectively. As the allocation of net loss to the redeemable noncontrolling interest resulted in an adjusted carrying value below initial measurement, an adjustment to additional paid in capital of $313 was recorded by Vector with an offset to the redeemable noncontrolling interest.

American Alert Corp and American Alert Monitoring Corp
On May 15, 2012, Vector acquired selected assets of American Alert Corp and American Alert Monitoring Corp (American) located in Geneva, Ohio for a purchase price of $5,406. American provides residential and commercial security services. The results of American have been included in the consolidated financial statements since the acquisition date. The assets acquired represent approximately 5,000 customer accounts primarily in Geneva, Ohio. The acquisition was accounted for as a business combination.

The aggregate purchase price was $5,406, which includes $5,340 of intangible assets and $226 of tangible and current assets, net of $160 in current liabilities. Of the $5,340 of intangible assets, $5,338 was assigned to customer service agreements, which are amortized over 13 years, and $2 was assigned to covenants not to compete, which are amortized over 5 years.

Funding for the acquisition consisted primarily of $5,314 in borrowings on Vector's existing revolving credit facility and $92 in the form of a purchase holdback. The payment of the purchase holdback is contingent upon attrition of accounts over the first six months with the payment to be made in January 2013. Any adjustment to the purchase price will result in a reduction to the intangible asset (customer service agreements) with an offsetting reduction to purchase holdbacks.

In 2013, Vector recorded a purchase price reduction of $67 due to customer account attrition within the first six months, as provided in the asset purchase agreement. The adjustment was recorded as a $67 reduction to intangible assets (customer service agreement) with an offsetting reduction to purchase holdbacks. Vector also paid $25 to the sellers, which represented the final payment of the purchase holdback for the entire acquisition.

Hammond Security Systems
On December 31, 2010, Vector acquired selected assets of Hammond Security Systems (Hammond) located in Poughkeepsie, New York for a purchase price of $8,817. Hammond provides residential and commercial security services. The results of Hammond have been included in the consolidated financial statements since the acquisition date. The assets acquired represent approximately 5,500 customer accounts primarily in Poughkeepsie, New York. The acquisition was accounted for as a business combination.

The aggregate purchase price was $8,817, which included $9,719 of intangible assets and $362 of tangible and current assets, net of $1,264 in current liabilities. Of the $9,719 of intangible assets, $9,619 was assigned to customer service agreements, which are amortized over 13 years, and $100 was assigned to covenants not to compete, which are amortized over 5 years.

Funding for the acquisition consisted entirely of an additional equity contribution from the Parent with $7,935 paid to the seller and $882 paid to a joint escrow between Vector and Hammond. The payment of the escrow to Hammond is contingent upon attrition of accounts over the first year with the payment to be made in January 2012. In the year of acquisition, Vector expensed the deal costs associated with this acquisition of $437.

In 2011, Vector acquired additional customer accounts (Supplemental Close) for an additional purchase price of $654.

In 2012, Vector recorded a purchase price reduction of $307 due to customer account attrition within the first year, as provided in the asset purchase agreement. The adjustment was recorded as a $307 reduction to intangible assets (customer service agreement) offset by the receipt of cash of $153 and a charge to amortization expense of $154.

Certified Security Systems, LLC

On November 30, 2009, Vector acquired selected assets of Certified Security Systems, LLC (Certified) located in Jacksonville, Florida for a purchase price of $16,023. Certified provides residential and commercial security services. The results of Certified have been included in the consolidated financial statements since the acquisition date. The assets acquired represent approximately 17,000 customer accounts primarily in Jacksonville, Ft. Lauderdale, and Tallahassee, Florida. The acquisition was accounted for as a business combination.

The aggregate purchase price was $16,023, which included $17,297 of intangible assets and $382 of tangible and current assets, net of $1,656 in current liabilities. Of the $17,297 of intangible assets, $17,247 was assigned to customer service agreements, which are amortized over 13 years, and $50 was assigned to covenants not to compete, which are amortized over 5 years.

Funding for the acquisition consisted primarily of $15,423 in borrowings on the Company's existing revolving credit facility and $600 in the form of a purchase holdback. The payment of the purchase holdback was contingent upon attrition of accounts over the first year with the payment to be made in the first quarter of 2012. In the year of acquisition, Vector expensed the deal costs associated with this acquisition of $559. Additionally, for four years following the closing of the transaction additional qualified monitoring contracts generated directly by the sellers will be purchased by the Company for a specified multiple of monthly recurring income. The sellers are under no obligation to generate any additional monitoring contracts under this provision. Vector will record any such future payments as additional customer service agreement intangible assets when such assets are acquired. On February 1, 2010, Vector acquired additional customer accounts (Supplemental Close) for an additional purchase price of $1,309.

In 2011, Vector recorded a purchase price reduction of $1,984 due to customer account attrition within the first year as provided in the asset purchase agreement. The adjustment was recorded as a reduction to intangible assets (customer service agreements) with a $600 reduction to purchase holdbacks and a $107 reimbursement for unearned revenue. Vector acquired additional customer accounts for an additional purchase price of $786 with the payment applied against the purchase price reduction. Vector received a signed amendment to the asset purchase agreement that requires the sellers to repay the remaining $491 in three equal annual installments.

In 2012, Vector acquired additional customer accounts for a purchase price of $1,472 of which $1,144 was paid to the sellers and $328 was applied to the amount due from the sellers.

In 2013, Vector acquired additional customer accounts for a purchase price of $145. The remaining $163 due to Vector's related to the 2011 purchase price reduction will be paid in 2014 and is included in prepaid expenses and other current assets in the consolidated balance sheet as of December 31, 2013.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

Others

Vector acquired selected accounts from various authorized dealers located in various states. The total purchase price for these accounts was $19,421 and $38,355 in 2013 and 2012, respectively. The revenue and associated costs from the monitoring contracts acquired in these transactions have been included in the consolidated financial statements since the acquisition dates. The assets acquired represent approximately 14,000 accounts in 2013 and 24,000 accounts in 2012, and are primarily in Massachusetts, Pennsylvania, Maryland, Virginia, North Carolina, and South Carolina. The entire aggregate purchase price was assigned to customer service agreements, which are amortized over 10 years. Substantially all accounts are subject to a one-year holdback period in an amount equal to approximately 10% of the purchase price.

Note 9: Borrowings and Credit Arrangements

Long-term debt as of December 31 consists of the following:

	2013	2012
Revolving credit facility - variable interest rate (2% as of December 31, 2013 and 2012)	**$159,684**	$134,702
Capital leases - bearing interest at rates ranging from 3% to 7% as of December 31, 2013 and 2012	**3,034**	2,434
	162,718	137,136
Less current maturities	**(2,110)**	(2,914)
	$160,608	$134,222

During 2013, Vector refinanced its existing debt by obtaining a $250,000 revolving credit facility that permits Vector to borrow, on a revolving basis, through July 31, 2018. Interest on the entire $250,000 credit facility is computed at LIBOR plus a scaling interest rate premium based upon a total debt to cash flow ratio. Borrowings under this loan agreement are collateralized by Vector's assets, including the customer service agreements.

On August 1, 2012, Vector entered into a 47-month interest rate swap agreement with a notional amount of $90,000. This derivative was designated as a cash flow hedge and is recognized on the consolidated balance sheet at its fair value. Changes in fair value are recorded in other comprehensive income, net of taxes. Under the terms of the swap agreement, Vector receives variable-rate interest payments based on 30-day LIBOR and makes fixed-rate payments of 0.835%. The fair value of the swap as of December 31, 2013 and 2012 was approximately $661 and $1,236, respectively, and was recorded as a liability in the consolidated financial statements. For the year ended December 31, 2013, $588 was reclassified from accumulated other comprehensive income into interest expense.

Vector must pay a quarterly commitment fee of approximately 0.3% on the available unused portion of the credit facility. As of December 31, 2013, the available unused portion of the credit facility was $87,568.

Under Vector's revolving credit facility, approximately $2,748 and $2,838 were committed for outstanding letters of credit as of December 31, 2013 and 2012, respectively. There were no amounts drawn on the letters of credit as of December 31, 2013 and 2012.

The credit agreement contains covenants with respect to, among other things, the maintenance of specified financial ratios. These provisions, if violated, could terminate the agreement and cause an acceleration of the maturity date. As of December 31, 2013 and 2012, the Company was in compliance with all such covenants.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

The aggregate maturities of debt principal for Vector as of December 31, 2013 are as follows:

2014	$ 2,110
2015	1,020
2016	552
2017	36
2018	159,000
Total	$162,718

The estimated fair value of Vector's long-term debt approximated the carrying value as of December 31, 2013.

Note 10: Leases

Vector has various capital leases for equipment (Note 9) that expire at various dates during the next 40 months. Amortization of assets held under capital leases is included with depreciation expense.

Vector leases certain equipment and office space under various operating leases. The future minimum rental commitments for all such noncancelable leases as of December 31, 2013 are as follows:

2014	$ 3,501
2015	3,146
2016	2,599
2017	1,960
2018	1,474
Thereafter	6,034
Total	$18,714

Rent expense for leased equipment and office space totaled $4,532 and $3,916 for the years ended December 31, 2013 and 2012, respectively.

Note 11: Income Taxes

Income tax expense for the years ended December 31 consists of:

2013			2012		
CURRENT	**DEFERRED**	**TOTAL**	CURRENT	DEFERRED	TOTAL
$14,032	**$(2,583)**	**$11,449**	$5,043	$(773)	$4,270

The expected income tax expense for the years ended December 31 differed from the amounts computed by applying the U.S. federal income tax rate of 35% as follows:

	2013	2012
Computed "expected" income tax expense	**$12,196**	$5,633
Increase (decrease) in income taxes resulting from:		
Tax-exempt interest	**(588)**	(606)
Dividends received deduction	**(892)**	(989)
State taxes, net of federal benefit	**313**	734
Provision to return adjustments	**47**	(638)
Other, net	**373**	136
	$11,449	$4,270

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows:

	2013	2012
Insurance Group:		
Deferred income tax asset components:		
Unearned premiums and advance premiums	**$ 5,026**	$ 4,784
Unpaid losses and loss adjustment expenses	**1,858**	2,273
Other-than-temporary impairments	**1,501**	1,711
Accrued pension liability	**714**	1,313
Deferred compensation	**807**	603
Other	**217**	353
Total deferred income tax asset	**10,123**	11,037
Deferred income tax liability components:		
Deferred acquisition costs	**(4,598)**	(4,663)
Unrealized investment gains	**(33,555)**	(21,434)
Unrealized investment gains on convertible securities	**(559)**	(343)
Other	**(1,274)**	(965)
Total deferred income tax liability	**(39,986)**	(27,405)
Net deferred income tax liability	**$(29,863)**	$(16,368)
Security Group:		
Deferred income tax asset components:		
Accrued expenses	**$ 2,682**	$ 2,569
Deferred rent	**64**	22
Inventories and accounts receivable	**1,154**	1,295
Investment in VIS LLC	**491**	—
Interest rate swap	**231**	433
Intangible assets	**18,940**	16,716
Total deferred tax asset	**23,562**	21,035
Deferred income tax liability components:		
Unbilled revenue	**(4,516)**	(5,467)
Property and equipment	**(4,485)**	(4,165)
Total deferred income tax liability	**(9,001)**	(9,632)
Net deferred income tax asset	**$14,561**	$11,403

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The amount of the deferred income tax asset considered realizable; however, could be reduced in the near term if estimates of future taxable income or statutory tax rates are reduced during the carryforward period. Management has determined that it was not required to establish a valuation allowance against the net deferred income tax asset.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

Vector has no remaining state net operating loss carryforwards, as they have been utilized in offsetting state taxable income as of December 31, 2013.

The Company has no unrecognized tax benefits as of December 31, 2013.

There are no tax-related interest or penalties accrued on the consolidated balance sheet at December 31, 2013 and 2012, nor has any tax related interest or penalties been recognized in the consolidated statement of operations for the years ended December 31, 2013 and 2012.

The Company's federal income tax returns for tax years ended December 31, 2008 and prior are closed to examination.

12: Employee Benefit Plans

Defined Benefit Pension Plan

The Insurance Group has a defined benefit pension plan (Plan) covering all employees meeting eligibility requirements. It is the Insurance Group's policy to fund pension costs in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. The Insurance Group expects to pay contributions to the Plan during 2014 of $271. The Insurance Group made $120 and $358 contributions to the Plan in 2013 and 2012, respectively.

The components of the net periodic benefit cost are as follows:

	2013	2012
Interest cost	**$294**	$319
Expected return on plan assets	**(391)**	(381)
Amortization of net gain	**122**	114
Total net periodic benefit cost	**$ 25**	$ 52

On December 13, 2006, the Board of Directors of the Company voted to freeze the benefits of the participants in the Plan effective April 1, 2007.

The Insurance Group recognizes the overfunded or underfunded status of its defined benefit pension plan as an asset (other assets) or liability (other liabilities) in the consolidated balance sheet. Changes in the funded status during any given period of time are recognized as a change in other comprehensive income.

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

The table set forth below reconciles the defined benefit pension plan's funded status reconciled with the amount in the consolidated balance sheet as of December 31:

	2013	2012
Benefit obligation as of January 1	**$8,593**	$ 8,139
Interest cost	**294**	319
Distributions	**(452)**	(404)
Change due to change in assumptions and experience	**(760)**	539
Benefit obligation as of December 31	**7,675**	8,593
Plan assets as of January 1	**5,791**	5,382
Employer contributions	**120**	358
Actual return on assets	**1,220**	455
Distributions	**(452)**	(404)
Plan assets as of December 31	**6,679**	5,791
Funded status	**$ (996)**	$(2,802)

The net actuarial loss recognized in accumulated other comprehensive income, pre-tax in the consolidated balance sheet as of December 31 is as follows:

2013	2012
$2,040	$3,751

Assumptions used in determining the actuarial present value of the projected benefit obligation were as follows at December 31:

	2013	2012
Weighted-average discount rate	**4.44%**	3.50%
Expected long-term rate of return on assets	**7.00**	7.00
Rate of increase in compensation levels	**N/A**	N/A

The expected long-term rate of return on assets reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The selected rate considers the historical and expected future investment trends of the present and expected assets in the Plan.

There were $452 and $404 of benefit payments made under the Plan in 2013 and 2012, respectively. Expected payments under the Plan in future years are as follows at December 31:

2014	$ 478
2015	490
2016	501
2017	490
2018	483
2019 - 2023	$2,519

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

The Plan had approximately 74% and 71% of its investments invested in common stocks, 18% and 19% invested in corporate bonds and the remainder invested in U.S. Government and mortgage-backed securities and cash and cash equivalents during 2013 and 2012, respectively.

The following table provides the fair value measurements of the Plan assets by level within the fair value hierarchy at December 31. These assets are measured at fair value on a recurring basis.

	2013			
		FAIR VALUE MEASUREMENTS USING:		
DESCRIPTION	**TOTAL**	**QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)**	**SIGNIFICANT OTHER OBSERV-ABLE INPUTS (LEVEL 2)**	**SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)**
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	**$ 219**	**$ 162**	**$ 57**	**$—**
Obligations of states and political subdivisions	**100**	**—**	**100**	**—**
Corporate securities	**1,224**	**—**	**1,224**	**—**
Mortgage-backed and asset-backed securities	**82**	**—**	**82**	**—**
Total fixed income securities	**1,625**	**162**	**1,463**	**—**
Common stocks	**4,939**	**4,939**	**—**	**—**
	$6,564	**$5,101**	**$1,463**	**$—**

	2012			
		FAIR VALUE MEASUREMENTS USING:		
DESCRIPTION	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Fixed income securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 80	$ —	$ 80	$—
Obligations of states and political subdivisions	230	—	230	—
Corporate securities	1,122	—	1,122	—
Mortgage-backed and asset-backed securities	133	—	133	—
Total fixed income securities	1,565	—	1,565	—
Common stocks	4,131	4,131	—	—
	$5,696	$4,131	$1,565	$—

(DOLLARS IN THOUSANDS UNLESS OTHERWISE NOTED)

See Note 3 for additional information regarding the Company's categorization of fair value of financial instruments.

The remainder of Plan assets not included above are comprised of cash and cash equivalents.

The objective of the portfolio is to maximize the total rate of return while controlling investment risk and to ensure sufficient funding status of the Plan as actuarially determined by the total return objective.

The Plan's investment guidelines are as follows:

- No more than 5% of fixed income securities rated below "A" by either Standard and Poor's or Moody's may be purchased. None may be rated below "Baa."
- Average duration of bonds will range from 4 to 7 years, depending on the market outlook.
- Prohibitions
  a) Unincorporated businesses
  b) Private placements or direct mortgages without approval
  c) Financial guarantees

Other Benefit Plans

The Company maintains other benefit plans, including defined contribution plans (401(k)), with a cash or deferred arrangement covering all employees meeting eligibility requirements. Participants may elect to contribute, on a pretax basis, up to the Internal Revenue Service limit. The Company's matching contributions were $2,063 in 2013 and $1,922 in 2012.

The Company has a voluntary deferred compensation plan for certain employees meeting Plan eligibility requirements (the Participants) under which salaries and annual incentive awards can be deferred. The Participants deferred receipt of $634 and $457 in 2013 and 2012, respectively. The Participants have the option of being paid at termination of employment or on the fifth March 1st immediately following the date on which the annual compensation or base salary would have been payable. The Company made payments of $74 in 2013 and $82 in 2012. Amounts accrued under the plan were $2,437 and $1,749 as of December 31, 2013 and 2012, respectively.

The Company provides certain postretirement health care benefits. The following table sets forth the plan's funded status reconciled with the amount shown in the consolidated balance sheet in other liabilities as of December 31, 2013 and 2012:

	2013	2012
Benefit obligation for retirees and fully vested active plan participants	**$ 241**	$ 259
Plan assets at fair value	**—**	—
Accrued postretirement benefit cost	**$ (241)**	$ (259)

Net periodic postretirement benefit cost for 2013 and 2012 was $22 and $23, respectively.

For measurement purposes, health care cost trend increases do not affect the Company's costs due to the fact that the Company has limited the maximum dollar amount of benefits that will be paid. The weighted average discount rate used was 4.44% and 3.50% in 2013 and 2012, respectively.

Board of Directors
The Philadelphia Contributionship Mutual Holding Company

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of The Philadelphia Contributionship Mutual Holding Company and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of Vector Security Holdings, Inc., a wholly-owned subsidiary, whose statements reflect total assets constituting 39% and 33%, respectively, of consolidated total assets at December 31, 2013 and 2012, and total revenues constituting 65% and 65%, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it related to the amounts included for Vector Security Holdings, Inc. for the years ended December 31, 2013 and 2012, is based solely on the report of other such auditors. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Philadelphia Contributionship Mutual Holding Company and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
The other auditors' report on the financial statements of Vector Security Holdings, Inc. referred to the change in its accounting for goodwill due to the adoption of Accounting Standards Update 2014-02, *Accounting for Goodwill, a consensus of the Private Company Council*, as discussed in Note 1 to the consolidated financial statements. Our opinion on the consolidated financial statements is not modified with respect to this matter.

ParenteBeard LLC

Philadelphia, Pennsylvania
March 3, 2014

Directors & Officers

Directors

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President, S. M. Jenkins & Co.
General Partner, Jenkins Partners, L.P.

Bruce M. Eckert
Founder, Eastern Insurance Holdings, Inc.

Ira H. Fuchs
President, BITNET, LLC

Phoebe A. Haddon
Dean and Professor of Law, Maryland Carey Law School

Harry E. Hill, III
President & CEO, Empire Abrasive Equipment Company
President & CEO, Delaware Car Company

Craig N. Johnson
Consultant

Ernest E. Jones, Esquire
President, EJones Consulting, LLC

Andrew L. Lewis, IV
Consultant

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Chairman Emeritus, Quaker Chemical Corporation

Alfred W. Putnam, Jr.
Chairman, Drinker Biddle and Reath LLP

Christina T. Webber
Former President & CEO, The Philadelphia Contributionship
Consultant

Marna C. Whittington, Ph.D.
Retired Investment Executive

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Shaun F. O'Malley
Kaighn Smith, M.D.
Bernard C. Watson, Ph.D.
Minturn T. Wright, III, Esquire

Officers

Scott M. Jenkins, Chairman
Robert G. Whitlock, Jr., *President & CEO*
Kevin L. Tate, *Vice President, CFO and Treasurer*
Stephen A. McGowan, *Assistant Vice President, Controller and Assistant Treasurer*
Stacey M. Manzo, *Secretary*

Annual Meeting

The 262nd Annual meeting of the Members of the Company will be held on Monday, April 28, 2014, at 11:00 a.m. at the Company's office.

Fire Hats

From colorful painted stovepipe hats worn by volunteer fire-fighters in the early 19th century to the more practical leather helmets adopted by mid-century, fire hats helped identify fire-fighters on the fire ground and fostered a sense of company unity. The early stovepipe hats were made of pressed felt and painted with the symbol and name of the company on the front and often the founding date or initials of the owner on the back or top. Those companies belonging to the Fire Association often included the symbol of that organization, a hydrant surrounded by the letters F and A. These "parade hats" gave way to the more utilitarian leather helmets better geared for firefighting by 1850.

The hats seen throughout this annual report are from the collections of The Philadelphia Contributionship.

Design: Malish & Pagonis

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