UNITED FIRE & CASUALTY CO
Form 10-K
March 01, 2011

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

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FORM 10-K

R Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010
OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______
Commission File Number 001-34257

UNITED FIRE & CASUALTY COMPANY
(Exact name of registrant as specified in its charter)

Iowa	42-0644327
(State of Incorporation)	(IRS Employer Identification No.)

118 Second Avenue SE
PO Box 73909
Cedar Rapids, Iowa 52407-3909
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (319) 399-5700
Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $3.33 1/3 par value	The NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES £ NO R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES £ NO R

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES R NO £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES £ NO £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer £	Accelerated filer R	Non-accelerated filer £	Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES £ NO R

The aggregate market value of voting stock held by nonaffiliates of the registrant as of June 30, 2010, was approximately $433.0 million. For purposes of this calculation, all directors and executive officers of the registrant are considered affiliates. As of February 24, 2011, 26,195,552 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for its annual stockholders meeting to be held on May 18, 2011.

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PART I.
ITEM 1. BUSINESS

FORWARD-LOOKING INFORMATION
It is important to note that our actual results could differ materially from those projected in forward-looking statements. Information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Part I, Item 1A, “Risk Factors,” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

GENERAL DESCRIPTION
The terms “United Fire,” “United Fire Group,” “we,” “us,” or “our” refer to United Fire & Casualty Company or United Fire & Casualty Company and its consolidated subsidiaries and affiliate, as the context requires. We are engaged in the business of writing property and casualty insurance and life insurance and selling annuities. United Fire & Casualty Company was incorporated in Iowa in January 1946. Our principal executive office is located at 118 Second Avenue SE, P.O. Box 73909, Cedar Rapids, Iowa 52407-3909. Telephone: 319-399-5700.
Employees
As of December 31, 2010, we employed 640 full-time employees and 14 part-time employees. We are not a party to any collective bargaining agreement.
Reportable Segments
We report our operations in two business segments: property and casualty insurance and life insurance. Our property and casualty insurance segment is comprised of commercial lines insurance, including surety bonds, personal lines insurance and assumed insurance. Our life insurance segment is comprised of deferred and immediate annuities, universal life insurance products and traditional life insurance products. in A table reflecting revenues, net income and assets attributable to our operating segments is included in Part II, Item 8, Note 11 “Segment Information.” All intercompany balances have been eliminated in consolidation.
Our organizational structure is as follows:

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(1) United Fire is the sole shareholder of Red Oak Acquisition Corp. ("Red Oak"), a corporation formed under the laws of the Commonwealth of Pennsylvania on November 24, 2010. We formed Red Oak for the purpose of facilitating our planned acquisition of Mercer Insurance Group, Inc. ("Mercer"). In connection with our acquisition of Mercer, we expect that Red Oak will merge with and into Mercer and will then cease to exist as a separate corporation.

All of our property and casualty insurance subsidiaries, with the exception of American Indemnity Financial Corporation and Texas General Indemnity Company, are members of an intercompany reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool's capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant's own surplus level. Under such arrangements, the members share substantially all of the insurance business that is written and allocate the combined premiums, losses and expenses based on percentages defined in the arrangement.

Our life insurance segment consists solely of the operations of United Life Insurance Company.

Available Information

United Fire Group provides free and timely access to all company reports filed with the Securities and Exchange Commission ("SEC") in the Investor Relations section of our website at www.unitedfiregroup.com. Select "SEC Filings" to view the list of filings, which includes:

- Annual reports (Form 10-K)
- Quarterly reports (Form 10-Q)
- Current reports (Form 8-K)
- Beneficial ownership reports (Forms 3, 4 and 5)
- Amendments to reports filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Exchange Act.

Such reports are made available as soon as reasonably practicable after they are filed with or furnished to the SEC.

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Our Code of Ethics is also available at www.unitedfiregroup.com in the Investor Relations section. To view it, select “Corporate Governance” and then “Code of Ethics.”

Free paper copies of any materials that we file with the SEC can also be obtained by writing to Investor Relations, United Fire Group, P.O. Box 73909, Cedar Rapids, Iowa 52407-3909. In addition, you may read and copy any materials we file with the SEC at the SEC Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. For obtaining information on the operation of the Public Reference Room, call the SEC at 1-800-SEC-0330.

The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Pending Purchase of Mercer Insurance Group

On November 30, 2010, we announced our entry into a definitive agreement to acquire Mercer Insurance Group, Inc. (“Mercer”) in a transaction valued at approximately $191.0 million. The transaction is subject to customary conditions, including approval by the stockholders of Mercer and regulatory authorities. Approval of the transaction by United Fire stockholders is not required, and there is no financing condition to complete the transaction.

Mercer offers commercial and personal lines of insurance to businesses and individuals principally in New Jersey, Pennsylvania, Arizona, California, Nevada and Oregon through its insurance subsidiaries: Mercer Insurance Company, Mercer Insurance Company of New Jersey, Inc., Financial Pacific Insurance Company and Franklin Insurance Company.

There is no overlap between the agency networks of United Fire and Mercer, as Mercer primarily markets in six Western and Mid-Atlantic states in which we have no appointed property and casualty agencies. Following the closing of the transaction, we will market through approximately 1,400 independent agents in 43 states plus the District of Columbia, diversifying our exposure to weather and other catastrophe risks across our geographic markets. Also following the completion of the transaction, the combined company will be able to build on common conservative underwriting and investment cultures.

GEOGRAPHIC DISTRIBUTION

We market our products through our home office in Cedar Rapids, Iowa, and two regional locations: Westminster, Colorado, a suburb of Denver, and Galveston, Texas.

We are licensed as a property and casualty insurer in 43 states, primarily in the Midwest, West and South, plus the District of Columbia. We have 796 independent agencies representing us and our property and casualty insurance subsidiaries. In 2010, 2009 and 2008 the direct statutory premiums written for our property and casualty insurance operations were distributed as follows:

	Years Ended December 31,			% of Total		
(In Thousands)	2010	2009	2008	2010	2009	2008
Texas	$68,655	$69,900	$70,301	15.8 %	15.4 %	14.5 %
Iowa	68,373	69,515	66,926	15.7	15.3	13.8
Missouri	40,342	41,185	42,242	9.3	9.1	8.7
Louisiana	37,263	41,743	42,467	8.6	9.2	8.8
Illinois	31,330	33,465	39,606	7.2	7.4	8.2
Colorado	28,775	33,938	46,763	6.6	7.5	9.7
All Other States	160,968	164,300	175,733	36.8	36.1	36.3
Direct Premiums Written (1)	$435,706	$454,046	$484,038	100.0 %	100.0 %	100.0 %

(1) The Statutory Financial Measures section of Part II, Item 7, defines data prepared in accordance with statutory accounting practices, which is a comprehensive basis of accounting other than U.S. GAAP.

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Our life insurance subsidiary is licensed in 28 states, primarily in the Midwest and West, and is represented by 956 independent agencies. In 2010, 2009 and 2008 the direct statutory premiums written for our life insurance operations were distributed as follows:

	Years Ended December 31			% of Total		
(In Thousands)	2010	2009	2008	2010	2009	2008
Iowa	$45,336	$94,658	$83,148	32.6 %	36.8 %	41.9 %
Wisconsin	13,942	21,548	21,026	10.0	8.4	10.6
Illinois	13,629	17,720	15,020	9.8	6.9	7.6
Minnesota	11,875	23,128	15,675	8.5	9.0	7.9
Nebraska	11,317	33,103	15,813	8.1	12.9	8.0
All Other States	42,901	67,083	47,899	31.0	26.0	24.0
Direct Statutory Premium Written (1)	$139,000	$257,240	$198,581	100.0 %	100.0 %	100.0 %

(1) The Statutory Financial Measures section of Part II, Item 7, defines data prepared in accordance with statutory accounting practices, which is a comprehensive basis of accounting other than U.S. GAAP.

We staff our regional offices with underwriting, claims and marketing representatives and administrative technicians, all of whom provide support and assistance to the independent agencies. Also, home office staff technicians and specialists provide support to our subsidiaries, regional offices and independent agencies. We use management reports to monitor subsidiary and regional offices for overall results and conformity to our business policies.

COMPETITION

Property and Casualty Insurance Segment

The property and casualty insurance industry is highly competitive. We compete with numerous property and casualty insurance companies in the regional and national market, many of which are substantially larger and have considerably greater financial and other resources. Except for regulatory considerations, there are limited barriers to entry into the insurance industry. Our competitors may be domestic or foreign, as well as licensed or unlicensed. The exact number of competitors within the industry is not known. Insurers compete on the basis of reliability, financial strength and stability, ratings, underwriting consistency, service, business ethics, price, performance, capacity, policy terms and coverage conditions.

In addition, because our products are marketed exclusively through independent insurance agencies, most of which represent more than one company, we face competition within each agency. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers.

Because we rely solely on independent agencies, we offer a competitive commissions program and a rewarding profit-sharing plan as incentives for agents to place high-quality property and casualty insurance business with us. We estimate property and casualty insurance agencies will receive profit-sharing payments of $7.0 million in 2011, based on business produced by the agencies in 2010. In 2010 for 2009 business, agencies received $5.7 million in profit-sharing payments and in 2009 for 2008 business, agencies received $7.4 million in payments.

Our competitive advantages include our commitment to:

- Strong agency relationships —
  The average tenure of our employees is 14.0 years, which allows our agents to work with the same, highly-experienced personnel each day.
  Our organization is relatively flat, allowing our agents to be close to the highest levels of management and ensuring that our agents will receive answers quickly to their questions.

We have relatively fewer agents appointed to each state than our peers, which is valued by our agents, as they do not have to compete with other agents in their area to represent our company.

- Exceptional service — our agents and policyholders always have the option to speak with a real person.
- Fair and prompt claims handling — we view claims as an opportunity to prove to our customers that they have chosen the right insurance company.
- Disciplined underwriting — we empower our underwriters with the knowledge and tools needed to make good decisions for our company.
- Superior loss control services — our loss control representatives make multiple visits to businesses and job sites each year to ensure safety.
- Effective and efficient use of technology — we use technology to provide enhanced service to our agents and policyholders, not to replace our personal relationships, but to reinforce them.

Life Insurance Segment

We also encounter significant competition in all lines of our life and fixed annuity business from other life insurance companies and other providers of financial services. Since our products are marketed exclusively through independent life insurance agencies that typically represent more than one company, we face competition within our agencies. Competitors include companies that market their products through agents, as well as companies that sell directly to their customers. Given the nature of the insurance industry, the exact number of competitors within the industry is not known.

To attract and maintain relationships with our independent life insurance agencies, we offer competitive commission rates and other sales incentives. Our life insurance segment achieves a competitive advantage by offering products that are simple and straightforward, by providing outstanding customer service, by being accessible to our agents and customers, and by using technology in a variety of ways to assist our agents and improve the delivery of service to our policyholders.

OPERATING SEGMENTS

Incorporated by reference from Note 11 “Segment Information” contained in Part II, Item 8, “Financial Statements and Supplementary Data.” Additionally, for a detailed discussion of our operating results by segment, refer to the Results of Operations section in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

REINSURANCE

Incorporated by reference from Note 5 “Reinsurance” contained in Part II, Item 8, “Financial Statements and Supplementary Data.”

RESERVES

Property and Casualty Insurance Segment

Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property or the loss of its income-producing abilities. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation, arising out of events covered by the policy.

We are required by applicable insurance laws and regulations to maintain reserves for the payment of loss and loss settlement expenses (“loss reserves”). Loss reserves are management’s best estimates at a given point in time of what we expect to pay for claims that have been reported and those that have been incurred but not reported (“IBNR”), based on facts, circumstances and historical trends then known.

The determination of reserves, particularly those relating to liability lines of insurance, reflects significant judgment factors. If, during the course of our regular monitoring of reserves, we determine that coverages previously written are incurring higher than expected losses, we will take action that may include, among other things, increasing the related reserves. Any adjustments we make to reserves are reflected in operating results in the year in which we make those adjustments. As required by state law, we engage an independent actuary, Regnier Consulting Group, Inc. (“Regnier”), to render an opinion as to the adequacy of the statutory reserves we establish annually. The actuarial opinion is filed in those states where we are licensed. On a quarterly basis, Regnier reviews our direct loss reserves for adequacy.

We do not discount loss reserves based on the time value of money. However, we consider inflation in the reserving process by reviewing cost trends, loss settlement expenses, historical reserving results and likely future economic conditions. There are no material differences between our reserves established under U.S. generally accepted accounting principles (“GAAP”) and our statutory reserves.

The following table sets forth a reconciliation of our beginning and ending net reserves for unpaid losses and loss settlement expenses for 2010, 2009 and 2008:

(In Thousands)

Years Ended December 31	2010	2009	2008
Gross liability for losses and loss settlement expenses at beginning of year	$606,045	$586,109	$496,083
Ceded loss and loss settlement expenses	(33,754)	(52,508)	(38,800)
Net liability for losses and loss settlement expenses at beginning of year	$572,291	$533,601	$457,283
Losses and loss settlement expenses incurred for claims occurring during			
Current year	$335,315	$339,506	$392,801
Prior years	(45,878)	26,215	548
Total incurred	$289,437	$365,721	$393,349
Losses and loss settlement expense payments for claims occurring during			
Current year	$132,592	$131,507	$176,882
Prior years	165,046	195,524	140,149
Total paid	$297,638	$327,031	$317,031
Net liability for losses and loss settlement expenses at end of year	$564,090	$572,291	$533,601
Ceded loss and loss settlement expenses	39,000	33,754	52,508
Gross liability for losses and loss settlement expenses at end of year	$603,090	$606,045	$586,109

The table on the following page illustrates the change in our estimate of loss reserves for our property and casualty companies for the years 2000 through 2009. The first section shows the amount of the liability, as originally reported, at the end of each calendar year in our Consolidated Financial Statements. These reserves represent the estimated amount of losses and loss settlement expenses for losses arising in that year and all prior years that are unpaid at the end of each year, including an estimate for our IBNR losses, net of applicable ceded reinsurance. The second section displays the cumulative amount of net losses and loss settlement expenses paid for each year with respect to that liability. The third section shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information

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becomes known about the losses for individual years. The last section compares the latest re-estimated amount with the original estimate. Conditions and trends that have affected development of loss reserves in the past may not necessarily exist in the future. Accordingly, it would not be appropriate to extrapolate future redundancies or deficiencies based on this table.

(In Thousands) Years Ended December 31	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross liability for loss and loss settlement expenses	$358,032	$363,819	$392,649	$427,049	$464,889	$620,100	$518,886	$496,083	$586,109	$606,045	$603,
Ceded loss and loss settlement expenses	37,526	36,909	35,760	27,309	28,609	60,137	40,560	38,800	52,508	33,754	39,00
Net liability for loss and loss settlement expenses	$320,506	$326,910	$356,889	$399,740	$436,280	$559,963	$478,326	$457,283	$533,601	$572,291	$564,
Cumulative net paid as of:											
One year later	$110,516	$112,546	$107,271	$100,895	$110,016	$230,455	$148,593	$140,149	$195,524	$165,046	
Two years later	166,097	172,538	172,158	167,384	166,592	321,110	235,975	265,361	304,622		
Three years later	204,792	215,002	214,307	203,861	213,144	380,294	332,768	345,092			
Four years later	230,889	240,973	237,150	231,278	242,579	456,919	390,763				
Five years later	245,677	252,969	253,026	250,787	264,015	502,455					
Six years later	252,153	264,311	265,304	263,631	276,214						
Seven years later	259,621	273,153	273,066	272,826							
Eight years later	264,713	277,868	280,152								
Nine years later	266,912	282,970									
	269,794										

Ten years later											
Net liability re-estimated as of:											
End of year	$320,506	$326,910	$356,889	$399,740	$436,280	$559,963	$478,326	$457,283	$533,601	$572,291	$564,
One year later	273,469	315,854	344,590	361,153	358,796	534,998	433,125	457,831	559,816	526,413	
Two years later	290,872	323,354	340,502	331,693	330,137	508,774	453,474	502,177	547,824		
Three years later	300,011	321,168	324,582	317,187	319,335	538,451	497,629	503,992			
Four years later	302,884	318,125	313,745	309,146	326,340	574,484	500,071				
Five years later	298,428	309,033	308,304	316,227	327,626	582,343					
Six years later	296,296	307,790	312,188	314,522	327,741						
Seven years later	293,579	311,367	314,680	316,705							
Eight years later	297,844	312,433	316,378								
Nine years later	297,022	313,953									
Ten years later	297,275										
Net redundancy (deficiency)	$23,231	$12,957	$40,511	$83,035	$108,539	$(22,380)	$(21,745)	$(46,709)	$(14,223)	$45,878	
Net re-estimated liability	297,275	313,953	316,378	316,705	327,741	582,343	500,071	503,992	547,824	526,413	
Re-estimated ceded loss and loss settlement expenses	$33,877	$43,086	$43,776	$38,522	$38,381	$91,535	$57,459	$50,990	$56,884	$41,042	
Gross re-estimated liability	$331,152	$357,039	$360,154	$355,227	$366,122	$673,878	$557,530	$554,982	$604,708	$567,455	
Gross redundancy (deficiency)	$26,880	$6,780	$32,495	$71,822	$98,767	$(53,778)	$(38,644)	$(58,899)	$(18,599)	$38,590	

For a more detailed discussion of our loss reserves, refer to the "Critical Accounting Estimates" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6, "Reserves for Loss and Loss Settlement Expenses" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

Life Insurance Segment

We calculate the policy reserves reported in our Consolidated Financial Statements in accordance with GAAP. For our fixed annuities and universal life policies, we establish a benefit reserve at the time of policy issuance in an amount equal to the deposits received. Subsequently, we adjust the benefit reserve for any additional deposits, interest credited and partial or complete withdrawals, as well as insurance and other expense charges. We base policy reserves for other life products on the projected contractual benefits and expenses and interest rates appropriate to those products. We base reserves for accident and health products, which are a minor portion of our reserves, on appropriate morbidity tables.

We determine reserves for statutory purposes based upon mortality rates and interest rates specified by Iowa state law. Our life insurance subsidiary's reserves meet or exceed the minimum statutory requirements. Griffith, Ballard & Company ("Griffith"), an independent actuary, assists us in developing and analyzing our reserves on both a GAAP and statutory basis.

For further discussion of our life insurance segment's reserves, see "Critical Accounting Estimates" contained in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

INVESTMENTS

Incorporated by reference from Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the headings "Investments" and "Critical Accounting Estimates"; Part II, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk"; and Note 1 "Significant Accounting Policies" under the headings "Investments" and "Securities Lending," Note 2 "Summary of Investments," and Note 3 "Fair Value of Financial Instruments," contained in Part II, Item 8, "Financial Statements and Supplementary Data."

REGULATION

We are not aware of any currently proposed or recently enacted state or federal regulation that would have a material impact on our operations. Additionally, we cannot predict whether any specific state or federal measures will be adopted to change the nature or scope of the regulation of the insurance business or what effect any particular measures might have on us.

State Regulation

We are subject to extensive regulation, primarily at the state level. The method, extent and substance of such regulation varies by state, but generally has its source in statutes that establish standards and requirements for conducting the business of insurance and that delegate regulatory authority to a state regulatory agency. In general, such regulation is intended for the protection of those who purchase or use our insurance products, and not our stockholders. These rules have a substantial effect on our business and relate to a wide variety of matters including:

- insurance company licensing and examination and the licensing of agents and adjusters;
- price setting or premium rates;
- trade practices;
- approval of policy forms;
- accounting methods;
- the nature, quality and concentration of investments;
- claims practices;
- participation in shared markets and guaranty funds;
- reserve adequacy;
- insurer solvency;
- restrictions on transactions between our subsidiaries and their affiliates;

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- restrictions on the payment of dividends;
- underwriting standards;
- advertising and marketing practices; and
- the collection, remittance and reporting of certain taxes and fees.

The state laws and regulations that have the most significant effect on our insurance operations and financial reporting are discussed below.

Insurance Holding Company Regulation

We are regulated as an insurance holding company system in the states of domicile of our property and casualty companies and life insurance subsidiary: Iowa (United Fire, United Life Insurance Company, and Addison Insurance Company), Louisiana (Lafayette Insurance Company), Texas (United Fire & Indemnity Company and United Fire Lloyds), and Colorado (Texas General Indemnity Company). With the acquisition of Mercer, we will be regulated by three additional domicile states: Pennsylvania (Mercer Insurance Company and Franklin Insurance Company), New Jersey (Mercer Insurance Company of New Jersey, Inc.), and California (Financial Pacific Insurance Company). These regulations require that we annually furnish financial and other information about the operations of the individual companies within our holding company system. Generally, the insurance codes of these states provide that notice to the state insurance commissioner is required before finalizing any transaction affecting the ownership or control of an insurer and before finalizing certain material transactions between an insurer and any person or entity in its holding company group. In addition, some of those transactions cannot be finalized without the commissioner's prior approval.

Stockholder Dividends

Our capacity to pay dividends, and that of our subsidiaries, is regulated by the laws of the applicable state of domicile. Under these laws, insurance companies must provide advance informational notice to the domicile state insurance regulatory authority prior to payment of any dividend or distribution to its stockholders. Prior approval from the state insurance regulatory authority must be obtained before payment of an extraordinary dividend as defined under the state's insurance code. In all cases, we may pay ordinary dividends only from our earned surplus. Refer to the Market Information section of Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities," and Note 7 "Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions," contained in Part II, Item 8, "Financial Statements and Supplementary Data" for additional information about the dividends we paid during 2010.

Price Regulation

Nearly all states have insurance laws requiring personal property and casualty insurers to file rate schedules, policy or coverage forms, and other information within the state's regulatory authority. In many cases, rate schedules, policy forms, or both, must be approved prior to use. While laws vary from state to state, their objectives are generally the same: an insurance rate cannot be excessive, inadequate or unfairly discriminatory. The speed with which we can change our rates in response to competition or in response to increasing costs depends, in part, on the willingness of state regulators to allow adequate rates for the business that we write.

Investment Regulation

Insurance companies are subject to various state regulations that require investment portfolio diversification and that limit the concentration of investment in certain asset categories. Failure to comply with these regulations leads to the treatment of nonconforming investments as nonadmitted assets for purposes of measuring statutory surplus. Further, in some instances, these regulations require us to sell nonconforming investments.

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Exiting Geographic Markets; Canceling and Nonrenewing Policies
Most states regulate our ability to exit a market. For example, states limit, to varying degrees, our ability to cancel and nonrenew policies. Some states prohibit us from withdrawing one or more types of insurance business from the state, except with state regulatory approval. Regulations that limit policy cancellation and nonrenewal may restrict our ability to exit unprofitable markets.

Insurance Guaranty Associations
Each state has insurance guaranty association laws. Membership in a state's insurance guaranty association is generally mandatory for insurers wishing to do business in that state. Under these laws, associations may assess their members for certain obligations that insolvent insurance companies have to their policyholders and claimants. Typically, states assess each solvent member in an amount related to that member's proportionate share of business written by all members within the state. Most state guaranty associations allow solvent insurers to recoup the assessments they are charged through future rate increases, surcharges or premium tax credits. However, there is no assurance that we will ultimately recover these assessments. We cannot predict the amount and timing of any future assessments or refunds under these laws.

Shared Market and Joint Underwriting Plans
State insurance regulations require insurers to participate in assigned risk plans, reinsurance facilities and joint underwriting associations. These are mechanisms that generally provide applicants with various basic types of insurance coverage not otherwise available to them in voluntary markets. Such mechanisms are most commonly instituted for automobile and workers' compensation insurance, but many states also mandate participation in Fair Access to Insurance Requirements ("FAIR") Plans or Windstorm Plans, which provide basic property coverage. Participation is based upon the amount of a company's voluntary market share in a particular state for the classes of insurance involved. Policies written through these mechanisms may require different underwriting standards and pose greater risk than those written through our voluntary application process.

Statutory Accounting
For public reporting, insurance companies prepare financial statements in accordance with GAAP. However, state laws require us to calculate and report certain data according to statutory accounting rules as defined in the National Association of Insurance Commissioner's ("NAIC") Accounting Practices and Procedures Manual. While not a substitute for any GAAP measure of performance, statutory data frequently is used by industry analysts and other recognized reporting sources to facilitate comparisons of the performance of insurance companies.

Insurance Reserves
State insurance laws require that insurance companies analyze the adequacy of their reserves annually. Our appointed actuaries must submit an opinion that our reserves are adequate for policy claims-paying obligations and related expenses.

Financial Solvency Ratios
The NAIC annually calculates 13 financial ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. A "usual range" of results for each of these ratios is used by insurance regulators as a benchmark. Departure from the usual range on four or more of the ratios could lead to inquiries from individual state insurance departments as to certain aspects of a company's business. In addition to the financial ratios, states also require us to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These "risk-based capital" results are used by state insurance regulators to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2010, all of our insurance companies had capital well in excess of the required levels.

Federal Regulation

Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal initiatives often have an impact on our business. Some of the current and proposed federal measures that may significantly affect our business are discussed below.

Dodd-Frank Act

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act marks a profound increase in the regulation of the financial services industry. Among other things, the Dodd-Frank Act forms within the Treasury Department a Federal Insurance Office that is charged with monitoring all aspects of the insurance industry, gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. A report on this study is required to be delivered to Congress within 18 months after enactment of the Dodd-Frank Act and could be influential in reshaping the current state-based insurance regulatory system and/or introducing a direct federal role in such regulation. The Dodd-Frank Act also requires, among other things: (i) a nonbinding stockholder vote on executive compensation at least once every three years; (ii) a vote, at least once every six years, on the frequency of the nonbinding stockholder vote on executive compensation; and (iii) that all members of our compensation committee be independent.

In response to the Dodd-Frank Act, the SEC is expected to issue proposed rules regarding a variety of disclosure and governance matters, including director independence, hedging and executive compensation clawback policies, compensation advisor independence, pay versus performance disclosures, internal pay comparison, and shareholder proxy access.

Health Care Reform Acts

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively the "2010 Acts") were signed into law. The 2010 Acts may have a material impact on health care providers and insurers, employers and individuals. The 2010 Acts will impact employers and businesses differently, depending on the size of the organization. Certain provisions of the 2010 Acts became effective during the open enrollment period for our employee benefit plans (November 2010), while other provisions of the 2010 Acts will become effective in future years. The 2010 Acts could require changes to, among other things, our current employee benefit plans, our information technology infrastructure, and our administrative and accounting processes. The ultimate extent and cost of these changes cannot be determined at this time and are being evaluated and updated as related regulations and interpretations of the 2010 Acts become available.

FINANCIAL STRENGTH RATING

Our financial strength, as measured by statutory accounting principles, is regularly reviewed by an independent rating agency that assigns a rating based upon criteria such as results of operations, capital resources and minimum policyholders' surplus requirements.

Our family of property and casualty insurers has received a group rating of "A" (Excellent) with a "negative" outlook from A.M. Best Company ("A.M. Best"). Within the group, all of our property and casualty insurers have an "A" (Excellent) rating, except one insurance subsidiary that is in a runoff status, which A.M. Best has designated as NR-3 (Rating Procedure Inapplicable). Our life insurance subsidiary has received an "A-" (Excellent) rating with a "stable" outlook from A.M. Best. According to A.M. Best, companies rated "A" and "A-" have "an excellent ability to meet their ongoing obligations to policyholders."

An insurer's financial strength rating is one of the primary factors evaluated by those in the market to purchase insurance. A poor rating indicates that there is an increased likelihood that the insurer could become insolvent and therefore not able to fulfill its obligations under the insurance policies it issues. This rating can also affect an insurer's level of premium writings, the lines of business it can write and, for insurers like us that are also public registrants, the market value of its securities.

ITEM 1A. RISK FACTORS

We provide the following discussion of risks and uncertainties relevant to our business. These are factors that we believe could cause our actual results to differ materially from expected and historical results. We could also be adversely affected by other factors, in addition to those listed here. We have set forth additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Relating to Our Business

- The incidence, frequency and severity of catastrophe losses are unpredictable and may adversely affect the results of our operations, liquidity and financial condition.

Our property and casualty insurance operations expose us to claims arising from catastrophic events affecting multiple policyholders, which can be caused by various natural and man-made disasters, including, but not limited to, hurricanes, tornadoes, windstorms, hailstorms, fires, explosions, earthquakes, tropical storms and terrorist acts. Property damage resulting from catastrophes is the greatest risk of loss we face in the ordinary course of our business. We have exposure for catastrophe losses under both our commercial insurance policies and our personal insurance policies. In addition, our automobile and inland marine business exposes us to losses arising from floods and other perils.

Longer-term weather trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures, including effects on global weather patterns, greenhouse gases, sea, land and air temperature, sea levels, rain and snow. The emerging science regarding climate change and its connection to extreme weather events is far from conclusive. If a connection to increased extreme weather events related to climate change is ultimately proven true, this could increase the frequency and severity of catastrophe losses we experience in both coastal and non-coastal areas.

Because the occurrence and severity of catastrophes are inherently unpredictable and may vary significantly from year to year, historical results of operations may not be indicative of future results of operations. In addition, as with catastrophe losses generally, it can take a long time for us to determine our ultimate losses associated with a particular catastrophic event. As our claims experience for a particular catastrophe develops, we may be required to adjust our reserves to reflect our revised estimates of the total cost of claims. Catastrophes may also negatively affect our ability to write new business. Increases in the value and geographic concentration of insured property could impact claims severity for future catastrophic events. In addition, severity may increase after catastrophic events, as the demand for resources such as building materials and labor to repair damaged structures may inflate costs, and the amount of salvage value received for damaged property may decline.

- Our reserves for property and casualty insurance losses and costs related to settlement of property and casualty losses and our life reserves for future policy benefits may be inadequate, which would have an unfavorable impact on our financial results.

Our reserves for claims and future policy benefits may prove to be inadequate, which may result in future charges to earnings and/or a downgrade of our financial strength rating or the financial strength ratings of our insurance company subsidiaries.

We establish property and casualty loss reserves based on assumptions and estimates of damages and liabilities incurred. On a quarterly basis, Regnier, the independent actuary for our property and casualty segment, estimates property and casualty product reserves based on many assumptions to validate the reasonableness of our claims reserves.

Our property and casualty loss reserves are only estimates; we determine the amount of these loss reserves based on our best estimate and judgment of the losses and costs we will incur on existing insurance policies. Because of the uncertainties that surround estimating loss reserves, we cannot precisely determine the ultimate amounts of benefits

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and claims that we will pay or the timing of payment of benefits and claims. For a detailed discussion of our reserving process and the factors we consider in estimating reserves, refer to the Critical Accounting Estimates section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Actual losses and loss settlement expenses paid might exceed our reserves. If our loss reserves are insufficient, or if we believe our loss reserves are insufficient to cover our actual loss and loss settlement expenses, we will have to increase our loss reserves and incur charges to our earnings, which could indicate that premium levels were insufficient. These charges may be material.

Griffith, the independent actuary for our life insurance segment, calculates life product reserves based on our assumptions, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the insurance policy and the amount of benefits or claims to be paid. As such, deviations from one or more of these assumptions could result in a material adverse impact on our Consolidated Financial Statements.

- The cyclical nature of the property and casualty insurance business may affect our financial performance.

The financial results of companies in the property and casualty insurance industry historically have been cyclical in nature, characterized by periods of severe price competition and excess underwriting capacity (commonly referred to as "soft" markets), followed by periods of high premium rates and shortages of underwriting capacity (commonly referred to as "hard" markets). We expect these cycles to continue. Premium rates for property and casualty insurance are influenced by factors that are outside of our control, including market and competitive conditions and regulatory issues. Soft market conditions could require us to reduce premiums, limit premium increases, or discontinue offering one or more of our insurance products in one or more states, resulting in a reduction in our premiums written and in our profit margins and revenues. The demand for property and casualty insurance can also vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases. Fluctuations in demand and competition could produce underwriting results that would have a negative impact on the results of our operations and financial condition.

- We are subject to interest rate fluctuations and declines in the value of investments held in our investment portfolio due to various market factors that could negatively affect our profitability.

We are subject to the negative effects of interest rate fluctuations and to declines in the value of our investment portfolio, due to changes in market valuations and changes in credit quality related to individual investments. Some of our interest-sensitive products, principally our fixed annuities, expose us to the risk that changes in interest rates will reduce our "spread," which is the difference between the rates we are required to pay under these contracts and the rate of return we are able to earn on our investments, intended to support our obligations under these contracts.

During periods when the interest rates paid on interest-sensitive insurance products are rising, we may not be able to reinvest our invested assets to achieve the higher rate of return necessary to compensate for the higher interest rates we must pay to keep these products competitive in the marketplace. Consequently, we may have to accept a lower spread and therefore lower profitability, or face a decline in sales of these products and a loss of related assets.

During periods of declining interest rates, we may be unable to achieve similar rates of return on our reinvested or maturing assets. Moreover, this risk may be exacerbated by borrowers prepaying fixed income securities, commercial mortgages, and mortgage-backed securities held in our investment portfolio in order to refinance at lower rates. Because we are only entitled to reset the interest rates on our annuities at limited, pre-established intervals, and because many of our annuity contracts have guaranteed interest rates, the profitability of these products could decrease or even become negative.

Due to the reinvestment risk described above, a decline in market interest rates available on investments could also reduce our return from investments of capital that do not support particular policy obligations, which could also have a material adverse effect on our results of operations. The adverse effect on us from fluctuations in interest

rates may be exacerbated because we currently maintain, and intend to continue to maintain, a large portion (92.5 percent at December 31, 2010) of our investment portfolio in fixed income securities, particularly corporate bonds, including our portfolio of trading securities. The fair value of these investments generally increases or decreases in an inverse relationship with changes in interest rates. We classify the majority (99.2 percent, at December 31, 2010) of our fixed income securities, including our entire portfolio of trading securities, as available-for-sale. We report the value of those investments at their current fair value. Accordingly, fluctuations in interest rates may result in fluctuations in the valuation of our fixed income investments, which would affect our stockholders' equity.

Fluctuations in interest rates may cause increased surrenders and withdrawals from our life insurance and annuity products. In periods of rising interest rates, surrenders and withdrawals of life insurance policies and annuity contracts, along with policy loans, may increase as policyholders seek to buy products with perceived higher returns. These surrenders, withdrawals and policy loans may also require us to accelerate the amortization of deferred policy acquisition costs, which would increase our expenses in the current period.

Terrorism and the threat of terrorism within the U.S. and abroad, ongoing military and other actions, and heightened security measures, may cause significant volatility in the equity markets and in interest rates. Such activities may result in loss of life, property damage, disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by declines in the equity markets, changes in interest rates caused by these activities.

The fair value of securities in our investment portfolio may also fluctuate, depending on general economic and market conditions or events relating to a particular issuer of securities. Changes in the fair value of securities in our investment portfolio could result in realized or unrealized investment losses, thereby affecting our stockholders' equity.

We are exposed to the chance that issuers of bonds that we hold will not be able to pay principal or interest when due. Defaults and other impairments may cause write-downs in the value of the bonds we hold. Pervasive deterioration in the credit quality of issuers, changes in interest rate levels and changes in interest rate spreads between types of investments could significantly affect the value of our invested assets and our earnings.

- Continued difficult conditions in the global capital markets and the economy generally may materially and adversely affect our business and results of operations.

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Recently, concerns over the slow economic recovery, level of U.S. national debt, the U.S. mortgage market, inflation levels, energy costs and geopolitical issues have contributed to increased volatility and diminished expectations for the economy and global capital markets going forward. These factors, combined with volatile oil prices, reduced business and consumer confidence and continued high unemployment, have negatively impacted the U.S. economy. Although liquidity has improved, the market for fixed income instruments continues to experience some price volatility, credit downgrade events and elevated probabilities of default.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, investor and consumer confidence and inflation levels all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment, negative investor sentiment and lower consumer spending, the demand for our insurance products could be adversely affected. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Adverse changes in the economy could negatively affect our net income and could have a material adverse effect on our business, results of operations and financial condition.

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- Our investment portfolio contains various types of municipal bonds that expose us to the risk of default.

At December 31, 2010, 25.2 percent of our total investment portfolio at fair market value, and 27.2 percent of our total fixed maturity securities at fair market value, were invested in tax-exempt municipal bonds. During or following an economic downturn, our municipal bond portfolio could be subject to a higher risk of default or impairment due to declining municipal tax bases and revenue. The prolonged economic downturn that began in 2008 has resulted in many states and local governments operating under deficits or projected deficits. The severity and duration of these deficits could adversely impact the collectability and valuation of our municipal bond portfolio.

- Unauthorized data access and other security breaches could have an adverse impact on our business and reputation.

Our business and operations rely on secure and efficient processing, storage and transmission of customer and company data, including personally identifiable information. Our ability to effectively operate our business depends upon our ability and the ability of certain third parties, including vendors and business partners, to access our computer systems to perform necessary business functions, such as providing quotes and product pricing, billing and processing premiums, administering claims, and reporting our financial results. Our business and operations also depend upon our ability to safeguard personally identifiable information and other confidential and proprietary information belonging to us and our policyholders. Our systems may be vulnerable to unauthorized access and hackers, computer viruses, and other scenarios in which our data may be compromised.

Security breaches and other improper accessing of data in our facilities, networks or databases, or those of our vendors may occur, exposing us to liability and having an adverse impact on our business. Moreover, any compromise of the security of our data could harm our reputation, which could affect our business and results of operations. There can be no assurances that we will be able to implement security measures adequate to prevent every security breach.

- The effects of emerging claim and coverage issues and class action litigation on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number and/or size of claims. Examples of these issues include:

- Judicial expansion of policy coverage and the impact of new theories of liability.
- An increase of plaintiffs targeting property and casualty insurers, including us, in purported class action litigation regarding claims handling and other practices.
- An increase in the variety, number and size of claims relating to liability losses, which often present complex coverage and damage valuation questions.
- Adverse changes in loss cost trends, including, but not limited to, inflationary pressure in medical costs; auto repair costs; and labor and materials costs to rebuild damaged structures.

In addition, we have been the target of a number of class action lawsuits arising from Hurricane Katrina, relating to allegations of improper claims settlement practices, misrepresentations in the scope of coverage and other matters. It is difficult to predict both the ultimate outcome of these lawsuits, and the impact, if any, they will have on our business and financial condition. However, rulings adverse to us in pending litigation arising from Hurricane Katrina could have a material adverse effect on our financial position, as well as on our results of operations.

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- We are exposed to credit risk in certain areas of our operations.

In addition to exposure to credit risk related to our investment portfolio and reinsurance recovery, we are exposed to credit risk in several other areas of our business operations, including credit risk relating to policyholders, independent agents and brokers.

In accordance with industry practice, when policyholders purchase insurance policies from us through independent agents and brokers, the premiums relating to those policies are often paid to the agents and brokers for payment to us. In most jurisdictions, the premiums will be deemed to have been paid to us whether or not actually received by us. Consequently, we assume a degree of credit risk associated with the amounts due from independent agents and brokers.

We are exposed to credit risk through our surety insurance operations, where we guarantee to a third party that our bonded principal will satisfy certain performance obligations (e.g., a construction contract) or certain financial obligations. If our policyholder defaults, we may suffer losses and be unable to be reimbursed by our policyholder.

We are exposed to credit risk with respect to our purchase of reinsurance. See the discussion in the risk fact titled “Market conditions may affect our access to and the cost of reinsurance and our reinsurers may not pay losses in a timely manner, or at all,” for a discussion of the credit risk associated with our reinsurance program.

To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk during a period of economic downturn. While we attempt to manage these risks through underwriting and investment guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. For example, collateral obtained may subsequently have little or no value. As a result, our exposure to credit risk could materially and adversely affect our results of operation and financial condition.

- We are subject to comprehensive state laws and regulations that pose particular risks to our ability to earn profits.

We are subject to extensive supervision and regulation by the states in which we operate. Our ability to comply with these laws and regulations and obtain necessary and timely regulatory action is, and will continue to be, critical to our success and ability to earn profits.

Examples of regulations that pose particular risks to our ability to earn profits include the following:

- Required licensing. We, and our insurance company subsidiaries, operate under licenses issued by various state insurance agencies. If a regulatory authority were to revoke an existing license or deny or delay granting a new license, our ability to continue to sell insurance or to enter or offer new insurance products in that market would be substantially impaired.
- Regulation of insurance rates and approval of policy forms. The insurance laws of most states in which we operate require insurance companies to file insurance premium rate schedules and policy forms for review and approval. When our loss ratio compares favorably to that of the industry, state regulatory authorities may resist or delay our efforts to raise premium rates in the future, even if the property and casualty industry generally is not experiencing regulatory resistance to premium rate increases. If premium rate increases we deem necessary are not approved, we may not be able to respond to market developments and increased costs in that state. State regulatory authorities may even impose premium rate rollbacks or require us to pay premium refunds to policyholders, affecting our profitability. If insurance policy forms we seek to use are not approved by a state insurance agency, our ability to offer new products and grow our business in that state could be substantially impaired.
- Restrictions on cancellation, nonrenewal or withdrawal. Many states have laws and regulations restricting an insurance company’s ability to cease or significantly reduce its sales of certain types of insurance in that state, except pursuant to a plan that is approved by the state insurance department. These laws and

regulations could limit our ability to exit or reduce our business in unprofitable markets or discontinue unprofitable products. For example, the State of Louisiana has a law prohibiting the nonrenewal of homeowners policies written for longer than three years except under certain circumstances, such as for nonpayment of premium or fraud committed by the insured.

- Risk-based capital and capital adequacy requirements. We, and our insurance company subsidiaries and affiliate, are subject to risk-based capital requirements that require us to report our results of risk-based capital calculations to state insurance departments and the NAIC. Any failure to meet applicable risk based capital requirements or minimum statutory capital requirements could subject us or our subsidiaries and affiliate to further examination or corrective action by state regulators, including limitations on our writing of additional business, state supervision or liquidation.
- Transactions between insurance companies and their affiliates. Transactions between us, our subsidiary insurance companies and our affiliate generally must be disclosed to, and in some cases approved by, state insurance agencies. State insurance agencies may refuse to approve or delay their approval of a transaction, which may impact our ability to innovate or operate efficiently.
- Required participation in guaranty funds and assigned risk pools. Certain states have enacted laws that require a property and casualty insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations where participating insurers are required to provide coverage for assigned risks. The number of risks assigned to us by these plans is based on our share of total premiums written in the voluntary insurance market for that state. Pricing is controlled by the plan, often restricting our ability to charge the premium rate we might otherwise charge. Wherever possible, we utilize a designated servicing carrier to fulfill our obligations under these plans. Designated servicing carriers charge us fees to issue policies, adjust and settle claims and handle administrative reporting on our behalf. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired premium rates, possibly leading to an unacceptable return on equity. While these facilities are generally designed so that the ultimate cost is borne by policyholders, the exposure to assessments and our ability to recoup these assessments through adequate premium rate increases may not offset each other in our financial statements. Moreover, even if they do offset each other, they may not offset each other in our financial statements for the same fiscal period, due to the ultimate timing of the assessments and recoupments or premium rate increases. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These state funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.
- Restrictions on the amount, type, nature, quality and concentration of investments. The various states in which we operate have certain restrictions on the amount, type, nature, quality and concentration of our investments. Generally speaking, these regulations require us to be conservative in the nature and quality of our investments and restrict our ability to invest in riskier, but often higher yield investments. These restrictions may make it more difficult for us to obtain our desired investment results.
- State and federal tax laws. Under current federal and state income tax law, our life insurance and annuity products receive favorable tax treatment. This favorable treatment may give these products a competitive advantage over other noninsurance products. Congress, from time to time, considers legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance and annuities. Congress also considers proposals to reduce the taxation of certain products or investments that may compete with life insurance and annuities. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for certain of our products, making them less competitive. Such proposals, if adopted, could have a material adverse effect on our financial position or ability to sell such products and could result in the surrender of some existing contracts and policies.
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Periodic financial and market conduct examinations. We are subject to periodic financial and market conduct examinations by the insurance departments in the various states in which we operate. Generally, it is only the states in which we have a company incorporated that perform such examinations. Occasionally, however, we are examined by states in which we do not have a company incorporated. The costs of these examinations are borne by us and in any given year may contribute to our administrative expenses.

- Terrorism Risk Insurance. The Terrorism Risk Insurance Program Reauthorization Act of 2007 includes coverage for most direct commercial lines of business, including coverage for losses from nuclear, biological and chemical exposures if coverage was afforded by an insurer, with exclusions for commercial automobile insurance, burglary and theft insurance, surety, professional liability insurance and farm owners multiple peril insurance and provides marketplace stability. For further information about the Terrorism Acts, and their effect on our operations, refer to the information in the Results of Operations section in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Compliance with these state laws and regulations requires us to incur administrative costs that decrease our profits. These laws and regulations may also prevent or limit our ability to underwrite and price risks accurately, obtain timely premium rate increases necessary to cover increased costs, discontinue unprofitable relationships or exit unprofitable markets and otherwise continue to operate our business profitably. In addition, our failure to comply with these laws and regulations could result in actions by state or federal regulators, including the imposition of fines and penalties or, in an extreme case, revocation of our ability to do business in one or more states. Finally, we could face individual, group and class action lawsuits by our policyholders and others for alleged violations of certain state laws and regulations. Each of these regulatory risks could have a negative effect on our profitability.

- A reduction in our financial strength ratings could adversely affect our business and financial condition.

Third-party rating agencies assess and rate the claims-paying ability of insurers and reinsurers based on criteria established by the agencies. Our property and casualty insurers have been assigned a financial strength rating of “A” (Excellent) from A.M. Best since 1994 - except for one insurance subsidiary that is in a run-off status, which A.M. Best has designated as NR-3 (Rating Procedure Inapplicable). Our life insurance subsidiary has been assigned a financial strength rating of “A-” (Excellent) from A.M. Best since 1998. Our property and casualty companies are rated on a group basis. Financial strength ratings are used by policyholders, insurers, reinsurers and insurance and reinsurance intermediaries as an important means of assessing the financial strength of insurers and reinsurers. These ratings are not evaluations directed to potential purchasers of our common stock and are not recommendations to buy, sell or hold our common stock. These ratings are subject to change at any time and could be revised downward or revoked at the sole discretion of the rating agency. Downgrades in our financial strength ratings could adversely affect our ability to access the capital markets or could lead to increased borrowing costs in the future. Perceptions of our company by investors, producers, other businesses and consumers could also be significantly impaired.

We believe that the ratings assigned by A.M. Best are an important factor in marketing our products. Our ability to retain our existing business and to attract new business in our insurance operations depends on our ratings by this agency. Our failure to maintain our ratings, or any other adverse development with respect to our ratings, could cause our current and future independent agents and policyholders to choose to transact their business with more highly rated competitors. If A.M. Best downgrades our ratings or publicly indicates that our ratings are under review, it is likely that we will not be able to compete as effectively with our competitors and our ability to sell insurance policies could decline. If that happens, our premium revenue and earnings would decrease. For example, many of our agencies and policyholders have guidelines that require us to have an A.M. Best financial strength rating of “A-” or higher. A reduction of our A.M. Best ratings below “A-” would prevent us from issuing policies to a portion of our current policyholders or other potential policyholders with similar ratings requirements. In addition, a ratings downgrade for our property and casualty insurers by A.M. Best below “A” would constitute an event of default under our credit facility.

- Market conditions may affect our access to and the cost of reinsurance and our reinsurers may not pay losses in a timely manner, or at all.

As part of our overall risk and capacity management strategy, we purchase reinsurance for significant amounts of the risk that we and our insurance company subsidiaries and affiliate underwrite. The availability and cost of

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reinsurance is subject to market conditions that are beyond our control. The availability and cost of the reinsurance we purchase may affect the level of our business and profitability. Although we purposely work with several reinsurance intermediaries and reinsurers, we may be unable to maintain our current reinsurance facilities or obtain other reinsurance facilities in adequate amounts and at favorable premium rates. Moreover, there may be a situation in which we have more than two catastrophic events within one policy year. Because our current catastrophe reinsurance program only allows for one automatic reinstatement at an additional reinstatement premium, we would be required to obtain a new catastrophe reinsurance policy to maintain our current level of catastrophe reinsurance coverage. Such coverage may be difficult to obtain, particularly if it is necessary to do so during hurricane season following the second catastrophe. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposure to risk will increase or, if we are unwilling to bear an increase in net risk exposures, we will have to reduce the amount of risk we underwrite.

Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred, it does not relieve us of our liability to our policyholders. Our ability to collect reinsurance recoverables may be subject to uncertainty. Our losses must meet the qualifying conditions of the reinsurance agreement. Reinsurers must also have the financial capacity and willingness to make payments under the terms of a reinsurance agreement or program. Particularly, following a major catastrophic event, our inability to collect a material recovery from a reinsurer on a timely basis, or at all, could have a material adverse effect on our liquidity, operating results and financial condition.

- Our geographic concentration in both our property and casualty insurance and life insurance segments ties our performance to the business, economic and regulatory conditions of certain states.

The following states provided 56.6 percent of the direct premium written for the property and casualty insurance segment in 2010: Texas (15.8 percent), Iowa (15.7 percent), Missouri (9.3 percent), Louisiana (8.6 percent) and Illinois (7.2 percent). The following states provided 69.0 percent of the direct statutory premium written for the life insurance segment in 2010: Iowa (32.6 percent), Wisconsin (10.0 percent) and Illinois (9.8 percent), Minnesota (8.5 percent), Nebraska (8.1 percent). Our revenues and profitability are subject to the prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in the principal states in which we do business. Changes in any of these conditions could make it less attractive for us to do business in such states and would have a more pronounced effect on us compared to companies that are more geographically diversified. In addition, our exposure to severe losses from localized natural perils, such as hurricanes or hailstorms, is increased in those areas where we have written a significant amount of property insurance policies.

- We face significant competitive pressures in our business that could cause demand for our products to fall and reduce our revenue and profitability.

The insurance industry is highly competitive. In our property and casualty insurance business and in our life insurance business, we compete, and will continue to compete, with many major U.S. and non-U.S. insurers and smaller regional companies, as well as mutual companies, specialty insurance companies, underwriting agencies, and diversified financial services companies. Some of our competitors have far greater financial and marketing resources than we do. Our premium revenue and our profitability could decline if we lose business to competitors offering similar or better products at or below our prices. Our profitability could also be affected by the entry of new competitors into the market and the development of new products by new and existing competitors.

We price our insurance products based on estimated profit margins, and we would not be able to significantly reduce our current estimated profit margins in the near future. Some of our competitors may be larger and have more capital than we do, and may be able to withstand significant reductions in their profit margins. If our competitors decide to target our policyholder base by offering lower-priced insurance, we may not be able to respond competitively, which could reduce our revenue and our profitability.

- Our business depends on the uninterrupted operations of our facilities, systems and business functions.

Our business depends on our employees’ ability to perform necessary business functions, such as processing new and renewal policies and claims. We increasingly rely on technology and systems to accomplish these business

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functions in an efficient and uninterrupted fashion. Our inability to access our facilities or a failure of technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis or affect the accuracy of transactions. If sustained or repeated, such a business interruption or system failure could result in a deterioration of our ability to write and process new and renewal business, serve our agents and policyholders, pay claims in a timely manner, collect receivables or perform other necessary business functions.

In the event that a natural disaster or a terrorist act occurs, our company and employees could be directly adversely affected, depending on the nature of the event. We have an emergency preparedness plan that consists of the information and procedures required to enable rapid recovery from an occurrence, such as natural disaster or business disruption, which could potentially disable us for an extended period of time. This plan was tested during 2008, both by the Midwest flooding that affected our corporate headquarters in Cedar Rapids, Iowa, and by Hurricane Ike that affected our Gulf Coast regional office in Galveston, Texas.

- Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, as well as our access to capital and cost of capital.

Since mid 2007, the capital and credit markets have been experiencing extreme volatility and disruption. Beginning in the second half of 2008, the volatility and disruption reached unprecedented levels and the markets exerted downward pressure on availability of liquidity and credit capacity for certain issuers. Although market conditions have improved, our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by continued disruptions in the capital and credit markets.

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, is believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. However, in the event our current internal sources of liquidity do not satisfy our needs, we may have to seek additional financing and, in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all. The availability of additional financing will depend on a variety of factors such as market and economic conditions, the general availability of credit, our credit rating and credit capacity, as well as customers' or lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us.

Disruptions, uncertainty or volatility in the capital and credit markets may limit our access to capital required to operate our business. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue shorter term securities than we prefer, utilize available internal resources or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility and liquidity.

- If we are unable to successfully introduce new products or services or fail to keep pace with advances in technology, our business, financial condition and results of operations will be adversely affected.

The successful implementation of our business model depends on our ability to adapt to evolving technologies and industry standards and introduce new products and services. We cannot assure you that we will be able to introduce new products, or that any new products will achieve market acceptance. Moreover, competitors may develop competitive products that could adversely affect our results of operations. A failure by us to introduce planned products or other new products could have an adverse effect on our business, financial condition and results of operations.

If we cannot adapt to changing technologies, our products and services may become obsolete, and our business could suffer. Our success will depend, in part, on our ability to continue to enhance our existing products and services, develop new technology that addresses the increasingly sophisticated and varied needs of our prospective customers and respond to technological advances on a timely and cost-effective basis. We may not be successful in using new technologies effectively or adapting our proprietary technology to evolving customer requirements, and, as a result, our business could suffer.

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- We are unable to predict the impact on us of the new federal financial regulatory reform.

The Dodd-Frank Act enacted in July, 2010, expands the federal presence in insurance oversight. The Dodd-Frank Act's requirements include streamlining the state-based regulation of reinsurance and nonadmitted insurance (property or casualty insurance placed from insurers that are eligible to accept insurance, but are not licensed to write insurance in a particular state). The Dodd-Frank Act also establishes a new Federal Insurance Office within the U.S. Department of the Treasury with regulatory authority over all lines of insurance except health insurance, certain long-term care insurance and crop insurance. The Federal Insurance Office has the power to, among other things, monitor aspects of the insurance industry, identify issues in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the overall financial system, coordinate federal policy on international insurance matters and preempt state insurance measures under certain circumstances.

The Dodd-Frank Act provides a framework for further regulation and governance initiatives. These regulations and initiatives will cover many aspects of public company governance including, but not limited to, new and enhanced executive compensation disclosures, nonbinding stockholder votes on executive compensation, new independence standards for compensation committee membership, and incentive compensation clawback policies. Because the SEC has not yet completed its required rulemaking under the Dodd-Frank Act, we are unable to predict with certainty the overall impact these new regulations and initiatives will have on us. However, the cost of compliance with new regulations and initiatives could be significant, and materially adversely impact our results of operations, equity, business, and insurer financial strength and debt ratings.

- We may face increased operating costs and underwriting losses arising from the federal health care reform legislation, as well as state health care reform proposals.

The 2010 Acts, enacted in March 2010, may increase our operating costs and underwriting losses. This landmark legislation may lead to numerous changes in the health care industry that could create additional operating costs for us, particularly with respect to our workers' compensation and long-term care products. These costs might arise through the increased use of health care services by our claimants or the increased complexities in health care bills that could require additional levels of review. In addition, due to the expected number of new participants in the health care system and the potential for additional malpractice claims, we may experience increased underwriting risk in the lines of our business that provide management and professional liability insurance to individuals and businesses engaged in the health care industry. The lines of our business that provide professional liability insurance to attorneys, accountants and other professionals who advise clients regarding the health care reform legislation may also experience increased underwriting risk due to the complexity of the legislation. As a result, we may experience unanticipated underwriting losses with respect to these lines of business. Finally, we cannot predict with any certainty the impact upon us of the various state health care reform proposals. Consequently, our results of operations, equity, business, insurer financial strength and debt ratings could be materially adversely impacted.

Risks Relating to Our Proposed Acquisition of Mercer Insurance Group, Inc.

On November 30, 2010, we entered into an Agreement and Plan of Merger to acquire 100 percent of the outstanding capital stock of Mercer for $28.25 per share in cash consideration (representing approximately $191.0 million in total consideration). We expect the merger to close on or before March 31, 2011. The following risk factors relate specifically to risks associated with this planned merger, which may affect our financial condition, results of operations or the performance of our common stock.

- We may not realize all of the anticipated benefits of the merger or such benefits may take longer to realize than expected.

Our ability to realize the anticipated benefits of the merger will depend, to a large extent, on our ability to integrate the businesses of Mercer with our existing business. The combination of two independent companies is a complex, costly and time-consuming process. As a result, we will be required to devote significant management attention and resources to integrating the business practices and operations of United Fire and Mercer. The integration process may disrupt the business of either or both of the companies and, if implemented ineffectively, would preclude

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realization of the full benefits expected by United Fire. Our failure to meet the challenges involved in integrating successfully the operations of Mercer or otherwise to realize the anticipated benefits of the merger could cause an interruption of, or a loss of momentum in, our activities and could seriously harm our results of operations. In addition, the overall integration of the two companies may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of client relationships, and diversion of management's attention, and may cause our stock price to decline. The difficulties of combining the operations of the companies include, among others:

- managing a significantly larger company;
- maintaining employee morale and retaining key management and other employees;
- integrating two unique business cultures, which may prove to be incompatible;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- retaining existing clients and attracting new clients;
- consolidating corporate and administrative infrastructures and eliminating duplicative operations;
- the diversion of management's attention from ongoing business concerns and performance shortfalls at one or both of the companies as a result of the diversion of management's attention to the merger;
- coordinating geographically separate organizations;
- unanticipated issues in integrating information technology, communications and other systems;
- unanticipated changes in applicable laws and regulations;
- managing tax costs or inefficiencies associated with integrating the operations of the combined company; and
- unforeseen expenses or delays associated with the merger.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially impact our business, financial condition and results of operations. In addition, even if the operations of Mercer are integrated successfully, we may not realize the full benefits of the merger, including the synergies, cost savings or growth opportunities that we expect. These benefits may not be achieved within the anticipated time frame, or at all.

- There is a risk that the business we acquire as part of the merger may not be adequately reserved.

Mercer's property and casualty loss reserves are only estimates. Because of the uncertainties that surround estimating loss reserves, we cannot precisely determine the adequacy of Mercer's existing property and casualty loss reserves. Actual loss and loss settlement expenses paid following the merger might exceed currently established reserves. If the loss reserves on the business we acquire from Mercer prove to be insufficient, we will have to increase these reserves and incur charges against our earnings. These charges could have a material adverse impact on our financial condition and results of operations, and could adversely affect the value of our common stock.

- The need for regulatory approval may delay the date of completion of the merger or may diminish the benefits of the merger.

We are required to obtain approval of the merger from the Pennsylvania Insurance Department, the New Jersey Department of Banking and Insurance, and the California Department of Insurance. Any or all of these state insurance departments may impose certain requirements or conditions as part of their approval of the merger. Satisfying any requirements or conditions imposed by these state insurance departments may delay the date of completion of the merger. Any requirements or conditions imposed by the state insurance departments may diminish the benefits of the merger to us. We are obligated to complete the merger unless the permits, authorizations, consents and approvals from these insurance departments:

- impose conditions that:
  are materially inconsistent with any material terms contained in the merger agreement in a manner that adversely affects the economic value of the merger agreement to us,
  would require us or Mercer to divest or hold separate or otherwise take or commit to take any action that limits our freedom of action with respect to, or our ability to retain Mercer or any of the businesses, product lines or assets of our company, Mercer, or any of Mercer's respective affiliates or subsidiaries,
  would otherwise individually or in the aggregate, result in a material negative impact on the business, assets, liabilities, properties or condition (financial or otherwise) of use and our subsidiaries, taken as a whole, or Mercer and its subsidiaries, taken as a whole, or
- impose other conditions that would, individually or in the aggregate, have a material adverse effect with respect to Mercer.
- The need for approval by Mercer's stockholders may delay the date of completion of the merger, or may prevent the merger altogether.

Holders of a majority of the shares of Mercer's outstanding capital stock are required to vote in favor of the merger before the merger may be completed. Mercer has scheduled a special meeting on March 16, 2011, where Mercer stockholders will be asked to vote on the merger. If the scheduled special meeting of Mercer stockholders is delayed, or if a majority of Mercer's stockholders do not vote in favor of the merger, the merger may not become effective within the expected time frame or at all.

- Failure to complete the merger or delays in completing the merger could negatively affect our business operations, financial condition or stock price.

If the merger is not completed for any reason, we may be subject to a number of risks, including the following:

- We may not realize the benefits expected from the merger, including a potentially enhanced financial and competitive position.
- The current market price of our common stock may reflect a market assumption that the merger will occur, and a failure to complete the merger could result in a negative perception by the stock market about us, resulting in a decline in the market price of our common stock.
- We must pay certain costs relating to the merger, including certain investment banking, financing, legal and accounting fees and expenses, even if the merger is not completed.

Delays in completing the merger could exacerbate uncertainties concerning the effect of the merger, which may have an adverse effect on our business following the merger and could defer or detract from the realization of the benefits expected to result from the merger.

- We expect to take on debt as part of the merger.

Prior to the completion of the merger, we expect to take on debt to complement our available cash and funds obtained through the sale of invested assets to our subsidiaries. The financial and other covenants to which we may agree in connection with the occurrence of such debt and our increased indebtedness and high debt-to-equity ratio in comparison to our recent historical ratio may have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions, thereby placing us at a competitive disadvantage compared to competitors that have less indebtedness and making us more vulnerable to general adverse economic and industry conditions. The increased indebtedness will also increase borrowing costs and the covenants pertaining to such indebtedness may also limit our ability to obtain additional financing to fund working capital, capital expenditures, additional acquisitions or general corporate requirements. We will also be required to dedicate a larger portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including working capital, capital expenditures and general corporate purposes. In addition, the terms and conditions of such debt may not be favorable to us, and as such, could further increase the cost of the merger, as well as the overall burden of such debt upon us and our business flexibility. Further, if any portion of our borrowings is at variable rates of interest, we will be exposed to the risk of increased interest rates.

Our ability to make payments on and to refinance our debt obligations and to fund planned capital expenditures will depend on our ability to generate cash from the combined company’s operations. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We may not be able to refinance any of our indebtedness on commercially reasonable terms, or at all. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could impede the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. Additionally, we may not be able to effect such actions, if necessary, on commercially reasonable terms, or at all.

Any of the foregoing consequences could adversely affect our financials results.

- Lawsuits have been filed against Mercer, the members of Mercer’s Board of Directors, and us challenging the merger, and an adverse judgment in such lawsuits or other lawsuits that may later be filed may prevent the merger from becoming effective or from becoming effective within the expected time frame.

Two putative class action lawsuits relating to the merger have been filed in the Superior Court of New Jersey of Mercer County, Chancery Division. Each of the cases was filed as a class action on behalf of all of Mercer’s shareholders and, on February 23, 2011, plaintiffs filed a Consolidated Amended Class Action Complaint alleging, among other things, that the consideration that shareholders will receive in connection with the merger is inadequate, that Mercer and Mercer’s directors breached their fiduciary duties to shareholders in negotiating and approving the merger agreement, and that we aided and abetted the breach of fiduciary duty by Mercer’s directors. The Consolidated Amended Class Action Complaint seeks various forms of relief, including injunctive relief that would, if granted, prevent the merger from closing in accordance with the agreed-upon terms. See Note 1 “Significant Accounting Policies” under the heading “Contingent Liabilities” contained in Part II, Item 8, “Financial Statements and Supplementary Data,” for more information about these lawsuits.

One of the conditions to the closing of the merger is that no preliminary or permanent injunction or other order issued by any court of competent jurisdiction that prohibits, restrains or enjoins the completion of the merger shall be in effect. As such, if the plaintiffs in either of the above lawsuits are successful in obtaining an injunction prohibiting closing the merger on the agreed-upon terms, then such injunction may prevent the merger from becoming effective, or from becoming effective within the expected time frame.

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- Factors related to the merger could result in a potential downgrade of our financial strength ratings from A.M. Best.

Our property and casualty insurers have been assigned a financial strength rating of “A” (Excellent) from A.M. Best since 1994 - except for one insurance subsidiary that is in a runoff status, which A.M. Best has designated as NR-3 (Rating Procedure Inapplicable). Our life insurance subsidiary has been assigned a financial strength rating of “A-” (Excellent) from A.M. Best since 1998. Our property and casualty companies are rated on a group basis. For the last ten years, Mercer’s property and casualty insurers have also been assigned a financial strength rating of “A” (Excellent) from A.M. Best.

Financial strength ratings are used by policyholders, insurers, reinsurers and insurance and reinsurance intermediaries as an important means of assessing the financial strength of insurers and reinsurers. If the merger is not completed for any reason or within a reasonable time frame, or if the integration of Mercer’s business operations into ours does not occur as expected or does not achieve the desired results and economies of scale, we and/or Mercer could be subject to a ratings downgrade by A.M. Best.

We believe that the ratings assigned by A.M. Best are an important factor in marketing our products. The ability to retain our existing business and to attract new business in our insurance operations depends on the ratings that we receive from this agency. The failure to maintain either our ratings, or any other adverse development with respect to these ratings, could cause current and future independent agents and policyholders to choose to transact their business with more highly rated competitors and adversely impact our business operations and financial results.

- Loss of key personnel could have a material adverse effect on our business and results of operations after the merger.

Our success after the merger, if completed, will depend, in part, upon our ability to retain key employees of both companies. Competition for qualified personnel can be intense. In addition, key employees may depart because of issues relating to the uncertainty or difficulty of integration or a desire not to remain with us. Accordingly, we may not be able to retain key employees following the merger. Loss of key personnel could have a material adverse effect on our business and operations after completion of the merger.

- Loss of key agents or agencies could have a material adverse effect on our business and results of operations after the merger.

Our success after the merger, if completed, will depend, in part, upon our ability to retain key agent and agency relationships of both companies. Key agents or agencies may decide to terminate their relationship with us after the merger because of issues relating to the uncertainty or difficulty of integration or a desire not to remain with the combined company. Accordingly, we may not be able to retain key agents or agencies following the merger. Loss of key agents or agencies could have a material adverse effect on our business and operations after completion of the merger.

- Integration of Mercer’s information technology systems with ours may result in a loss of technical support from some information technology vendors.

It is expected that following the merger we will combine our data and Mercer’s data to a single, integrated information technology platform. This process will likely involve terminating the existing relationship with one or more of our or Mercer’s current information technology vendors. If the integration process does not progress smoothly or within the time frame anticipated by management, we could have difficulty receiving adequate technical support from cancelled vendors who might have little incentive to continue cooperating with us. Lack of adequate vendor technical support could also delay the technology integration process and lead to increased costs which, in turn, could have a material adverse effect on our business and operations after completion of the merger.

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Risks Relating to Our Common Stock

- As an insurance company, our ability to pay dividends is restricted by state law.

We are an insurance company domiciled in the State of Iowa and, as a result, we are subject to Iowa insurance laws restricting our ability to pay dividends to our stockholders, including laws establishing minimum solvency and liquidity standards and laws that prohibit us from paying dividends except from the earned profits arising from our business. Our ability to pay dividends also depends upon the statutory capital and surplus levels and earnings of our subsidiary insurance companies and the ability of our subsidiary insurance companies to pay dividends to us. Payments of dividends by our subsidiary insurance companies are restricted by state insurance laws similar to those laws that restrict our payment of dividends. As a result of these restrictions, at times we may not be able to pay dividends on our common stock, or we may be required to seek prior approval from the applicable regulatory authority before we can pay any such dividends. In addition, the payment of dividends by us is within the discretion of our Board of Directors and will depend on numerous factors, including our financial condition, our capital requirements and other factors that our Board of Directors considers relevant.

- The price of our common stock may be volatile.

The trading price of our common stock may fluctuate substantially due to a variety of factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could be significant and could cause a loss in the amount invested in our shares of common stock. Factors that could cause fluctuations include, but are not limited to, the following:

- Variations in our actual or anticipated operating results or changes in the expectations of financial market analysts with respect to our results.
- Investor perceptions of the insurance industry in general and our company in particular.
- Market conditions in the insurance industry and any significant volatility in the market.
- Major catastrophic events.
- Departure of our key personnel.
- Certain provisions of our organizational documents, as well as applicable insurance laws, could impede an attempt to replace or remove our management, prevent the sale of our company or prevent or frustrate any attempt by stockholders to change the direction of our company, each of which could diminish the value of our common stock.

Our articles of incorporation and bylaws, as well as applicable laws governing corporations and insurance companies, contain provisions that could impede an attempt to replace or remove our management or prevent the sale of our company that, in either case, stockholders might consider being in their best interests. For example:

- Our Board of Directors is divided into three classes. At any annual meeting of our stockholders, our stockholders have the right to appoint approximately one-third of the directors on our Board of Directors. Consequently, it will take at least two annual stockholder meetings to effect a change in control of our Board of Directors.
- Our articles of incorporation limit the rights of stockholders to call special stockholder meetings.
- Our articles of incorporation set the minimum number of directors constituting the entire Board of Directors at nine and the maximum at 15, and they require approval of holders of two-thirds of all outstanding shares to amend these provisions.
- Our articles of incorporation require the affirmative vote of two-thirds of all outstanding shares to approve any plan of merger, consolidation, or sale or exchange of all, or substantially all, of our assets.

- Our Board of Directors may fill vacancies on the Board of Directors.
- Our Board of Directors has the authority, without further approval of our stockholders, to issue shares of preferred stock having such rights, preferences and privileges as the Board of Directors may determine.
- Section 490.1110 of the Iowa Business Corporation Act imposes restrictions on mergers and other business combinations between us and any holder of 10.0 percent or more of our common stock.
- Section 490.624A of the Iowa Business Corporation Act authorizes the terms and conditions of stock rights or options issued by us to include restrictions or conditions that preclude or limit the exercise, transfer, or receipt of such rights or options by a person, or group of persons, owning or offering to acquire a specified number or percentage of the outstanding common shares or other securities of the corporation.

Further, the insurance laws of Iowa and the states in which our subsidiary insurance companies are domiciled prohibit any person from acquiring direct or indirect control of us or our insurance company subsidiaries, generally defined as owning or having the power to vote 10.0 percent or more of our outstanding voting stock, without the prior written approval of state regulators.

These provisions of our articles of incorporation and bylaws, and these state laws governing corporations and insurance companies, may discourage potential acquisition proposals. These provisions and state laws may also delay, deter or prevent a change of control of our company, in particular through unsolicited transactions that some or all of our stockholders might consider to be desirable. As a result, efforts by our stockholders to change the direction or our company's management may be unsuccessful, and the existence of such provisions may adversely affect market prices for our common stock if they are viewed as discouraging takeover attempts.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own three buildings: a five-story office building, a two-story office building and an eight-story office building in which a portion of the first floor (approximately 5.7 percent of the building's square footage) is leased to tenants, and related parking facilities in Cedar Rapids, Iowa, that we use as our corporate headquarters. All three buildings are connected by a skywalk system. We also own a 250-space parking ramp, which is located adjacent to our corporate headquarters, for use by our employees. The parking ramp is located upon a parcel of real estate that we own and a parcel that we lease with an option to purchase.

Our regional locations in Westminster, Colorado, and Galveston, Texas, and our claims office in Metairie, Louisiana, conduct operations in leased office space.

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The following table shows a brief description of our owned and leased office space. We believe our current facilities are adequate to meet our needs with additional space available for future expansion, if necessary, at each of our leased and owned facilities.

Location	Utilized by	Owned or Leased	Lease Expiration Date
Corporate Headquarters –			
Cedar Rapids, Iowa (118 Second Avenue SE)	Corporate Administration, Property and Casualty Segment	Owned	N/A
Cedar Rapids, Iowa (119 Second Avenue SE)	Corporate Administration, Life Insurance Segment	Owned	N/A
Cedar Rapids, Iowa (109 Second Street SE)	Property and Casualty Segment	Owned	N/A
Denver Regional Office – Westminster, Colorado	Property and Casualty Segment	Leased	June 30, 2015
Gulf Coast Regional Office – Galveston, Texas	Property and Casualty Segment	Leased	November 30, 2014
New Orleans Claims Office – Metairie, Louisiana	Property and Casualty Segment	Leased	September 30, 2012

ITEM 3. LEGAL PROCEEDINGS

Incorporated by reference from Note 16 "Contingent Liabilities" contained in Part II, Item 8, "Financial Statements and Supplementary Data."

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the stockholders during the fourth quarter of 2010.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stockholders

United Fire's common stock is traded on The NASDAQ Stock Market LLC ("NASDAQ") under the symbol "UFCS." On February 1, 2011, there were 880 holders of record of United Fire common stock. The number of record holders does not reflect stockholders who beneficially own common stock in nominee or street name, but does include participants in our employee stock ownership plan.

See "Security Ownership of Certain Beneficial Owners," "Security Ownership of Management" and "Securities Authorized for Issuance under Equity Compensation Plans," in Part III, Item 12 of this Form 10-K, which incorporates by reference our definitive Proxy Statement for our annual meeting of stockholders to be held on May 18, 2011. The Proxy Statement will be filed with the SEC within 120 days after the end of our fiscal year (the "2011 Proxy Statement") and is incorporated herein by reference.

Dividends

Our practice has been to pay quarterly cash dividends, which we have paid every quarter since March 1968.

The table in the following section shows the quarterly cash dividends declared in 2010 and 2009. Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. We will only pay dividends if declared by our Board of Directors, out of funds legally available, and subject to any other restrictions that may be applicable to us.

State law permits the payment of dividends only from earned surplus arising from business operations. Furthermore, under Iowa law we may pay dividends only if after giving effect to the payment we are either able to pay our debts as they become due in the normal course of business or our total assets would be equal to or more than the sum of our total liabilities. Our subsidiaries are also subject to similar state law restrictions on dividends. Additional information about these restrictions is incorporated by reference from Note 7 “Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions” contained in Part II, Item 8, “Financial Statements and Supplementary Data.”

Market Information

The following table sets forth the high and low trading price for our common stock for the calendar periods indicated. These quotations reflect interdealer prices without retail markups, markdowns, or commissions and may not necessarily represent actual transactions.

	Share Price		Cash Dividends
	High	Low	Declared
2010			
Quarter Ended:			
March 31	$18.92	$15.99	$0.15
June 30	24.57	17.55	0.15
September 30	22.67	18.86	0.15
December 31	23.41	19.82	0.15
2009			
Quarter Ended:			
March 31	$31.31	$15.72	$0.15
June 30	24.75	16.47	0.15
September 30	21.66	16.39	0.15
December 31	21.30	16.50	0.15

Issuer Purchases of Equity Securities

Under our share repurchase program, first announced in August 2007, we may purchase common stock from time to time on the open market or through privately negotiated transactions. The amount and timing of any purchases will be at our discretion and will depend upon a number of factors, including the share price, economic and general market conditions, and corporate and regulatory requirements. We will generally consider repurchasing company stock on the open market if the trading price on NASDAQ drops below 130 percent of its book value and sufficient excess capital is available to purchase the stock. Our share repurchase program may be modified or discontinued at any time.

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The following table provides information with respect to purchases of shares of common stock made by or on our behalf or by any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, during the three-month period ended December 31, 2010.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may be Purchased Under the Plans or Programs
10/1/10 - 10/31/10	28,168	$19.94	28,168	183,400
11/1/10 - 11/30/10	10,574	19.95	10,574	172,826
12/1/10 - 12/31/10	—	—	—	172,826

(1) Our share repurchase program was originally announced in August 2007 and allowed us to repurchase up to an additional 600,000 shares of our common stock, bringing our total repurchase authorization to 687,167 shares. The program was extended for an additional two years by the board of directors in August 2009. It is currently set to expire in August 2011.

United Fire & Casualty Company Common Stock Performance Graph

The following graph compares the performance of an investment in our common stock from December 31, 2005, through December 31, 2010, with the Standard & Poor’s 500 Index (“S&P 500 Index”), Standard & Poor’s 600 Property and Casualty Index (“S&P 600 P&C Index”), Russell 2000 Index, the SNL Insurance Company Index and the SNL Property & Casualty Insurance Index. The graph assumes $100 was invested on December 31, 2005, in each of our common stock and the above listed indices and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

In order to provide a better comparison, we have replaced the Russell 2000 Index, the SNL Insurance Company Index and the SNL Property & Casualty Insurance Index, the indices used in previous years, with the S&P 500 Index and S&P 600 P&C Index for stockholder return purposes. These indices were also chosen because we believe they are a more appropriate benchmark against which to measure stock performance. Please note that the Russell 2000 Index, the SNL Insurance Company Index and the SNL Property & Casualty Insurance Index are represented in the following graph in accordance with Item 201(e)(4) of Regulation S-K, which requires that both the new and old index be shown if the graph shows a different index from that used in the preceding year. We will not include the Russell 2000 Index, the SNL Insurance Company Index and the SNL Property & Casualty Insurance Index in our December 31, 2011 Form 10-K.

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The following table shows the data used in the Total Return Performance graph above.

	Period Ending					
Index	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
United Fire & Casualty Company	$100.00	$88.52	$74.20	$80.87	$49.04	$61.84
S&P 500 Index	100.00	115.79	122.16	76.96	97.33	111.99
S&P 600 P&C Index	100.00	110.41	97.07	89.82	77.45	94.43
Russell 2000 Index	100.00	116.57	125.86	97.42	105.33	125.60
SNL Insurance P&C	100.00	109.90	110.60	59.04	67.69	81.27
SNL Insurance	100.00	118.37	116.51	77.15	98.11	124.46

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data derived from the Consolidated Financial Statements of United Fire and its subsidiaries and affiliate. The data should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 8, "Financial Statements and Supplementary Data."

(In Thousands, Except Per Share Data)

Years Ended December 31	2010	2009	2008	2007	2006
Consolidated Balance Sheet Data:					
Total cash and investments	$2,662,955	$2,542,693	$2,205,355	$2,399,141	$2,388,387
Total assets	3,007,439	2,902,544	2,687,130	2,760,554	2,776,067
Future policy benefits and losses, claims and loss settlement expenses					
Property and casualty insurance (1)	603,090	606,045	586,109	496,083	518,886
Life insurance	1,389,331	1,321,600	1,167,665	1,184,977	1,233,342
Unearned premiums	200,341	206,010	216,966	224,530	231,377
Total liabilities	2,291,015	2,229,809	2,045,389	2,009,057	2,095,259
Net unrealized gains, after tax (2)	102,649	82,491	25,543	85,579	93,519
Repurchase of United Fire common stock	(6,280)	(1,545)	(14,817)	(16,078)	—
Total stockholders' equity(3)	716,424	672,735	641,741	751,497	680,808