

UNITED FIRE & CASUALTY CO  
Form 10-Q  
August 05, 2011  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended June 30, 2011

Commission File Number 001-34257

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

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Iowa  
(State of Incorporation)

42-0644327  
(IRS Employer Identification No.)

118 Second Avenue, S.E., Cedar Rapids, Iowa 52407  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (319) 399-5700

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 R NO o

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer  Accelerated filer  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

As of August 1, 2011, 25,880,210 shares of common stock were outstanding.

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United Fire & Casualty Company and Subsidiaries  
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June 30, 2011

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FORWARD-LOOKING INFORMATION

It is important to note that our actual results could differ materially from those projected in our 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 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A “Risk Factors.”

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## United Fire &amp; Casualty Company and Subsidiaries

## Consolidated Balance Sheets

(In Thousands, Except Per Share Data and Number of Shares)

	June 30, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$5,699 in 2011 and \$6,422 in 2010)	\$5,664	\$6,364
Available-for-sale, at fair value (amortized cost \$2,526,183 in 2011 and \$2,178,666 in 2010)	2,644,475	2,278,429
Equity securities, at fair value (cost \$69,858 in 2011 and \$54,139 in 2010)	166,315	149,706
Trading securities, at fair value (amortized cost \$14,763 in 2011 and \$12,322 in 2010)	15,058	12,886
Mortgage loans	6,423	6,497
Policy loans	7,328	7,875
Other long-term investments	20,647	20,041
Short-term investments	1,500	1,100
	\$2,867,410	\$2,482,898
Cash and cash equivalents	\$177,414	\$180,057
Accrued investment income	32,211	28,977
Premiums receivable (net of allowance for doubtful accounts of \$715 in 2011 and \$1,001 in 2010)	189,582	124,459
Deferred policy acquisition costs	111,290	87,524
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$34,962 in 2011 and \$33,397 in 2010)	36,929	21,554
Reinsurance receivables and recoverables	124,840	46,731
Prepaid reinsurance premiums	8,477	1,586
Income taxes receivable	24,432	17,772
Goodwill and intangible assets	31,681	—
Other assets	17,668	15,881
<b>TOTAL ASSETS</b>	<b>\$3,621,934</b>	<b>\$3,007,439</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	\$949,668	\$603,090
Life insurance	1,419,797	1,389,331
Unearned premiums	302,133	200,341
Accrued expenses and other liabilities	133,217	78,439
Deferred income taxes	13,828	19,814
Debt	82,900	—
Trust preferred securities	15,618	—
<b>TOTAL LIABILITIES</b>	<b>\$2,917,161</b>	<b>\$2,291,015</b>
Stockholders' Equity		

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Common stock, \$3.33 1/3 par value; authorized 75,000,000 shares; 25,880,210 and 26,195,552 shares issued and outstanding in 2011 and 2010, \$86,267 respectively		\$87,318
Additional paid-in capital	132,200	136,147
Retained earnings	396,037	415,981
Accumulated other comprehensive income, net of tax	90,269	76,978
TOTAL STOCKHOLDERS' EQUITY	\$704,773	\$716,424
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,621,934	\$3,007,439

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

Table of ContentsUnited Fire & Casualty Company and Subsidiaries  
Consolidated Statements of Income (Unaudited)

(In Thousands, Except Per Share Data and Number of Shares)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Revenues</b>				
Net premiums earned	\$152,210	\$117,082	\$266,414	\$231,390
Investment income, net of investment expenses	27,741	28,291	54,804	56,259
Net realized investment gains				
Other-than-temporary impairment charges	—	(117 )	—	(459 )
All other net realized gains	1,124	2,463	3,777	5,531
Total net realized investment gains	1,124	2,346	3,777	5,072
Other income	729	295	885	418
	\$181,804	\$148,014	\$325,880	\$293,139
<b>Benefits, Losses and Expenses</b>				
Losses and loss settlement expenses	\$135,811	\$72,757	\$211,993	\$141,120
Future policy benefits	7,880	7,375	16,062	13,765
Amortization of deferred policy acquisition costs	43,732	27,922	69,778	54,438
Other underwriting expenses	14,720	10,973	30,777	20,186
Interest on policyholders' accounts	10,657	10,647	21,327	21,448
	\$212,800	\$129,674	\$349,937	\$250,957
Income (loss) before income taxes	\$(30,996 )	\$18,340	\$(24,057 )	\$42,182
Federal income tax expense (benefit)	(13,082 )	4,409	(11,953 )	9,138
Net Income (Loss)	\$(17,914 )	\$13,931	\$(12,104 )	\$33,044
<b>Weighted average common shares outstanding</b>				
Basic earnings (loss) per common share	(0.69 )	0.53	(0.46 )	1.25
Diluted earnings (loss) per common share	(0.69 )	0.53	(0.46 )	1.25
Cash dividends declared per common share	0.15	0.15	0.30	0.30

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.



Table of ContentsUnited Fire & Casualty Company and Subsidiaries  
Consolidated Statement of Stockholders' Equity (Unaudited)

(In Thousands, Except Per Share Data)	Six Months Ended June 30, 2011
Common stock	
Balance, beginning of year	\$87,318
Shares repurchased (323,597 shares)	(1,078 )
Shares issued for stock-based awards (8,255 shares)	27
Balance, end of period	\$86,267
Additional paid-in capital	
Balance, beginning of year	\$136,147
Compensation expense and related tax benefit for stock-based award grants	945
Shares repurchased	(5,004 )
Shares issued for stock-based awards	112
Balance, end of period	\$132,200
Retained earnings	
Balance, beginning of year	\$415,981
Net income (loss)	(12,104 )
Dividends on common stock (\$0.30 per share)	(7,840 )
Balance, end of period	\$396,037
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	\$76,978
Change in net unrealized appreciation <sup>(1)</sup>	12,455
Change in underfunded status of employee benefit plans	836
Balance, end of period	\$90,269
Summary of changes	
Balance, beginning of year	\$716,424
Net income (loss)	(12,104 )
All other changes in stockholders' equity accounts	453
Balance, end of period	\$704,773

(1) The change in net unrealized appreciation is net of reclassification adjustments.

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire & Casualty Company and Subsidiaries  
Consolidated Statements of Cash Flows (Unaudited)  
(In Thousands)

	Six Months Ended June 30,	
	2011	2010
Cash Flows From Operating Activities		
Net income (loss)	\$(12,104	) \$33,044
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Net accretion of bond premium	3,768	1,891
Depreciation and amortization	1,708	1,455
Stock-based compensation expense	939	878
Net realized investment gains	(3,777	) (5,072
Net cash flows from trading investments	(2,104	) 2,379
Deferred income tax expense (benefit)	(7,571	) 2,976
Changes in:		
Accrued investment income	507	(761
Premiums receivable	(29,226	) (16,915
Deferred policy acquisition costs	(6,373	) (4,614
Reinsurance receivables	(5,883	) (7,374
Prepaid reinsurance premiums	(602	) (86
Income taxes receivable	(4,029	) 11,464
Other assets	(806	) 1,859
Future policy benefits and losses, claims and loss settlement expenses	52,813	12,659
Unearned premiums	29,542	16,881
Accrued expenses and other liabilities	25,493	(4,377
Deferred income taxes	(1,019	) (2,325
Other, net	(486	) (494
Total adjustments	\$52,894	\$10,424
Net cash provided by operating activities	\$40,790	\$43,468
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	\$21,367	\$3,402
Proceeds from call and maturity of held-to-maturity investments	709	1,603
Proceeds from call and maturity of available-for-sale investments	316,235	192,888
Proceeds from short-term and other investments	1,554	3,200
Purchase of available-for-sale investments	(292,808	) (277,962
Purchase of short-term and other investments	(1,706	) (3,308
Change in securities lending collateral	—	(75,013
Net purchases and sales of property and equipment	3,486	(960
Acquisition of property and casualty company, net of cash acquired	(172,619	) —
Net cash used in investing activities	\$(123,782	) \$(156,150
Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	\$71,489	\$70,669
Withdrawals from investment and universal life contracts	(57,263	) (55,437
Borrowings of short-term debt	79,900	—
Change in securities lending payable	—	75,013
Payment of cash dividends	(7,840	) (7,910
Repurchase of common stock	(6,082	) (3,689
Issuance of common stock	139	23

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Tax benefit from issuance of common stock	6	1	
Net cash provided by financing activities	\$80,349	\$78,670	
Net Change in Cash and Cash Equivalents	\$(2,643	) \$(34,012	)
Cash and Cash Equivalents at Beginning of Period	180,057	190,852	
Cash and Cash Equivalents at End of Period	\$177,414	\$156,840	

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire & Casualty Company and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

The terms “United Fire,” “we,” “us,” or “our” refer to United Fire & Casualty Company or United Fire & Casualty Company and its consolidated subsidiaries and its affiliate, as the context requires. We are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. We are licensed as a property and casualty insurer in 43 states plus the District of Columbia and as a life insurer in 29 states.

Basis of Presentation

We maintain our records in conformity with the accounting practices prescribed or permitted by the insurance departments of the states in which we are domiciled. To the extent that certain of these practices differ from U.S. generally accepted accounting principles (“GAAP”), we have made adjustments to present the accompanying unaudited Consolidated Financial Statements in conformity with GAAP. Certain financial information that is included in our Annual Report on Form 10-K, including certain financial statement footnote disclosures, are not required by the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting and have been condensed or omitted.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The financial statement categories that are most dependent on management estimates and assumptions include: investments; deferred policy acquisition costs; goodwill and intangible assets; and future policy benefits and losses, claims and loss settlement expenses.

In the preparation of the accompanying unaudited Consolidated Financial Statements, we have evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure therein.

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

In the opinion of the management of United Fire, the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010. The review report of Ernst & Young LLP as of and for the three- and six-month periods ended June 30, 2011, accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 “Financial Statements.”

Acquisition of Mercer Insurance Group

On March 28, 2011, we acquired 100 percent of the outstanding common stock of Mercer Insurance Group for cash consideration of \$191.5 million. Accordingly, the results of operations for Mercer Insurance Group have been included in the accompanying unaudited Consolidated Financial Statements from that date forward. After the acquisition, we market through over 1,200 independent property and casualty agencies. In addition, the acquisition allows us to diversify our exposure to weather and other catastrophe risks across our geographic markets.

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This transaction was accounted for under the purchase method of accounting using Mercer Insurance Group historical financial information and applying fair value estimates to the acquired assets, liabilities and commitments as of the acquisition date. For additional information related to this acquisition, see Note 10, "Business Combinations."

In connection with this acquisition, we incurred \$5.5 million of expense in the first quarter of 2011 related to change in control payments made to the former executive officers of Mercer Insurance Group.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, money market accounts, and non-negotiable certificates of deposit with original maturities of three months or less.

For the six-month periods ended June 30, 2011 and 2010, we made payments for income taxes of \$0.6 million and \$10.5 million, respectively. For the six-month period ended June 30, 2011, we received no tax refunds compared to tax refunds of \$13.5 million for the same period of 2010, that were received due to the overpayment of prior year tax and operating loss carrybacks.

We made no significant payments of interest for the six-month periods ended June 30, 2011 and 2010, other than for interest credited to policyholders' accounts.

Income Taxes

Deferred tax assets and liabilities are established based on differences between the financial statement bases of assets and liabilities and the tax bases of those same assets and liabilities, using the currently enacted statutory tax rates. Deferred income tax expense is measured by the year-to-year change in the net deferred tax asset or liability, except for certain changes in deferred tax amounts that affect stockholders' equity and do not impact federal income tax expense.

We reported a federal income tax benefit of \$12.0 million and a federal income tax expense of \$9.1 million for the six-month periods ended June 30, 2011 and 2010, respectively. Our effective tax rate is different than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

We have recognized no liability for unrecognized tax benefits at June 30, 2011 or December 31, 2010, or at any time during the six-month period ended June 30, 2011. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

We file a consolidated federal income tax return. We also file income tax returns in various state jurisdictions. We are no longer subject to federal or state income tax examination for years before 2006. There are ongoing examinations of income tax returns by the Internal Revenue Service of the 2008 tax year, by the State of Illinois of the 2007 and 2008 tax years and by the State of Florida of the 2008 through 2010 tax years.

Recently Issued Accounting Standards

Adopted Accounting Standards

Fair Value Measurements

In January 2010, the Financial Accounting Standards Board ("FASB") issued revised accounting guidance that clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements. The guidance requires separate disclosures for the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements, along with an explanation for the transfers. Additionally, a separate disclosure is required for purchases, sales, issuances and settlements on a gross basis for Level 3 fair value measurements. The guidance also provides additional clarification for both the level of disaggregation reported for

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each class of assets or liabilities and disclosures of inputs and valuation techniques used to measure fair value for both recurring and non-recurring fair value measurements for assets and liabilities categorized as Level 2 or Level 3. The new disclosures and clarifications of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. Refer to Note 3 "Fair Value of Financial Instruments" for the information required to be disclosed upon our adoption of the guidance, effective January 1, 2011.

Pending Adoption of Accounting Standards

Policy Acquisition Costs

In October 2010, the FASB issued updated accounting guidance to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be incremental and directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. Acquisition costs that are not eligible for deferral are to be charged to expense in the period incurred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2011. We are currently evaluating the impact that our adoption of the guidance, effective January 1, 2012, will have on our Consolidated Financial Statements.

Fair Value Measurements

In May 2011, the FASB issued updated accounting guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between GAAP and International Financial Reporting Standards. The guidance also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. We are currently evaluating the impact that our adoption of the guidance, effective January 1, 2013, will have on the information disclosed in our Consolidated Financial Statements.

Comprehensive Income

In June 2011, the FASB issued revised accounting guidance that eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, comprehensive income must be reported in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. The guidance will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. This new guidance is to be applied retrospectively. We have not adopted this guidance and currently we are evaluating the impact that our adoption of this guidance will have on the presentation of our Consolidated Financial Statements.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities as of June 30, 2011 and December 31, 2010, is as follows:

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June 30, 2011	(Dollars in Thousands)			
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
<b>HELD-TO-MATURITY</b>				
Fixed maturities				
Bonds				
States, municipalities and political subdivisions				
General obligations	\$ 733	\$ 8	\$—	\$ 741
Special revenue				
Midwest				
North central - East	353	20	—	373
North central - West	268	19	—	287
Northeast	230	6	—	236
South	793	2	94	701
West	2,838	30	—	2,868
Collateralized mortgage obligations	64	3	—	67
Mortgage-backed securities	385	41	—	426
Total Held-to-Maturity Fixed Maturities	\$ 5,664	\$ 129	\$ 94	\$ 5,699
<b>AVAILABLE-FOR-SALE</b>				
Fixed maturities				
Bonds				
U.S. government and government- sponsored enterprises				
U.S. Treasury	\$ 40,100	\$ 1,163	\$—	\$ 41,263
Agency	107,197	195	433	106,959
States, municipalities and political subdivisions				
General obligations				
Midwest				
North central - East	123,304	8,439	84	131,659
North central - West	74,823	5,612	—	80,435
Northeast	38,952	2,343	—	41,295
South	104,747	8,136	12	112,871
West	67,618	4,241	20	71,839
Special revenue				
Midwest				
North central - East	69,969	3,526	44	73,451
North central - West	51,540	2,620	96	54,064
Northeast	13,907	470	2	14,375
South	95,604	4,622	40	100,186
West	55,804	3,090	3	58,891
Foreign bonds				
Canadian	63,569	3,596	159	67,006
Other foreign	98,242	4,940	217	102,965
Public utilities				
Electric	218,289	12,012	327	229,974
Oil and gas	27,430	1,584	106	28,908
Other	9,044	343	—	9,387
Corporate bonds				

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Oil and gas	179,621	6,665	306	185,980
Chemicals	66,191	3,159	160	69,190
Basic resources	18,609	564	182	18,991
Construction and materials	20,409	737	—	21,146
Industrial goods and services	162,890	7,318	370	169,838

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Auto and parts	12,680	611	41	13,250
Food and beverage	73,454	2,708	39	76,123
Personal and household goods	64,197	3,053	127	67,123
Health care	109,703	6,050	45	115,708
Retail	49,796	2,290	31	52,055
Media	40,239	1,980	99	42,120
Travel and leisure	5,867	12	50	5,829
Telecommunications	42,250	1,851	7	44,094
Utilities	10,500	619	—	11,119
Banks	142,485	6,814	929	148,370
Insurance	28,926	1,031	—	29,957
Real estate	21,732	2,811	202	24,341
Financial services	109,912	3,766	756	112,922
Technology	29,857	1,174	196	30,835
Collateralized mortgage obligations				
Government	30,339	2,360	8	32,691
Other	302	2	—	304
Mortgage-backed securities	39,108	570	2	39,676
Asset-backed securities	6,572	524	220	6,876
Redeemable preferred stocks	405	4	—	409
Total Available-For-Sale Fixed Maturities	\$2,526,183	\$123,605	\$5,313	\$2,644,475
Equity securities				
Common stocks				
Public utilities				
Electric	\$5,921	\$4,945	\$1	\$10,865
Oil and gas	928	2,004	—	2,932
Other	76	4	—	80
Corporate				
Oil and gas	5,094	7,126	—	12,220
Chemicals	2,734	3,649	—	6,383
Industrial good and services	9,427	15,158	55	24,530
Auto and parts	257	621	—	878
Food and beverage	2,124	3,861	—	5,985
Personal and household goods	6,857	3,729	—	10,586
Health care	7,612	7,365	134	14,843
Retail	2,609	491	63	3,037
Media	147	—	3	144
Telecommunications	2,399	3,741	3	6,137
Utilities	1,502	138	—	1,640
Banks	12,971	31,708	178	44,501
Insurance	3,209	10,025	8	13,226
Real estate	393	782	43	1,132
Financial services	300	241	—	541
Technology	1,664	1,436	17	3,083
Nonredeemable preferred stocks	3,634	19	81	3,572
Total Available-for-Sale Equity Securities	\$69,858	\$97,043	\$586	\$166,315
Total Available-for-Sale Securities	\$2,596,041	\$220,648	\$5,899	\$2,810,790



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December 31, 2010	(Dollars in Thousands)			
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
<b>HELD-TO-MATURITY</b>				
Fixed maturities				
Bonds				
States, municipalities and political subdivisions				
General obligations	731	10	—	741
Special revenue				
Midwest				
North central - East	364	27	—	391
North central - West	488	23	—	511
Northeast	230	12	—	242
South	1,067	4	108	963
West	2,957	36	—	2,993
Collateralized mortgage obligations	83	4	—	87
Mortgage-backed securities	444	50	—	494
Total Held-to-Maturity Fixed Maturities	\$6,364	\$ 166	\$ 108	\$6,422
<b>AVAILABLE-FOR-SALE</b>				
Fixed maturities				
Bonds				
U.S. government and government- sponsored enterprises				
U.S. Treasury	38,133	943	—	39,076
Agency	104,049	96	1,014	103,131
States, municipalities and political subdivisions				
General obligations				
Midwest				
North central - East	121,273	6,634	137	127,770
North central - West	76,699	4,491	58	81,132
Northeast	27,861	1,664	—	29,525
South	92,795	6,555	53	99,297
West	53,160	2,983	90	56,053
Special revenue				
Midwest				
North central - East	59,063	2,205	175	61,093
North central - West	38,827	1,744	266	40,305
Northeast	4,505	247	9	4,743
South	71,486	3,405	144	74,747
West	42,363	2,182	—	44,545
Foreign bonds				
Canadian	69,209	3,908	194	72,923
Other foreign	85,434	4,588	268	89,754
Public utilities				
Electric	207,047	12,179	519	218,707
Oil and gas	53,919	1,724	359	55,284
Corporate bonds				
Oil and gas	150,692	6,957	138	157,511

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Chemicals	58,570	2,808	35	61,343
Basic resources	8,043	582	—	8,625
Construction and materials	19,385	873	—	20,258
Industrial goods and services	141,509	7,102	481	148,130
Auto and parts	13,453	1,003	—	14,456

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Food and beverage	70,613	3,531	111	74,033
Personal and household goods	65,525	2,953	289	68,189
Health care	78,595	4,933	186	83,342
Retail	42,150	2,139	329	43,960
Media	33,276	1,786	—	35,062
Travel and leisure	5,882	61	77	5,866
Telecommunications	33,131	2,094	51	35,174
Utilities	13,620	521	—	14,141
Banks	117,506	5,817	1,689	121,634
Insurance	25,682	799	14	26,467
Real estate	20,903	1,101	267	21,737
Financial services	94,036	3,770	983	96,823
Technology	15,952	1,070	334	16,688
Collateralized mortgage obligations	17,564	2,013	—	19,577
Mortgage-backed securities	2	—	—	2
Asset-backed securities	6,754	572	—	7,326
Total Available-For-Sale Fixed Maturities	\$2,178,666	\$108,033	\$8,270	\$2,278,429
Equity securities				
Common stocks				
Public utilities				
Electric	\$5,921	\$4,164	\$1	\$10,084
Oil and gas	928	1,746	—	2,674
Corporate				
Oil and gas	4,903	6,235	—	11,138
Chemicals	2,734	3,345	—	6,079
Industrial goods and services	8,112	15,185	—	23,297
Auto and parts	704	922	—	1,626
Food and beverage	682	3,792	—	4,474
Personal and household goods	4,785	2,985	—	7,770
Health care	6,366	6,368	187	12,547
Retail	380	348	—	728
Travel and leisure	1	—	—	1
Telecommunications	2,150	3,138	—	5,288
Utilities	1,102	47	2	1,147
Banks	9,517	34,636	100	44,053
Insurance	3,129	11,320	41	14,408
Real estate	619	967	40	1,546
Financial services	282	—	15	267
Technology	363	826	—	1,189
Nonredeemable preferred stocks	1,461	3	74	1,390
Total Available-for-Sale Equity Securities	\$54,139	\$96,027	\$460	\$149,706
Total Available-for-Sale Securities	\$2,232,805	\$204,060	\$8,730	\$2,428,135

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## Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading securities at June 30, 2011, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

(In Thousands)	Held-To-Maturity		Available-For-Sale		Trading	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
June 30, 2011						
Due in one year or less	\$245	\$251	\$261,784	\$268,500	\$2,712	\$2,798
Due after one year through five years	4,967	4,952	1,173,647	1,240,235	4,645	4,681
Due after five years through 10 years	3	3	950,562	990,505	496	495
Due after 10 years	—	—	63,869	65,688	6,910	7,084
Asset-backed securities	—	—	6,572	6,876	—	—
Mortgage-backed securities	385	426	39,108	39,676	—	—
Collateralized mortgage obligations	64	67	30,641	32,995	—	—
	\$5,664	\$5,699	\$2,526,183	\$2,644,475	\$14,763	\$15,058

## Net Realized Investment Gains and Losses

Net realized gains (losses) on disposition of investments are computed using the specific identification method and are included in the computation of net income. A summary of net realized investment gains resulting from investment sales, calls and other-than-temporary impairment (“OTTI”) charges is as follows:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net realized investment gains (losses)				
Fixed maturities	\$1,048	\$373	\$2,434	\$862
Equity securities	218	2,565	1,334	4,909
Trading securities	(38 )	(592 )	278	(684 )
Other long-term investments	(104 )	—	(269 )	(15 )
Total net realized investment gains	\$1,124	\$2,346	\$3,777	\$5,072

The proceeds and gross realized gains and losses on the sale of available-for-sale securities are as follows:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Proceeds from sales	\$16,520	\$2,800	\$21,367	\$3,402
Gross realized gains	261	1,513	351	1,915
Gross realized losses	172	—	688	—

There were no sales of held-to-maturity securities during the six-month periods ended June 30, 2011 and 2010.

Our investment portfolio includes trading securities with embedded derivatives. These securities, which are primarily convertible redeemable preferred debt securities, are recorded at fair value. Income or loss, including the change in the fair value of these trading securities, is recognized currently in earnings as a component of net realized investment gains and losses. Our portfolio of trading securities had a fair value of \$15.1 million and \$12.9 million at June 30, 2011 and December 31, 2010, respectively.

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The realized gains and losses attributable to the change in fair value during the reporting period of trading securities held at June 30, 2011 and 2010 are as follows:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Trading				
Realized gains	\$ (164 )	\$ —	\$ 31	\$ —
Realized losses	273	609	300	896

## Off-Balance Sheet Arrangements

Pursuant to an agreement with one of our limited liability partnership holdings, we are contractually committed to make capital contributions up to \$15.0 million, upon request by the partnership, through December 31, 2017. Our remaining potential contractual obligation was \$10.1 million at June 30, 2011.

## Unrealized Appreciation and Depreciation

A summary of changes in net unrealized investment appreciation during the reporting period is as follows:

(In Thousands)	Six Months Ended June 30,	
	2011	2010
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities and equity securities	\$ 19,419	\$ 24,526
Deferred policy acquisition costs	(257 )	(11,576 )
Income tax effect	(6,707 )	(4,533 )
Total change in net unrealized appreciation, net of tax	\$ 12,455	\$ 8,417

In the above table, changes in deferred policy acquisition costs for our life insurance segment are affected by fluctuations that may occur in the interest rate environment from time to time.

We continually monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires OTTI charges to be recorded when we determine that it is more likely than not that we will be unable to collect all amounts due according to the contractual terms of the fixed maturity security or that the anticipated recovery in fair value of the equity security will not occur in a reasonable amount of time. Impairment charges on investments are recorded based on the fair value of the investments at the measurement date. Factors considered in evaluating whether a decline in value is other-than-temporary include: the length of time and the extent to which fair value has been less than cost; the financial condition and near-term prospects of the issuer; our intention to hold the investment; and the likelihood that we will be required to sell the investment.

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position at June 30, 2011 and December 31, 2010. The securities are presented by the length of time they have been continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at June 30, 2011, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We believe the unrealized depreciation in value of securities in our fixed maturity portfolio is primarily attributable to changes in market interest rates and not the credit quality of the issuer. We have no intent to sell and it is more likely than not that we will not be required to sell these securities until such time as the fair value recovers to at least equal our cost basis or the securities mature.

We have evaluated the unrealized losses reported for all of our equity securities at June 30, 2011, and have concluded that the duration and severity of these losses do not warrant the recognition of an OTTI charge at June 30, 2011. Our largest unrealized loss greater than 12 months on an individual equity security at June 30, 2011 was \$0.1 million. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

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(In Thousands)

June 30, 2011	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
<b>HELD-TO-MATURITY</b>								
Fixed maturities								
Bonds								
States, municipalities and political subdivisions								
Special revenue								
South	—	\$—	\$—	1	\$601	\$ 94	\$601	\$ 94
Total Held-to-Maturity Fixed Maturities	—	\$—	\$—	1	\$601	\$ 94	\$601	\$ 94
<b>AVAILABLE-FOR-SALE</b>								
Fixed maturities								
Bonds								
U.S. government and government-sponsored enterprises								
Agency	13	52,606	433	—	—	—	52,606	433
States, municipalities and political subdivisions								
General obligations								
Midwest	5	2,688	84	—	—	—	2,688	84
South	3	1,992	12	—	—	—	1,992	12
West	1	771	20	—	—	—	771	20
Special revenue								
Midwest								
North central - East	—	—	—	1	866	44	866	44
North central - West	3	1,637	29	2	2,647	67	4,284	96
Northeast	—	—	—	1	618	2	618	2
South	6	4,461	40	—	—	—	4,461	40
West	1	245	3	—	—	—	245	3
Foreign bonds								
Canadian	2	7,403	159	—	—	—	7,403	159
Other foreign	5	14,658	190	1	1,115	27	15,773	217
Public utilities								
Electric	5	18,982	216	1	1,171	111	20,153	327
Oil and gas	2	4,558	106	—	—	—	4,558	106
Corporate bonds								
Oil and gas	6	22,175	306	—	—	—	22,175	306
Chemicals	2	8,374	160	—	—	—	8,374	160
Basic resources	2	7,992	182	—	—	—	7,992	182
Industrial goods and services	10	22,094	268	1	2,897	102	24,991	370
Auto and parts	2	3,117	41	—	—	—	3,117	41
Food and beverage	1	3,060	19	1	1,449	20	4,509	39
Personal and household goods	2	6,201	127	—	—	—	6,201	127



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Health care	1	3,005	45	—	—	—	3,005	45
Retail	1	3,431	31	—	—	—	3,431	31
Media	3	7,008	99	—	—	—	7,008	99
Travel and leisure	4	5,016	50	—	—	—	5,016	50
Telecommunications	1	1,975	7	—	—	—	1,975	7
Banks	4	2,845	1	8	17,488	928	20,333	929
Real estate	1	2,297	28	1	4,469	174	6,766	202
Financial services	2	8,378	109	15	5,297	647	13,675	756

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Technology	4	9,390	196	—	—	—	9,390	196
Collateralized mortgage obligations	8	1,476	8	—	—	—	1,476	8
Mortgage backed securities	—	—	—	3	745	2	745	2
Asset backed securities	2	466	220	—	—	—	466	220
Total Available-For-Sale Fixed Maturities	102	\$228,301	\$3,189	35	\$38,762	\$2,124	\$267,063	\$5,313
Equity securities								
Common stocks								
Public utilities	—	\$—	\$—	4	\$—	\$1	\$—	\$1
Corporate								
Industrial goods and services	12	1,564	55	—	—	—	1,564	55
Health care	4	439	25	1	385	109	824	134
Retail	6	689	63	—	—	—	689	63
Media	1	144	3	—	—	—	144	3
Telecommunications	1	16	3	—	—	—	16	3
Banks	2	360	65	1	441	113	801	178
Insurance	1	79	2	1	50	6	129	8
Real estate	1	78	11	2	156	32	234	43
Technology	3	575	17	—	—	—	575	17
Nonredeemable preferred stocks	—	—	—	2	1,151	81	1,151	81
Total Available-for-Sale Equity Securities	31	\$3,944	\$244	11	\$2,183	\$342	\$6,127	\$586
Total Available-for-Sale Securities	133	\$232,245	\$3,433	46	\$40,945	\$2,466	\$273,190	\$5,899
Total	133	\$232,245	\$3,433	47	\$41,546	\$2,560	\$273,791	\$5,993

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(In Thousands)

December 31, 2010	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
<b>HELD-TO-MATURITY</b>								
Fixed maturities								
Bonds								
States, municipalities and political subdivisions								
Special revenue	—	\$—	\$ —	2	\$590	\$ 108	\$590	\$ 108
Total Held-to-Maturity Fixed Maturities	—	\$—	\$ —	2	\$590	\$ 108	\$590	\$ 108
<b>AVAILABLE-FOR-SALE</b>								
Fixed maturities								
Bonds								
U.S. government and government-sponsored enterprises								
Agency	12	\$41,374	\$ 626	7	\$30,661	\$ 388	\$72,035	\$ 1,014
States, municipalities and political subdivisions								
General obligations								
Midwest								
North central - East	3	2,346	105	1	497	32	2,843	137
North central - West	1	860	58	—	—	—	860	58
South	2	947	53	—	—	—	947	53
West	3	2,723	90	—	—	—	2,723	90
Special revenue								
Midwest								
North central - East	7	8,275	96	2	2,554	79	10,829	175
North central - West	2	3,092	102	2	2,555	164	5,647	266
Northeast	—	—	—	1	771	9	771	9
South	3	3,964	144	—	—	—	3,964	144
Foreign bonds								
Canadian	1	5,687	194	—	—	—	5,687	194
Other foreign	2	6,634	235	2	2,873	33	9,507	268
Public utilities								
Electric	3	4,490	100	3	10,003	419	14,493	519
Oil and gas	—	—	—	3	5,840	359	5,840	359
Corporate bonds								
Oil and gas	—	—	—	2	5,748	138	5,748	138
Chemicals	3	3,366	19	1	4,939	16	8,305	35
Industrial goods and services	5	13,642	170	3	9,748	311	23,390	481
Food and beverage	1	2,006	12	2	4,491	99	6,497	111
Personal and household goods	3	9,233	241	2	3,039	48	12,272	289
Health care	4	14,416	186	—	—	—	14,416	186
Retail	4	9,370	322	1	2,308	7	11,678	329

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Travel and leisure	1	2,013	69	2	792	8	2,805	77
Telecommunications	2	2,696	51	—	—	—	2,696	51
Banks	1	2,920	18	15	28,887	1,671	31,807	1,689
Insurance	1	2,169	14	—	—	—	2,169	14
Real estate	1	4,539	177	1	2,256	90	6,795	267
Financial services	3	11,660	236	15	5,270	747	16,930	983
Other	—	—	—	3	8,628	334	8,628	334

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Total Available-For-Sale Fixed Maturities Equity securities	68	\$158,422	\$3,318	68	\$131,860	\$4,952	\$290,282	\$8,270
Common stocks								
Public utilities	—	\$—	\$—	4	\$—	\$1	\$—	\$1
Corporate								
Health care	2	1,437	63	1	371	124	1,808	187
Utilities	3	306	2	—	—	—	306	2
Banks	2	594	32	1	488	68	1,082	100
Insurance	1	260	28	1	43	13	303	41
Real estate	1	79	10	2	158	30	237	40
Financial services	1	267	15	—	—	—	267	15
Nonredeemable preferred stocks	—	—	—	2	1,158	74	1,158	74
Total Available-for-Sale Equity Securities	11	\$2,963	\$150	11	\$2,218	\$310	\$5,181	\$460
Total Available-for-Sale Securities	79	\$161,385	\$3,468	79	\$134,078	\$5,262	\$295,463	\$8,730
Total	79	\$161,385	\$3,468	81	\$134,668	\$5,370	\$296,053	\$8,838

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## NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

We estimate the fair value of our financial instruments based on relevant market information or by discounting estimated future cash flows at estimated current market discount rates appropriate to the specific asset or liability. In most cases, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. When quoted market prices do not exist, we base fair values on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

We base the estimated fair value of mortgage loans on discounted cash flows, utilizing the market rate of interest for similar loans in effect at the valuation date.

The estimated fair value of policy loans is equivalent to carrying value. We do not make policy loans for amounts in excess of the cash surrender value of the related policy. In all instances, the policy loans are fully collateralized by the related liability for future policy benefits for traditional insurance policies or by the policyholders' account balance for non-traditional policies.

Our other long-term investments consist primarily of holdings in limited liability partnership funds that are valued by the various fund managers and are recorded on the equity method of accounting. In management's opinion, these values represent fair value.

For cash and cash equivalents and accrued investment income, carrying value is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

We calculate the fair value of the liabilities for all of our annuity products based upon the estimated value of the business, using current market rates and forecast assumptions and risk-adjusted discount rates, when relevant observable market data does not exist.

A summary of the carrying value and estimated fair value of our financial instruments at June 30, 2011 and December 31, 2010 is as follows:

(In Thousands)	June 30, 2011		December 31, 2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Assets				
Investments				
Held-to-maturity fixed maturities	\$5,699	\$5,664	\$6,422	\$6,364
Available-for-sale fixed maturities	2,644,475	2,644,475	2,278,429	2,278,429
Equity securities	166,315	166,315	149,706	149,706
Trading securities	15,058	15,058	12,886	12,886
Mortgage loans	7,273	6,423	7,658	6,497
Policy loans	7,328	7,328	7,875	7,875
Other long-term investments	20,647	20,647	20,041	20,041
Short-term investments	1,500	1,500	1,100	1,100
Cash and cash equivalents	177,414	177,414	180,057	180,057
Accrued investment income	32,211	32,211	28,977	28,977
Liabilities				
Policy reserves				
Annuity (accumulations) <sup>(1)</sup>	\$1,003,859	\$962,819	\$965,932	\$948,920
Annuity (benefit payments)	110,213	90,359	102,511	86,874

(1) Annuity accumulations represent deferred annuity contracts which are currently earning interest.

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Current accounting guidance on fair value measurements includes the application of a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Our financial instruments that are recorded at fair value are categorized into a three-level hierarchy, which is based upon the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (i.e., Level 1) and the lowest priority to unobservable inputs (i.e., Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the financial instrument. Financial instruments recorded at fair value are categorized in the fair value hierarchy as follows:

Level 1: Valuations are based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.

Level 2: Valuations are based on quoted prices for similar financial instruments, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.

Level 3: Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

Transfers between levels, if any, are recorded as of the beginning of the reporting period.

To determine the fair value of the majority of our investments, we utilize prices obtained from independent, nationally recognized pricing services. We obtain one price for each security. When the pricing services cannot provide a determination of fair value for a specific security, we obtain non-binding price quotes from broker-dealers with whom we have had several years experience and who have demonstrated knowledge of the subject security. We request and utilize one broker quote per security.

We validate the prices obtained from pricing services and brokers prior to their use for reporting purposes by evaluating their reasonableness on a monthly basis. Our validation process includes a review for unusual fluctuations. In our opinion, the pricing obtained at June 30, 2011 was reasonable.

In order to determine the proper classification in the fair value hierarchy for each security where the price is obtained from an independent pricing service, we obtain and evaluate the vendors' pricing procedures and inputs used to price the security, which include unadjusted quoted market prices for identical securities, such as a New York Stock Exchange closing price and quoted prices for identical securities in markets that are not active. For fixed maturity securities, an evaluation of interest rates and yield curves observable at commonly quoted intervals, volatility, prepayment speeds, credit risks and default rates may also be performed. We have determined that these processes and inputs result in fair values and classifications consistent with the applicable current accounting guidance on fair value measurements.

We review our fair value hierarchy categorizations on a quarterly basis at which time the classification of certain financial instruments may change if the input observations have changed.

The following tables present the categorization for our financial instruments measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010:

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(In Thousands) Description	June 30, 2011	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>AVAILABLE-FOR-SALE</b>				
Fixed maturities				
Bonds				
U.S. government and government-sponsored enterprises				
U.S. Treasury	\$41,263	\$—	\$41,263	\$—
Agency	106,959	—	106,959	—
States, municipalities and political subdivisions				
General obligations				
North central - East	131,659	—	131,659	—
North central - West	80,435	—	80,435	—
Northeast	41,295	—	41,295	—
South	112,871	—	112,871	—
West	71,839	—	71,839	—
Special revenue				
North central - East	73,451	—	72,511	940
North central - West	54,064	—	54,064	—
Northeast	14,375	—	14,375	—
South	100,186	—	100,186	—
West	58,891	—	58,891	—
Foreign bonds				
Canadian	67,006	—	67,006	—
Other foreign	102,965	—	101,850	1,115
Public utilities				
Electric	229,974	—	229,974	—
Oil and gas	28,908	—	28,908	—
Other	9,387	—	9,387	—
Corporate bonds				
Oil and gas	185,980	—	185,980	—
Chemicals	69,190	—	69,190	—
Basic resources	18,991	—	18,991	—
Construction and materials	21,146	—	21,146	—
Industrial goods and services	169,838	—	169,838	—
Auto and parts	13,250	—	13,250	—
Food and beverage	76,123	—	76,123	—
Personal and household goods	67,123	—	64,674	2,449
Health care	115,708	—	115,708	—
Retail	52,055	—	52,055	—
Media	42,120	—	42,120	—
Travel and leisure	5,829	—	5,829	—
Telecommunications	44,094	—	44,094	—
Utilities	11,119	—	11,119	—
Banks	148,370	—	148,370	—
Insurance	29,957	—	29,957	—
Real estate	24,341	—	20,934	3,407
Financial services	112,922	—	112,922	—



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Technology	30,835	—	30,835	—
Collateralized mortgage obligations				
Government	32,691	—	32,691	—
Other	304	—	304	—

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Mortgage-backed securities	39,676	—	39,676	—
Asset-backed securities	6,876	—	6,561	315
Redeemable preferred stocks	409	—	409	—
Total Available-For-Sale Fixed Maturities	\$2,644,475	\$—	\$2,636,249	\$8,226
Equity securities				
Common stocks				
Public utilities				
Electric	\$10,865	\$10,865	\$—	\$—
Oil and gas	2,932	2,932	—	—
Other	80	80	—	—
Corporate				
Oil and gas	12,220	12,220	—	—
Chemicals	6,383	6,383	—	—
Industrial goods and services	24,530	24,530	—	—
Autos and parts	878	878	—	—
Food and beverage	5,985	5,985	—	—
Personal and household goods	10,586	10,586	—	—
Health care	14,843	14,843	—	—
Retail	3,037	3,037	—	—
Media	144	144	—	—
Telecommunications	6,137	6,137	—	—
Utilities	1,640	1,640	—	—
Banks	44,501	39,694	—	4,807
Insurance	13,226	13,226	—	—
Real estate	1,132	1,132	—	—
Financial services	541	541	—	—
Technology	3,083	3,083	—	—
Nonredeemable preferred stocks	3,572	1,853	1,719	—
Total Available-for-Sale Equity Securities	\$166,315	\$159,789	\$1,719	\$4,807
Total Available-for-Sale Securities	\$2,810,790	\$159,789	\$2,637,968	\$13,033
TRADING				
Fixed maturities				
Bonds				
Foreign bonds				
Canadian	1,566	—	1,566	—
Other foreign	1,372	—	1,372	—
Corporate				
Basic resources	1,347	—	1,347	—
Food and beverage	1,098	—	1,098	—
Health care	1,952	—	1,952	—
Utilities	1,447	—	1,447	—
Banks	2,383	—	2,383	—
Insurance	495	—	495	—
Real estate	431	—	431	—
Redeemable preferred stocks	2,967	—	2,967	—
Total Trading Securities	\$15,058	\$—	\$15,058	\$—
Short-Term Investments	\$1,500	\$1,500	\$—	\$—
Money Market Accounts	\$83,099	\$83,099	\$—	\$—
Total	\$2,910,447	\$244,388	\$2,653,026	\$13,033



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(In Thousands) Description	December 31, 2010	Fair Value Measurements		
		Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
U.S. government and government-sponsored enterprises				
U.S. Treasury	\$39,076	\$—	\$39,076	\$—
Agency	103,131	—	103,131	—
States, municipalities and political subdivisions				
General obligations				
North central - East	127,770	—	127,770	—
North central - West	81,132	—	81,132	—
Northeast	29,525	—	29,525	—
South	99,297	—	99,297	—
West	56,053	—	56,053	—
Special revenue				
North central - East	61,093	—	60,092	1,001
North central - West	40,305	—	40,305	—
Northeast	4,743	—	4,743	—
South	74,747	—	74,747	—
West	44,545	—	44,545	—
Foreign bonds				
Canadian	72,923	—	72,923	—
Other foreign	89,754	—	88,639	1,115
Public utilities				
Electric	218,707	—	218,672	35
Oil and gas	55,284	—	55,284	—
Corporate bonds				
Oil and gas	157,511	—	157,511	—
Chemicals	61,343	—	61,343	—
Basic resources	8,625	—	8,625	—
Construction and materials	20,258	—	20,258	—
Industrial goods and services	148,130	—	145,233	2,897
Auto and parts	14,456	—	14,456	—
Food and beverage	74,033	—	72,551	1,482
Personal and household goods	68,189	—	65,686	2,503
Health care	83,342	—	83,342	—
Retail	43,960	—	43,960	—
Media	35,062	—	35,062	—
Travel and leisure	5,866	—	5,866	—
Telecommunications	35,174	—	35,174	—
Utilities	14,141	—	14,141	—
Banks	121,634	—	114,111	7,523
Insurance	26,467	—	26,467	—
Real estate	21,737	—	13,764	7,973
Financial services	96,823	—	95,722	1,101
Technology	16,688	—	16,688	—

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Collateralized mortgage obligations	19,577	—	19,577	—
Mortgage-backed securities	2	—	2	—
Asset-backed securities	7,326	—	7,326	—
Total Available-For-Sale Fixed Maturities	\$2,278,429	\$—	\$2,252,799	\$25,630

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## Equity securities

## Common stocks

## Public utilities

Electric	\$10,084	\$10,084	\$—	\$—
Oil and gas	2,674	2,674	—	—
Corporate				
Oil and gas	11,138	11,138	—	—
Chemicals	6,079	6,079	—	—
Industrial goods and services	23,297	23,297	—	—
Auto and parts	1,626	1,626	—	—
Food and beverage	4,474	4,474	—	—
Personal and household goods	7,770	7,770	—	—
Health care	12,547	12,547	—	—
Retail	728	728	—	—
Travel and leisure	1	1	—	—
Telecommunications	5,288	5,257	31	—
Utilities	1,147	1,147	—	—
Banks	44,053	42,518	—	1,535
Insurance	14,408	14,408	—	—
Real estate	1,546	1,546	—	—
Financial services	267	267	—	—
Technology	1,189	1,189	—	—
Nonredeemable preferred stocks	1,390	1,158	232	—
Total Available-for-Sale Equity Securities	\$149,706	\$147,908	\$263	\$1,535
Total Available-for-Sale Securities	\$2,428,135	\$147,908	\$2,253,062	\$27,165

## TRADING

## Fixed maturities

## Bonds

Foreign bonds	\$2,283	\$—	\$2,283	\$—
Corporate bonds				
Oil and gas	2,843	—	2,843	—
Health care	1,917	—	1,917	—
Utilities	1,394	—	1,394	—
Banks	1,198	—	1,198	—
Financial services	384	—	384	—
Redeemable preferred stocks	2,867	1,476	1,391	—
Total Trading Securities	\$12,886	\$1,476	\$11,410	\$—
Short-Term Investments	\$1,100	\$1,100	\$—	\$—
Money Market Accounts	\$34,384	\$34,384	\$—	\$—
Total	\$2,476,505	\$184,868	\$2,264,472	\$27,165

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The fair value of securities that are categorized as Level 1 is based on quoted market prices that are readily and regularly available.

The fair value of securities that are categorized as Level 2 is determined by management after reviewing market prices obtained from independent pricing services and brokers. Such estimated fair values do not necessarily represent the values for which these securities could have been sold at the reporting date. Our independent pricing services and brokers obtain prices from reputable pricing vendors in the marketplace. They continually monitor and review the external pricing sources, while actively participating to resolve any pricing issues that may arise.

For the six-month period ended June 30, 2011, the change in our available-for-sale securities categorized as Level 1 and Level 2 is the result of investment purchases (and disposals) made during the period, which were made from funds held in our money market accounts, and the change in unrealized gains on both fixed maturities and equity securities. There were no significant transfers of securities in or out of Level 1 or Level 2 during the period.

Securities that may be categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities and certain other securities that were determined to be other-than-temporarily impaired in a prior period and for which an active market does not currently exist.

The fair value of our Level 3 private placement securities is determined by management relying on pricing received from our independent pricing services and brokers consistent with the process to estimate fair value for Level 2 securities.

The fair value of our Level 3 impaired securities was determined primarily based upon management's assumptions regarding the timing and amount of future cash inflows. If a security has been written down or the issuer is in bankruptcy, management relies in part on outside opinions from rating agencies, our lien position on the security, general economic conditions and management's expertise to determine fair value. We have the ability and the positive intent to hold securities until such time that we are able to recover all or a portion of our original investment. If a security does not have a market at the balance sheet date, management will estimate the security's fair value based on other securities in the market. Management will continue to monitor securities after the balance sheet date to confirm that their estimated fair value is reasonable.

The following table provides a summary of the changes in fair value of our Level 3 securities for the three-month period ended June 30, 2011:

(In Thousands)	States, municipalities and political subdivisions	Foreign bonds	Corporate bonds	Asset-backed securities	Equities	Total
Balance at April 1, 2011	\$ 1,000	\$ 1,115	\$ 22,742	\$ 1,423	\$ 4,803	\$ 31,083
Realized gains <sup>(1)</sup>	—	—	—	12	—	12
Unrealized gains <sup>(1)</sup>	—	—	415	1	—	416
Amortization	—	—	—	(15 )	—	(15 )
Purchases	—	—	—	13	4	17
Disposals	(60 )	—	(145 )	(1,119 )	—	(1,324 )
Transfers in	—	—	—	—	—	—
Transfers out	—	—	(17,156 )	—	—	(17,156 )
Balance at June 30, 2011	\$ 940	\$ 1,115	\$ 5,856	\$ 315	\$ 4,807	\$ 13,033

(1) Realized gains are recorded as a component of current operations whereas unrealized gains are recorded as a component of comprehensive income.

The securities reported as "transfers out" relate to securities where an updated market value was available and the securities were transferred from Level 3 to either Level 1 or 2. The reported "disposals" relate to the receipt of principal on calls or sinking fund bonds, in accordance with the indentures.





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The following table provides a summary of the changes in fair value of our Level 3 securities for the six-month period ended June 30, 2011:

(In Thousands)	States, municipalities and political subdivisions	Foreign bonds	Public utilities	Corporate bonds	Asset-backed securities	Equities	Total	
Balance at January 1, 2011	\$ 1,001	\$ 1,115	\$ 35	\$ 23,479	\$ —	\$ 1,535	\$ 27,165	
Realized gains <sup>(1)</sup>	—	—	—	—	12	—	12	
Unrealized gains (losses) <sup>(1)</sup>	—	—	(2	) (50	) 1	—	(51	)
Amortization	—	—	—	—	(15	) —	(15	)
Purchases	—	—	—	—	1,436	3,272	4,708	
Disposals	(61	) —	(33	) (417	) (1,119	) —	(1,630	)
Transfers in	—	—	—	—	—	—	—	
Transfers out	—	—	—	(17,156				