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

# FORM 10-Q

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

**for the quarterly period ended March 31, 2011**

**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, 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 ☑ NO ☐

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 ☐ NO ☐

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):

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 May 5, 2011, 26,196,882 shares of common stock were outstanding.

United Fire & Casualty Company and Subsidiaries
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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.”

**PART I — FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS**

## United Fire & Casualty Company and Subsidiaries
## Consolidated Balance Sheets

| (In Thousands, Except Per Share Data and Number of Shares) | | March 31, 2011 | | December 31, 2010 |
|---|---|---|---|---|
| | | (unaudited) | | |
| **ASSETS** | | | | |
| **Investments** | | | | |
| Fixed maturities | | | | |
| Held-to-maturity, at amortized cost (fair value $5,936 in 2011 and $6,422 in 2010) | **$** | **5,859** | $ | 6,364 |
| Available-for-sale, at fair value (amortized cost $2,529,946 in 2011 and $2,178,666 in 2010) | | **2,619,909** | | 2,278,429 |
| Equity securities, at fair value (cost $68,602 in 2011 and $54,139 in 2010) | | **168,886** | | 149,706 |
| Trading securities, at fair value (amortized cost $12,592 in 2011 and $12,322 in 2010) | | **13,323** | | 12,886 |
| Mortgage loans | | **6,468** | | 6,497 |
| Policy loans | | **7,289** | | 7,875 |
| Other long-term investments | | **20,143** | | 20,041 |
| Short-term investments | | **1,100** | | 1,100 |
| | **$** | **2,842,977** | $ | 2,482,898 |
| | | | | |
| **Cash and cash equivalents** | **$** | **165,772** | $ | 180,057 |
| **Accrued investment income** | | **32,318** | | 28,977 |
| **Premiums receivable (net of allowance for doubtful accounts of $581 in 2011 and $1,001 in 2010)** | | **168,728** | | 124,459 |
| **Deferred policy acquisition costs** | | **120,609** | | 87,524 |
| **Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $34,029 in 2011 and $33,397 in 2010)** | | **36,480** | | 21,554 |
| **Reinsurance receivables and recoverables** | | **104,094** | | 46,731 |
| **Prepaid reinsurance premiums** | | **8,009** | | 1,586 |
| **Income taxes receivable** | | **19,486** | | 17,772 |
| **Goodwill and intangible assets** | | **31,853** | | — |
| **Other assets** | | **19,203** | | 15,881 |
| **TOTAL ASSETS** | **$** | **3,549,529** | $ | 3,007,439 |
| | | | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| **Liabilities** | | | | |
| Future policy benefits and losses, claims and loss settlement expenses | | | | |
| Property and casualty insurance | **$** | **913,336** | $ | 603,090 |
| Life insurance | | **1,399,136** | | 1,389,331 |
| Unearned premiums | | **281,680** | | 200,341 |
| Accrued expenses and other liabilities | | **123,294** | | 78,439 |
| Deferred income taxes | | **15,179** | | 19,814 |
| Debt | | **82,900** | | — |
| Trust preferred securities | | **15,614** | | — |
| **TOTAL LIABILITIES** | **$** | **2,831,139** | $ | 2,291,015 |
| **Stockholders' Equity** | | | | |
| Common stock, $3.33 1/3 par value; authorized 75,000,000 shares; 26,195,552 shares issued and outstanding in both 2011 and 2010 | **$** | **87,318** | $ | 87,318 |
| Additional paid-in capital | | **136,622** | | 136,147 |
| Retained earnings | | **417,862** | | 415,981 |
| Accumulated other comprehensive income, net of tax | | **76,588** | | 76,978 |
| **TOTAL STOCKHOLDERS' EQUITY** | **$** | **718,390** | $ | 716,424 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **$** | **3,549,529** | $ | 3,007,439 |

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

# United Fire & Casualty Company and Subsidiaries
# Consolidated Statements of Income (Unaudited)

| (In Thousands, Except Per Share Data and Number of Shares) | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| **Revenues** | | |
| Net premiums earned | **$ 114,204** | $ 114,308 |
| Investment income, net of investment expenses | **27,063** | 27,968 |
| Net realized investment gains | | |
| Other-than-temporary impairment charges | **—** | (342) |
| All other net realized gains | **2,653** | 3,068 |
| Total net realized investment gains | **2,653** | 2,726 |
| Other income | **156** | 123 |
| | **$ 144,076** | $ 145,125 |
| **Benefits, Losses and Expenses** | | |
| Losses and loss settlement expenses | **$ 76,182** | $ 68,363 |
| Future policy benefits | **8,182** | 6,390 |
| Amortization of deferred policy acquisition costs | **26,046** | 26,516 |
| Other underwriting expenses | **16,057** | 9,213 |
| Interest on policyholders' accounts | **10,670** | 10,801 |
| | **$ 137,137** | $ 121,283 |
| **Income before income taxes** | **$ 6,939** | $ 23,842 |
| Federal income tax expense | **1,129** | 4,729 |
| **Net Income** | **$ 5,810** | $ 19,113 |
| **Weighted average common shares outstanding** | **26,195,552** | 26,435,269 |
| **Basic earnings per common share** | **0.22** | 0.72 |
| **Diluted earnings per common share** | **0.22** | 0.72 |
| **Cash dividends declared per common share** | **0.15** | 0.15 |

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

# United Fire & Casualty Company and Subsidiaries
## Consolidated Statement of Stockholders' Equity (Unaudited)

| (In Thousands, Except Per Share Data) | | Three Months Ended March 31, 2011 |
|---|---|---|
| **Common stock** | | |
| Balance, beginning of year | **$** | **87,318** |
| Shares repurchased | | **—** |
| Shares issued for stock-based awards | | **—** |
| Balance, end of period | **$** | **87,318** |
| **Additional paid-in capital** | | |
| Balance, beginning of year | **$** | **136,147** |
| Compensation expense and related tax benefit for stock-based award grants | | **475** |
| Shares repurchased | | **—** |
| Shares issued for stock-based awards | | **—** |
| Balance, end of period | **$** | **136,622** |
| **Retained earnings** | | |
| Balance, beginning of year | **$** | **415,981** |
| Net income | | **5,810** |
| Dividends on common stock ($0.15 per share) | | **(3,929)** |
| Balance, end of period | **$** | **417,862** |
| **Accumulated other comprehensive income, net of tax** | | |
| Balance, beginning of year | **$** | **76,978** |
| Change in net unrealized appreciation (1) | | **(750)** |
| Change in underfunded status of employee benefit plans | | **360** |
| Balance, end of period | **$** | **76,588** |
| **Summary of changes** | | |
| Balance, beginning of year | **$** | **716,424** |
| Net income | | **5,810** |
| All other changes in stockholders' equity accounts | | **(3,844)** |
| Balance, end of period | **$** | **718,390** |

(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.

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

| (In Thousands) | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | **$ 5,810** | $ 19,113 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Net accretion of bond premium | **1,705** | 834 |
| Depreciation and amortization | **706** | 735 |
| Stock-based compensation expense | **489** | 447 |
| Net realized investment gains | **(2,653)** | (2,726) |
| Net cash flows from trading investments | **(205)** | 752 |
| Deferred income tax expense | **117** | 2,313 |
| Changes in: | | |
| Accrued investment income | **400** | (1,389) |
| Premiums receivable | **(8,447)** | (4,153) |
| Deferred policy acquisition costs | **(1,719)** | (2,935) |
| Reinsurance receivables | **830** | 1,352 |
| Prepaid reinsurance premiums | **(135)** | (58) |
| Income taxes receivable | **1,018** | 17,435 |
| Other assets | **6,355** | 1,642 |
| Future policy benefits and losses, claims and loss settlement expenses | **7,146** | 3,480 |
| Unearned premiums | **9,090** | 5,186 |
| Accrued expenses and other liabilities | **11,507** | (10,969) |
| Deferred income taxes | **2** | (1,537) |
| Other, net | **(748)** | 194 |
| Total adjustments | **$ 25,458** | $ 10,603 |
| Net cash provided by operating activities | **$ 31,268** | $ 29,716 |
| **Cash Flows From Investing Activities** | | |
| Proceeds from sale of available-for-sale investments | **$ 4,847** | $ 603 |
| Proceeds from call and maturity of held-to-maturity investments | **486** | 984 |
| Proceeds from call and maturity of available-for-sale investments | **197,447** | 86,868 |
| Proceeds from short-term and other investments | **1,548** | 2,781 |
| Purchase of available-for-sale investments | **(154,923)** | (165,250) |
| Purchase of short-term and other investments | **(454)** | (2,850) |
| Change in securities lending collateral | **—** | (78,769) |
| Net purchases and sales of property and equipment | **(100)** | (629) |
| Acquisition of property and casualty company, net of cash acquired | **(172,619)** | — |
| Net cash used in investing activities | **$ (123,768)** | $ (156,262) |
| **Cash Flows From Financing Activities** | | |
| Policyholders' account balances | | |
| Deposits to investment and universal life contracts | **$ 31,242** | $ 34,378 |
| Withdrawals from investment and universal life contracts | **(28,984)** | (26,521) |
| Borrowings of short-term debt | **79,900** | — |
| Change in securities lending payable | **—** | 78,769 |
| Payment of cash dividends | **(3,929)** | (3,955) |
| Repurchase of common stock | **—** | (2,758) |
| Issuance of common stock | **—** | 1 |
| Tax benefit from issuance of common stock | **(14)** | — |
| Net cash provided by financing activities | **$ 78,215** | $ 79,914 |
| **Net Change in Cash and Cash Equivalents** | **$ (14,285)** | $ (46,632) |
| **Cash and Cash Equivalents at Beginning of Period** | **180,057** | 190,852 |
| **Cash and Cash Equivalents at End of Period** | **$ 165,772** | $ 144,220 |

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

# 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; 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-month periods ended March 31, 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 1,000 independent agencies. The acquisition allows us to diversify our exposure to weather and other catastrophe risks across our geographic markets.

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 11, "Business Combinations."

In connection with this acquisition, we incurred $5.5 million of expense 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 three-month periods ended March 31, 2011 and 2010, we made no payments for income taxes. For the three-month period ended March 31, 2011, we received no tax refunds compared to tax refunds of $13.5 million for the same period of 2010, due to the overpayment of prior year tax and operating loss carrybacks.

We made no significant payments of interest for the three-month periods ended March 31, 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 expense of $1.1 million (at an effective tax rate of 16.3 percent) and $4.9 million (at an effective tax rate of 20.1 percent) for the three-month periods ended March 31, 2011 and 2010, respectively. Our effective tax rate is less 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 March 31, 2011 or December 31, 2010, or at any time during the three-month period ended March 31, 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 and by the State of Illinois of the 2007 and 2008 tax years.

**Recently Issued Accounting Standards**

***Adopted Accounting Standards***

*Fair Value Measurements*

In January 2010, the 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 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 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.

**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 March 31, 2011 and December 31, 2010, is as follows:

| March 31, 2011 | (Dollars in Thousands) | | | |
|---|---|---|---|---|
| Type of Investment | Cost or Amortized Cost | Gross Unrealized Appreciation | Gross Unrealized Depreciation | Fair Value |
| **HELD-TO-MATURITY** | | | | |
| Fixed maturities | | | | |
| Bonds | | | | |
| States, municipalities and political subdivisions | | | | |
| General obligations | $ 732 | $ 9 | $ — | $ 741 |
| Special revenue | 4,655 | 96 | 104 | 4,647 |
| Collateralized mortgage obligations | 72 | 3 | — | 75 |
| Mortgage-backed securities | 400 | 73 | — | 473 |
| **Total Held-to-Maturity Fixed Maturities** | $ 5,859 | $ 181 | $ 104 | $ 5,936 |
| **AVAILABLE-FOR-SALE** | | | | |
| Fixed maturities | | | | |
| Bonds | | | | |
| U.S. government and government- sponsored enterprises | | | | |
| U.S. Treasury | $ 40,550 | $ 742 | $ 8 | $ 41,284 |
| Agency | 110,243 | 33 | 1,514 | 108,762 |
| States, municipalities and political subdivisions | | | | |
| General obligations | 411,125 | 22,150 | 396 | 432,879 |
| Special revenue | 297,387 | 8,995 | 667 | 305,715 |
| Foreign bonds | | | | |
| Canadian | 63,330 | 3,374 | 280 | 66,424 |
| Other foreign | 88,521 | 4,458 | 246 | 92,733 |
| Public utilities | | | | |
| Electric | 221,575 | 9,457 | 941 | 230,091 |
| Natural gas | 46,824 | 2,195 | 328 | 48,691 |
| Other | 687 | 90 | — | 777 |
| Corporate bonds | | | | |
| Banks, trusts and insurance companies | 343,522 | 12,849 | 2,228 | 354,143 |
| Transportation | 19,514 | 760 | 33 | 20,241 |
| Energy | 162,539 | 5,470 | 135 | 167,874 |
| Technology | 127,571 | 5,647 | 354 | 132,864 |
| Basic industry | 142,477 | 5,013 | 419 | 147,071 |
| Pharmaceutical | 41,112 | 1,284 | 42 | 42,354 |
| Retail | 31,521 | 1,548 | 130 | 32,939 |
| Restaurants | 12,464 | 381 | 162 | 12,683 |
| Food and beverage | 70,598 | 2,302 | 148 | 72,752 |
| Other | 202,147 | 9,793 | 707 | 211,233 |
| Collateralized mortgage obligations | 17,591 | 1,890 | — | 19,481 |
| Mortgage-backed securities | | | | |
| Government | 53,938 | — | — | 53,938 |
| Other | 1,034 | — | — | 1,034 |
| Asset-backed securities | 23,215 | 469 | 199 | 23,485 |
| Redeemable preferred stocks | 461 | — | — | 461 |
| **Total Available-For-Sale Fixed Maturities** | $ 2,529,946 | $ 98,900 | $ 8,937 | $ 2,619,909 |
| Equity securities | | | | |
| Common stocks | | | | |
| Public utilities | | | | |
| Electric | $ 6,087 | $ 5,195 | $ 1 | $ 11,281 |
| Natural gas | 838 | 1,310 | — | 2,148 |
| Banks, trusts and insurance companies | | | | |
| Banks | 11,479 | 33,856 | 57 | 45,278 |
| Insurance | 3,210 | 11,427 | 32 | 14,605 |
| Other | 1,621 | 1,917 | — | 3,538 |
| All other common stocks | | | | |
| Transportation | 247 | — | — | 247 |
| Energy | 5,402 | 7,535 | 2 | 12,935 |
| Technology | 11,086 | 7,689 | 110 | 18,665 |
| Basic industry | 8,039 | 10,720 | — | 18,759 |
| Pharmaceutical | 8,789 | 6,941 | 36 | 15,694 |
| Retail | 2,847 | — | — | 2,847 |
| Restaurants | 380 | — | — | 380 |
| Food and beverage | 1,839 | 3,446 | — | 5,285 |
| Other | 4,584 | 10,626 | 50 | 15,160 |
| Nonredeemable preferred stocks | 2,154 | 2 | 92 | 2,064 |
| **Total Available-for-Sale Equity Securities** | $ 68,602 | $ 100,664 | $ 380 | $ 168,886 |
| **Total Available-for-Sale Securities** | $ 2,598,548 | $ 199,564 | $ 9,317 | $ 2,788,795 |

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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 |
| **HELD-TO-MATURITY** | | | | |
| Fixed maturities | | | | |
| Bonds | | | | |
| States, municipalities and political subdivisions | | | | |
| General obligations | 731 | 10 | — | 741 |
| Special revenue | 5,106 | 102 | 108 | 5,100 |
| Collateralized mortgage obligations | 83 | 4 | — | 87 |
| Mortgage-backed securities | 444 | 50 | — | 494 |
| **Total Held-to-Maturity Fixed Maturities** | $ 6,364 | $ 166 | $ 108 | $ 6,422 |
| **AVAILABLE-FOR-SALE** | | | | |
| 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 | 371,788 | 22,327 | 338 | 393,777 |
| Special revenue | 216,245 | 9,782 | 594 | 225,433 |
| Foreign bonds | | | | |
| Canadian | 69,209 | 3,908 | 194 | 72,923 |
| Other | 85,434 | 4,588 | 268 | 89,754 |
| Public utilities | | | | |
| Electric | 203,405 | 11,247 | 519 | 214,133 |
| Natural gas | 56,873 | 2,560 | 359 | 59,074 |
| Other | 687 | 96 | — | 783 |
| Corporate bonds | | | | |
| Banks, trusts and insurance companies | 291,953 | 13,621 | 2,891 | 302,683 |
| Transportation | 22,836 | 871 | 57 | 23,650 |
| Energy | 150,873 | 7,041 | 110 | 157,804 |
| Technology | 102,768 | 6,048 | 396 | 108,420 |
| Basic industry | 122,075 | 5,526 | 237 | 127,364 |
| Pharmaceutical | 18,087 | 1,446 | — | 19,533 |
| Retail | 22,338 | 1,662 | 148 | 23,852 |
| Restaurants | 11,493 | 418 | 182 | 11,729 |
| Food and beverage | 53,385 | 2,760 | 90 | 56,055 |
| Other | 212,715 | 10,508 | 873 | 222,350 |
| 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 | $ 6,011 | $ 4,751 | $ 1 | $ 10,761 |
| Natural gas | 838 | 1,159 | — | 1,997 |
| Banks, trusts and insurance companies | | | | |
| Banks | 8,013 | 33,255 | 100 | 41,168 |
| Insurance | 3,129 | 11,320 | 41 | 14,408 |
| Other | 1,621 | 2,048 | — | 3,669 |
| All other common stocks | | | | |
| Transportation | 1 | — | — | 1 |
| Energy | 5,211 | 6,235 | 2 | 11,444 |
| Technology | 8,100 | 6,692 | 139 | 14,653 |
| Basic industry | 7,789 | 9,116 | — | 16,905 |
| Pharmaceutical | 6,678 | 6,651 | 62 | 13,267 |
| Food and beverage | 668 | 3,428 | — | 4,096 |
| Other | 4,619 | 11,369 | 41 | 15,947 |
| 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 |

### Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading securities at March 31, 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 | |
|---|---|---|---|---|---|---|
| March 31, 2011 | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 230 | $ 239 | $ 240,102 | $ 246,093 | $ 2,768 | $ 2,741 |
| Due after one year through five years | 5,154 | 5,146 | 1,219,111 | 1,273,349 | 3,059 | 3,103 |
| Due after five years through 10 years | 3 | 3 | 915,756 | 941,930 | — | — |
| Due after 10 years | — | — | 59,199 | 60,599 | 6,765 | 7,479 |
| Asset-backed securities | — | — | 23,215 | 23,485 | — | — |
| Mortgage-backed securities | 400 | 473 | 54,972 | 54,972 | — | — |
| Collateralized mortgage obligations | 72 | 75 | 17,591 | 19,481 | — | — |
| | $ 5,859 | $ 5,936 | $ 2,529,946 | $ 2,619,909 | $ 12,592 | $ 13,323 |

### Net Realized Investment Gains and Losses

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

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | **2011** | 2010 |
| Net realized investment gains (losses) | | |
| Fixed maturities | **$ 1,386** | $ 489 |
| Equity securities | **1,116** | 2,344 |
| Trading securities | **316** | (92) |
| Other long-term investments | **(165)** | (15) |
| Total net realized investment gains | **$ 2,653** | $ 2,726 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | **2011** | 2010 |
| Proceeds from sales | **$ 4,847** | $ 602 |
| Gross realized gains | **90** | 402 |
| Gross realized losses | **516** | — |

There were no sales of held-to-maturity securities during the three-month periods ended March 31, 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 realized investment gains and losses. Our portfolio of trading securities had a fair value of $13.3 million and $12.9 million at March 31, 2011 and December 31, 2010 respectively.

The realized gains and losses attributable to the change in fair value during the reporting period of trading securities held at March 31, 2011 and 2010 were as follows:

| (In Thousands) | Three Months Ended March 31, 2011 | | 2010 | |
|---|---|---|---|---|
| Trading | | | | |
| Realized gains | $ | 195 | $ | — |
| Realized losses | | 27 | | 300 |

### 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 $11.0 million at March 31, 2011.

### Unrealized Appreciation and Depreciation

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

| (In Thousands) | Three Months Ended March 31, 2011 | | 2010 | |
|---|---|---|---|---|
| Change in net unrealized investment appreciation | | | | |
| Available-for-sale fixed maturities and equity securities | $ | (5,083) | $ | 25,987 |
| Deferred policy acquisition costs | | 3,930 | | (7,236) |
| Income tax effect | | 403 | | (6,550) |
| Total change in net unrealized appreciation, net of tax | $ | (750) | $ | 12,201 |

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 March 31, 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 March 31, 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 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 to our cost basis or the securities mature.

We have evaluated the unrealized losses reported for all of our equity securities at March 31, 2011, and have concluded that the duration and severity of these losses do not warrant the recognition of an OTTI charge at March 31, 2011. Our largest unrealized loss greater than 12 months on an individual equity security at March 31, 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.

| (In Thousands) March 31, 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 |
| **HELD-TO-MATURITY** | | | | | | | | |
| Fixed maturities | | | | | | | | |
| Bonds | | | | | | | | |
| States, municipalities and political subdivisions | | | | | | | | |
| Special revenue | — | $ — | $ — | 2 | $ 595 | $ 104 | $ 595 | $ 104 |
| **Total Held-to-Maturity Fixed Maturities** | — | $ — | $ — | 2 | $ 595 | $ 104 | $ 595 | $ 104 |
| **AVAILABLE-FOR-SALE** | | | | | | | | |
| Fixed maturities | | | | | | | | |
| Bonds | | | | | | | | |
| U.S. government and government-sponsored enterprises | | | | | | | | |
| U.S. Treasury | 2 | $ 1,812 | $ 8 | — | $ — | $ — | $ 1,812 | $ 8 |
| Agency | 14 | 49,082 | 918 | 8 | 35,450 | 596 | 84,532 | 1,514 |
| States, municipalities and political subdivisions | | | | | | | | |
| General obligations | 12 | 11,926 | 362 | 1 | 494 | 34 | 12,420 | 396 |
| Special revenue | 20 | 20,739 | 411 | 5 | 5,710 | 256 | 26,449 | 667 |
| Foreign bonds | | | | | | | | |
| Canadian | 1 | 5,602 | 250 | 1 | 1,716 | 30 | 7,318 | 280 |
| Other foreign | 2 | 5,574 | 91 | 2 | 4,341 | 155 | 9,915 | 246 |
| Public utilities | | | | | | | | |
| Electric | 5 | 12,021 | 69 | 7 | 21,446 | 872 | 33,467 | 941 |
| Natural gas | 1 | 1,102 | 65 | 2 | 4,740 | 263 | 5,842 | 328 |
| Corporate bonds | | | | | | | | |
| Banks, trusts and insurance companies | 9 | 27,903 | 360 | 26 | 31,244 | 1,868 | 59,147 | 2,228 |
| Transportation | 2 | 4,165 | 33 | — | — | — | 4,165 | 33 |
| Energy | 1 | 3,324 | 109 | 2 | 3,636 | 26 | 6,960 | 135 |
| Technology | 4 | 6,867 | 117 | 2 | 6,226 | 237 | 13,093 | 354 |
| Basic industry | 2 | 4,599 | 77 | 5 | 17,974 | 342 | 22,573 | 419 |
| Pharmaceutical | — | — | — | 1 | 2,721 | 42 | 2,721 | 42 |
| Retail | 4 | 8,346 | 130 | — | — | — | 8,346 | 130 |
| Restaurants | 1 | 3,316 | 162 | — | — | — | 3,316 | 162 |
| Food and beverage | 1 | 1,997 | 20 | 3 | 11,603 | 128 | 13,600 | 148 |
| Other | 7 | 20,981 | 481 | 3 | 7,014 | 226 | 27,995 | 707 |
| Asset-backed securities | 1 | 486 | 199 | — | — | — | 486 | 199 |
| **Total Available-For-Sale Fixed Maturities** | 89 | $189,842 | $ 3,862 | 68 | $154,315 | $ 5,075 | $344,157 | $ 8,937 |
| Equity securities | | | | | | | | |
| Common stocks | | | | | | | | |
| Public utilities | | | | | | | | |
| Electric | — | $ — | $ — | 4 | $ — | $ 1 | $ — | $ 1 |
| Banks, trusts and insurance companies | | | | | | | | |
| Banks | — | — | — | 1 | 499 | 57 | 499 | 57 |
| Insurance | 3 | 431 | 20 | 1 | 45 | 12 | 476 | 32 |
| All other common stocks | | | | | | | | |
| Energy | 3 | 306 | 2 | — | — | — | 306 | 2 |
| Technology | 1 | 202 | 5 | 2 | 410 | 105 | 612 | 110 |
| Pharmaceutical | 2 | 1,472 | 28 | 3 | 90 | 8 | 1,562 | 36 |
| Other | 3 | 271 | 16 | 2 | 153 | 34 | 424 | 50 |
| Nonredeemable preferred stocks | — | — | — | 2 | 1,140 | 92 | 1,140 | 92 |
| **Total Available-for-Sale Equity Securities** | 12 | $ 2,682 | $ 71 | 16 | $ 2,337 | $ 309 | $ 5,019 | $ 380 |
| **Total Available-for-Sale Securities** | 101 | $192,524 | $ 3,933 | 84 | $156,652 | $ 5,384 | $349,176 | $ 9,317 |
| **Total** | 101 | $192,524 | $ 3,933 | 86 | $157,247 | $ 5,488 | $349,771 | $ 9,421 |

| (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 |
| **HELD-TO-MATURITY** | | | | | | | | |
| 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 |
| **AVAILABLE-FOR-SALE** | | | | | | | | |
| 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 | 9 | 6,876 | 306 | 1 | 497 | 32 | 7,373 | 338 |
| Special revenue | 12 | 15,331 | 342 | 5 | 5,880 | 252 | 21,211 | 594 |
| Foreign bonds | | | | | | | | |
| Canadian | 1 | 5,687 | 194 | — | — | — | 5,687 | 194 |
| Other | 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 |
| Natural gas | — | — | — | 3 | 5,840 | 359 | 5,840 | 359 |
| Corporate bonds | | | | | | | | |
| Banks, trusts and insurance companies | 6 | 22,451 | 355 | 32 | 38,821 | 2,536 | 61,272 | 2,891 |
| Transportation | 3 | 5,249 | 57 | — | — | — | 5,249 | 57 |
| Energy | — | — | — | 1 | 3,340 | 110 | 3,340 | 110 |
| Technology | 3 | 5,924 | 58 | 3 | 9,151 | 338 | 15,075 | 396 |
| Basic industry | 2 | 3,218 | 34 | 3 | 10,236 | 203 | 13,454 | 237 |
| Retail | 3 | 6,058 | 140 | 1 | 2,308 | 8 | 8,366 | 148 |
| Restaurants | 1 | 3,313 | 182 | — | — | — | 3,313 | 182 |
| Food and beverage | 1 | 2,006 | 12 | 1 | 3,009 | 78 | 5,015 | 90 |
| Other | 10 | 29,811 | 677 | 6 | 9,241 | 196 | 39,052 | 873 |
| **Total Available-For-Sale Fixed Maturities** | 68 | $158,422 | $ 3,318 | 68 | $131,860 | $ 4,952 | $290,282 | $ 8,270 |
| Equity securities | | | | | | | | |
| Common stocks | | | | | | | | |
| Public utilities | | | | | | | | |
| Electric | — | $ — | $ — | 4 | $ — | $ 1 | $ — | $ 1 |
| Banks, trusts and insurance companies | | | | | | | | |
| Banks | 2 | 594 | 32 | 1 | 488 | 68 | 1,082 | 100 |
| Insurance | 1 | 260 | 28 | 1 | 43 | 13 | 303 | 41 |
| All other common stock | | | | | | | | |
| Energy | 3 | 306 | 2 | — | — | — | 306 | 2 |
| Technology | 2 | 287 | 15 | 1 | 371 | 124 | 658 | 139 |
| Pharmaceutical | 2 | 1,437 | 62 | — | — | — | 1,437 | 62 |
| Other | 1 | 79 | 11 | 2 | 158 | 30 | 237 | 41 |
| 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 |

**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 its short-term nature.

We calculate the fair value of the liabilities for all 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 March 31, 2011 and December 31, 2010 is as follows:

| | **March 31, 2011** | | December 31, 2010 | |
|---|---|---|---|---|
| (In Thousands) | **Fair Value** | **Carrying Value** | Fair Value | Carrying Value |
| **Assets** | | | | |
| Investments | | | | |
| Held-to-maturity fixed maturities | **$ 5,936** | **$ 5,859** | $ 6,422 | $ 6,364 |
| Available-for-sale fixed maturities | **2,619,909** | **2,619,909** | 2,278,429 | 2,278,429 |
| Equity securities | **168,886** | **168,886** | 149,706 | 149,706 |
| Trading securities | **13,323** | **13,323** | 12,886 | 12,886 |
| Mortgage loans | **7,490** | **6,468** | 7,658 | 6,497 |
| Policy loans | **7,289** | **7,289** | 7,875 | 7,875 |
| Other long-term investments | **20,143** | **20,143** | 20,041 | 20,041 |
| Short-term investments | **1,100** | **1,100** | 1,100 | 1,100 |
| Cash and cash equivalents | **165,772** | **165,772** | 180,057 | 180,057 |
| Accrued investment income | **32,318** | **32,318** | 28,977 | 28,977 |
| **Liabilities** | | | | |
| Policy reserves | | | | |
| Annuity (accumulations) (1) | **$ 979,960** | **$ 950,839** | $ 965,932 | $ 948,920 |
| Annuity (benefit payments) | **105,808** | **87,590** | 102,511 | 86,874 |

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

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 (Level 1) and the lowest priority to unobservable inputs (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 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 March 31, 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 March 31, 2011 and December 31, 2010:

| (In Thousands) Description | March 31, 2011 | 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 | $ 41,284 | $ — | $ 41,284 | $ — |
| Agency | 108,762 | — | 108,762 | — |
| States, municipalities and political subdivisions | | | | |
| General obligations | 432,879 | — | 432,879 | — |
| Special revenue | 305,715 | — | 304,715 | 1,000 |
| Foreign bonds | | | | |
| Canadian | 66,424 | — | 66,424 | — |
| Other | 92,733 | — | 91,618 | 1,115 |
| Public utilities | | | | |
| Electric | 230,091 | — | 230,091 | — |
| Natural gas | 48,691 | — | 48,691 | — |
| Other | 777 | — | 777 | — |
| Corporate bonds | | | | |
| Banks, trusts and insurance companies | 354,143 | — | 342,746 | 11,397 |
| Transportation | 20,241 | — | 20,241 | — |
| Energy | 167,874 | — | 167,874 | — |
| Technology | 132,864 | — | 132,864 | — |
| Basic industry | 147,071 | — | 141,697 | 5,374 |
| Pharmaceutical | 42,354 | — | 42,354 | — |
| Retail | 32,939 | — | 32,939 | — |
| Restaurants | 12,683 | — | 12,683 | — |
| Food and beverage | 72,752 | — | 72,752 | — |
| Other | 211,233 | — | 205,262 | 5,971 |
| Collateralized mortgage obligations | 19,481 | — | 19,481 | — |
| Mortgage-backed securities | | | | |
| Government | 53,938 | — | 53,938 | — |
| Other | 1,034 | — | 1,034 | — |
| Asset-backed securities | 23,485 | — | 22,062 | 1,423 |
| Redeemable preferred stocks | 461 | — | 461 | — |
| **Total Available-For-Sale Fixed Maturities** | $ 2,619,909 | $ — | $ 2,593,629 | $ 26,280 |
| Equity securities | | | | |
| Common stocks | | | | |
| Public utilities | | | | |
| Electric | $ 11,281 | $ 11,281 | $ — | $ — |
| Natural gas | 2,148 | 2,148 | — | — |
| Banks, trusts and insurance companies | | | | |
| Banks | 45,278 | 40,475 | — | 4,803 |
| Insurance | 14,605 | 14,605 | — | — |
| Other | 3,538 | 3,538 | — | — |
| All other common stocks | | | | |
| Transportation | 247 | 247 | — | — |
| Energy | 12,935 | 12,935 | — | — |
| Technology | 18,665 | 18,632 | 33 | — |
| Basic industry | 18,759 | 18,759 | — | — |
| Pharmaceutical | 15,694 | 15,694 | — | — |
| Retail | 2,847 | 2,847 | — | — |
| Restaurants | 380 | 380 | — | — |
| Food and beverage | 5,285 | 5,285 | — | — |
| Other | 15,160 | 15,160 | — | — |
| Nonredeemable preferred stocks | 2,064 | 1,832 | 232 | — |
| **Total Available-for-Sale Equity Securities** | $ 168,886 | $ 163,818 | $ 265 | $ 4,803 |
| **Total Available-for-Sale Securities** | $ 2,788,795 | $ 163,818 | $ 2,593,894 | $ 31,083 |
| **TRADING** | | | | |
| Fixed maturities | | | | |
| Bonds | | | | |
| Foreign bonds | $ 1,364 | $ — | $ 1,364 | $ — |
| Corporate bonds | | | | |
| Banks, trusts and insurance companies | 1,194 | — | 1,194 | — |
| Energy | 3,007 | — | 3,007 | — |
| Technology | 3,367 | — | 3,367 | — |
| Basic industry | 1,348 | — | 1,348 | — |
| Other | 1,598 | — | 1,598 | — |
| Redeemable preferred stocks | 1,445 | — | 1,445 | — |
| **Total Trading Securities** | $ 13,323 | $ — | $ 13,323 | $ — |
| **Short-Term Investments** | $ 1,100 | $ 1,100 | $ — | $ — |
| **Money Market Accounts** | $ 67,734 | $ 67,734 | $ — | $ — |
| **Total** | $ 2,870,952 | $ 232,652 | $ 2,607,217 | $ 31,083 |

| (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 | 393,777 | — | 393,777 | — |
| Special revenue | 225,433 | — | 224,432 | 1,001 |
| Foreign bonds | | | | |
| Canadian | 72,923 | — | 72,923 | — |
| Other | 89,754 | — | 88,639 | 1,115 |
| Public utilities | | | | |
| Electric | 214,133 | — | 214,098 | 35 |
| Natural gas | 59,074 | — | 59,074 | — |
| Other | 783 | — | 783 | — |
| Corporate bonds | | | | |
| Banks, trusts and insurance companies | 302,683 | — | 290,625 | 12,058 |
| Transportation | 23,650 | — | 23,650 | — |
| Energy | 157,804 | — | 157,804 | — |
| Technology | 108,420 | — | 108,420 | — |
| Basic industry | 127,364 | — | 121,964 | 5,400 |
| Pharmaceutical | 19,533 | — | 19,533 | — |
| Retail | 23,852 | — | 23,852 | — |
| Restaurants | 11,729 | — | 11,729 | — |
| Food and beverages | 56,055 | — | 56,055 | — |
| Other | 222,350 | — | 216,329 | 6,021 |
| 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 |
| Equity securities | | | | |
| Common stocks | | | | |
| Public utilities | | | | |
| Electric | $ 10,761 | $ 10,761 | $ — | $ — |
| Natural gas | 1,997 | 1,997 | — | — |
| Banks, trusts and insurance companies | | | | |
| Banks | 41,168 | 39,633 | — | 1,535 |
| Insurance | 14,408 | 14,408 | — | — |
| Other | 3,669 | 3,669 | — | — |
| All other common stocks | | | | |
| Transportation | 1 | 1 | — | — |
| Energy | 11,444 | 11,444 | — | — |
| Technology | 14,653 | 14,622 | 31 | — |
| Basic industry | 16,905 | 16,905 | — | — |
| Pharmaceutical | 13,267 | 13,267 | — | — |
| Food and beverage | 4,096 | 4,096 | — | — |
| Other | 15,947 | 15,947 | — | — |
| 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 | | | | |
| Banks, trusts and insurance companies | 1,198 | — | 1,198 | — |
| Energy | 3,311 | — | 3,311 | — |
| Technology | 2,844 | — | 2,844 | — |
| Other | 384 | — | 384 | — |
| Redeemable preferred stocks | 2,866 | 1,476 | 1,390 | — |
| **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 |

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 three-month period ended March 31, 2011, the change in our available-for-sale securities categorized as Level 1 and Level 2 is the result of investment purchases made during the period, which were made from funds held in our money market accounts, and an increase 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 March 31, 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 (1) | — | — | — | — | — | — | — |
| Unrealized losses (1) | — | — | (2) | (465) | — | — | (467) |
| Amortization | — | — | — | — | — | — | — |
| Purchases | — | — | — | — | 1,423 | 3,268 | 4,691 |
| Disposals | (1) | — | (33) | (272) | — | — | (306) |
| Transfers in | — | — | — | — | — | — | — |
| Transfers out | — | — | — | — | — | — | — |
| Balance at March 31, 2011 | $ 1,000 | $ 1,115 | $ — | $ 22,742 | $ 1,423 | $ 4,803 | $ 31,083 |

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

As a result of our acquisition of Mercer Insurance Group, $1.5 million in Level 3 securities are held by Mercer Insurance Group at the date of acquisition have been reported as “purchases.” The reported “disposals” relates to the receipt of principal on calls or sink fund bonds, in accordance with the indentures.

## NOTE 4. EMPLOYEE BENEFITS

### Pension and Postretirement Periodic Benefit Cost

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

| (In Thousands) | Pension Plan | | Postretirement Benefit Plan | |
|---|---|---|---|---|
| Three Months Ended March 31, | **2011** | 2010 | **2011** | 2010 |
| Net periodic benefit cost | | | | |
| Service cost | **$ 713** | $ 687 | **$ 379** | $ 337 |
| Interest cost | **1,143** | 1,054 | **356** | 305 |
| Expected return on plan assets | **(1,132)** | (1,001) | **—** | — |
| Amortization of prior service cost | **3** | 19 | **(14)** | (13) |
| Amortization of net loss | **545** | 603 | **20** | — |
| Net periodic benefit cost | **$ 1,272** | $ 1,361 | **$ 741** | $ 629 |

### Employer Contributions

We previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 that we expected to contribute $6.0 million to the pension plan for the 2011 plan year. For the three-month period ended March 31, 2011, we contributed $0.8 million to the pension plan. We anticipate that the total contribution for the 2011 plan year will not vary significantly from our expected contribution.

## NOTE 5. STOCK-BASED COMPENSATION

### Non-qualified Employee Stock Award Plan

The United Fire & Casualty Company 2008 Stock Plan (the “2008 Stock Plan”) authorizes the issuance of restricted and unrestricted stock awards, stock appreciation rights, incentive stock options, and non-qualified stock options for up to 1,900,000 shares of United Fire common stock to employees, with 659,258 authorized shares available for future issuance at March 31, 2011. The 2008 Stock Plan is administered by the Board of Directors, which determines those employees who will receive awards, when awards will be granted, and the terms and conditions of the awards. The Board of Directors may also take any action it deems necessary and appropriate for the administration of the 2008 Stock Plan. Pursuant to the 2008 Stock Plan, the Board of Directors may, at its sole discretion, grant awards to employees of United Fire or any of its affiliated companies who are in positions of substantial responsibility with United Fire.

Option awards granted pursuant to the 2008 Stock Plan are granted to buy shares of United Fire's common stock at the market value of the stock on the date of grant. All outstanding option awards vest and are exercisable in installments of 20.0 percent of the number of shares covered by the option award each year from the grant date, unless the Board of Directors authorizes the acceleration of vesting. To the extent not exercised, vested option awards accumulate and are exercisable by the awardee, in whole or in part, in any subsequent year included in the option period, but not later than 10.0 years from the grant date. Restricted and unrestricted stock awards granted pursuant to the 2008 Stock Plan are granted at the market value of our stock on the date of the grant and fully vest after 5.0 years from the date of issuance, unless accelerated upon the approval of the Board of Directors, at which time United Fire common stock will be issued to the awardee. Restricted and unrestricted stock awards are generally granted free of charge to the eligible employees of United Fire as designated by the Board of Directors.

The activity in the 2008 Stock Plan is displayed in the following table:

| Authorized Shares Available for Future Award Grants | **Three Months Ended March 31, 2011** | Inception to Date |
|---|---|---|
| Beginning balance | **833,495** | 1,900,000 |
| Number of awards granted | **(174,737)** | (1,313,967) |
| Number of awards forfeited or expired | **500** | 73,225 |
| Ending balance | **659,258** | 659,258 |
| Number of option awards exercised | **—** | 167,292 |
| Number of unrestricted stock awards vested | **—** | 1,755 |
| Number of restricted stock awards vested | **—** | — |

**Non-qualified Non-employee Director Stock Option and Restricted Stock Plan**

We have a non-employee director stock option and restricted stock plan that authorizes United Fire to grant restricted and unrestricted stock and non-qualified stock options to purchase 150,000 shares of United Fire's common stock with 10,009 authorized shares available for future issuance at March 31, 2011. The Board of Directors has the authority to determine which non-employee directors receive awards, when options and restricted and unrestricted stock shall be granted, the option price, the option expiration date, the date of grant, the vesting schedule of options or whether the options shall be immediately vested, the terms and conditions of options and restricted stock (other than those terms and conditions set forth in the plan) and the number of shares of common stock to be issued pursuant to an option agreement or restricted stock agreement. The Board of Directors may also take any action it deems necessary and appropriate for the administration of the plan.

The activity in our non-employee director stock option and restricted stock plan is displayed in the following table:

| Authorized Shares Available for Future Award Grants | **Three Months Ended March 31, 2011** | Inception to Date |
|---|---|---|
| Beginning balance | **37,003** | 150,000 |
| Number of awards granted | **(33,000)** | (152,000) |
| Number of awards forfeited or expired | **6,006** | 12,009 |
| Ending balance | **10,009** | 10,009 |
| Number of awards exercised | **—** | — |

**Stock-Based Compensation Expense**

For each of the three-month periods ended March 31, 2011 and 2010, we recognized stock-based compensation expense of $0.5 million and $0.4 million, respectively. As of March 31, 2011, we had $5.1 million in stock-based compensation expense that has yet to be recognized through our results of operations. We expect this compensation to be recognized over the remainder of 2011 and subsequent years according to the following table, except with respect to awards that are accelerated by the Board of Directors, in which case we will recognize any remaining compensation expense in the period in which the awards are accelerated.

| (In Thousands) | | |
|---|---|---|
| 2011 | $ | 1,338 |
| 2012 | | 1,432 |
| 2013 | | 996 |
| 2014 | | 765 |
| 2015 | | 533 |
| 2016 | | 58 |
| Total | $ | 5,122 |

## NOTE 6. SEGMENT INFORMATION

We have two reportable business segments in our operations: property and casualty insurance and life insurance. The property and casualty insurance segment has six domestic locations from which it conducts its business. All offices target a similar customer base, market the same products and use the same marketing strategies and are therefore aggregated. The life insurance segment operates from our home office. Because all of our insurance is sold domestically, we have no revenues allocable to foreign operations.

We evaluate the two segments on the basis of both statutory accounting practices prescribed by our states of domicile and GAAP. We analyze results based on profitability (i.e., loss ratios), expenses, and return on equity. The basis we use to determine and analyze segments and to measure segment profit or loss have not changed from that reported in our Annual Report on Form 10-K for the year ended December 31, 2010.

The following tables for the three-month periods ended March 31, 2011 and 2010, have been reconciled to the amounts reported in our unaudited Consolidated Financial Statements to adjust for intersegment eliminations.

| (In Thousands) | Property and Casualty Insurance | Life Insurance | Total |
|---|---|---|---|
| **Three Months Ended March 31, 2011** | | | |
| **Net premiums earned** | **$ 101,764** | **$ 12,532** | **$ 114,296** |
| **Investment income, net of investment expenses** | **8,781** | **18,329** | **27,110** |
| **Net realized investment gains** | **1,208** | **1,445** | **2,653** |
| **Other income** | **8** | **148** | **156** |
| **Total reportable segment** | **$ 111,761** | **$ 32,454** | **$ 144,215** |
| **Intersegment eliminations** | **(44)** | **(95)** | **(139)** |
| **Total revenues** | **$ 111,717** | **$ 32,359** | **$ 144,076** |
| **Net income** | **$ 3,350** | **$ 2,460** | **$ 5,810** |
| **Assets** | **$ 1,864,823** | **$ 1,684,706** | **$ 3,549,529** |
| **Invested assets** | **$ 1,302,553** | **$ 1,540,424** | **$ 2,842,977** |
| | | | |
| Three Months Ended March 31, 2010 | | | |
| Net premiums earned | $ 101,979 | $ 12,408 | $ 114,387 |
| Investment income, net of investment expenses | 8,682 | 19,331 | 28,013 |
| Net realized investment gains | 2,176 | 550 | 2,726 |
| Other income | (58) | 181 | 123 |
| Total reportable segment | $ 112,779 | $ 32,470 | $ 145,249 |
| Intersegment eliminations | (45) | (79) | (124) |
| Total revenues | $ 112,734 | $ 32,391 | $ 145,125 |
| Net income | $ 15,797 | $ 3,316 | $ 19,113 |
| Assets | $ 1,326,278 | $ 1,692,989 | $ 3,019,267 |
| Invested assets | $ 953,963 | $ 1,501,685 | $ 2,455,648 |

## NOTE 7. EARNINGS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share gives effect to all dilutive common shares outstanding during the reporting period. The dilutive shares we consider in our diluted earnings per share calculation relate to our outstanding stock options and restricted stock awards.

We determine the dilutive effect of our outstanding stock options using the “treasury stock” method. Under this method, we assume the exercise of all of the outstanding stock options whose exercise price is less than the weighted-average fair market value of our common stock during the reporting period. This method also assumes that the proceeds from the hypothetical stock option exercises are used to repurchase shares of our common stock at the weighted-average fair market value of the stock during the reporting period. The net of the assumed stock options exercised and assumed common shares repurchased represents the number of dilutive common shares, which we add to the denominator of the earnings per share calculation.

The components of basic and diluted earnings per share were as follows for the three-month periods ended March 31, 2011 and 2010:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| (In Thousands Except Per Share Data) | **2011** | | 2010 | |
| | Basic | Diluted | Basic | Diluted |
| Net income | **$ 5,810** | **$ 5,810** | $ 19,113 | $ 19,113 |
| Weighted-average common shares outstanding | **26,196** | **26,196** | 26,435 | 26,435 |
| Add dilutive effect of restricted stock awards | **—** | **50** | — | 19 |
| Add dilutive effect of stock options | **—** | **6** | — | — |
| Weighted-average common shares for EPS calculation | **26,196** | **26,252** | 26,435 | 26,454 |
| Earnings per common share | **$ 0.22** | **$ 0.22** | $ 0.72 | $ 0.72 |
| Awards excluded from diluted EPS calculation(1) | **—** | **978** | — | 972 |

(1) Outstanding awards were excluded from the diluted earnings per share calculation because the effect of including them would have been anti-dilutive.

## NOTE 8. COMPREHENSIVE INCOME

Comprehensive income includes all changes in stockholders’ equity during the reporting period except those resulting from investments by stockholders and dividends to stockholders.

The following table sets forth the components of our comprehensive income and the related tax effects for the three-month periods ended March 31, 2011 and 2010.

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | **2011** | 2010 |
| Net income | **$ 5,810** | $ 19,113 |
| | | |
| Other comprehensive income | | |
| Change in net unrealized appreciation on investments | **1,500** | 21,477 |
| Adjustment for net realized gains included in income | **(2,653)** | (2,726) |
| Adjustment for costs included in employee benefit expense | **554** | 615 |
| Other comprehensive income (loss), before tax | **(599)** | 19,366 |
| Income tax effect | **209** | (6,765) |
| Other comprehensive income (loss), after tax | **(390)** | 12,601 |
| | | |
| Comprehensive income | **$ 5,420** | $ 31,714 |

## NOTE 9. CONTINGENT LIABILITIES

### Legal Proceedings

We have been named as a defendant in various lawsuits, including actions seeking certification from the court to proceed as a class action suit and actions filed by individual policyholders, relating to disputes arising from damages that occurred as a result of Hurricane Katrina in 2005. As of March 31, 2011, there were approximately 76 individual policyholder cases pending and four class action cases pending. These cases have been filed in Louisiana state courts and federal district courts and involve, among other claims, disputes as to the amount of reimbursable claims in particular cases, as well as the scope of insurance coverage under homeowners and commercial property policies due to flooding, civil authority actions, loss of use and business interruption. Certain of these cases also claim a breach of duty of good faith or violations of Louisiana insurance claims-handling laws or regulations and involve claims for punitive or exemplary damages. Other cases claim that under Louisiana's so-called "Valued Policy Law," the insurers must pay the total insured value of a home that is totally destroyed if any portion of such damage was caused by a covered peril, even if the principal cause of the loss was an excluded peril. Other cases challenge the scope or enforceability of the water damage exclusion in the policies.

Several actions pending against various insurers, including us, were consolidated for purposes of pre-trial discovery and motion practice under the caption In re Katrina Canal Breaches Consolidated Litigation, Civil Action No. 05-4182 in the United States District Court, Eastern District of Louisiana. In August 2009, the federal trial court ruled in that case that certification of policyholder claims as a class would be inappropriate. The Federal Fifth Circuit Court of Appeals affirmed the denial of class certification. Federal court rulings in that case are not binding on state courts, which do not have to follow the federal court ruling on class certification.

Following an April 2008 Louisiana Supreme Court decision finding that flood damage was clearly excluded from coverage, both state and federal courts have been reviewing pending lawsuits seeking class certification and other pending lawsuits in order to expedite pre-trial discovery and to move the cases towards trial. In the first three months of 2011, we concluded 14 of the approximately 90 lawsuits that were pending at December 31, 2010. Five new lawsuits were filed in 2010 against us, alleging entitlement to additional insurance recovery as a result of Katrina-related damage. We have asserted that these suits were not timely filed and should be dismissed, but the Louisiana Supreme Court issued an opinion on March 15, 2011 that appears to allow for filing of suit even at this late date by personal lines policyholders.

In July 2008, Lafayette Insurance Company participated in a hearing in St. Bernard Parish, Louisiana, after which the court entered an order certifying a class defined as all Lafayette Insurance Company personal lines policyholders within an eight parish area in and around New Orleans who sustained wind damage as a result of Hurricane Katrina and whose claims were at least partially denied or allegedly misadjusted. We appealed this order, and in a decision dated, November 30, 2010, the Louisiana Supreme Court ruled that certification of the class was improper and remanded the matter to the trial court for a determination of the merits of the claims of individually identified policyholders. In light of this decision, we believe it unlikely that class certification will be upheld in any of the other suits seeking class relief. As the claims of potential class members will likely not be addressed in class action litigation, the only recourse for policyholders dissatisfied with their insurance claim adjustment will be through litigation pursued by specifically named persons.

We intend to continue to defend the cases related to losses incurred as a consequence of Hurricane Katrina. We have established our loss and loss settlement expense reserves on the assumption that the application of the Valued Policy Law will not result in our having to pay damages for perils not otherwise covered. We believe that, in the aggregate, these reserves are adequate. Our evaluation of these claims and the adequacy of recorded reserves may change if we encounter adverse developments in the further defense of these claims. In the three-month periods ended March 31, 2011 and 2010, we incurred $3.8 million and $5.4 million in adverse development from our previous estimates for Hurricane Katrina claims litigation.

We are a defendant in two lawsuits filed in the Superior Court of New Jersey of Mercer County, Chancery Division, relating to our proposed merger with Mercer Insurance Group. Each of the lawsuits was filed as a class action on behalf of all of Mercer Insurance Group stockholders and alleges, among other things, that the consideration that stockholders will receive in connection with the merger is inadequate, that Mercer Insurance Group directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, and that we aided and abetted the breach of fiduciary duty by Mercer Insurance Group's directors. Each of the complaints seeks various forms of relief, including injunctive relief that would have, if granted, prevented the merger from closing in accordance with the agreed-upon terms. We aggressively defended these cases and while we believe that the claims asserted against United Fire, Mercer Insurance Group, and its directors are without merit, we, along with Mercer Insurance Group, have negotiated a resolution of the suits. Court approval of the settlement is pending and is expected within the second or third quarter of 2011. The exposure under the terms of the negotiated resolution is not a material obligation of United Fire or Mercer Insurance Group. In the event that the court does not approve the negotiated resolution of the litigation, we believe that the exposure faced by United Fire and Mercer Insurance Group does not represent a material obligation.

We consider all of our other litigation pending as of March 31, 2011, to be ordinary, routine, and incidental to our business.

**NOTE 10. QUARTERLY SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)**

In the course of completing control procedures with respect to the accounting close for the three-month period ended March 31, 2011, management discovered an error in the information utilized in the calculation of deferrable acquisition costs for the property and casualty insurance segment throughout 2010. The use of the incorrect information did not impact the overall annual expense recognized for the year ended December 31, 2010; however it did have an impact of the pattern of expense recognition across quarters. The following table sets forth our selected 2010 unaudited quarterly financial information as originally presented in our Annual Report on Form 10-K that was filed on March 1, 2011 and as adjusted for the calculation error. The adjusted amounts have been used throughout this Form 10-Q for comparative purposes.

| (In Thousands Except Per Share Data)<br>Quarters | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| **As Originally Presented** | | | | | |
| Year Ended December 31, 2010 | | | | | |
| Total revenues | $ 145,125 | $ 148,014 | $ 147,904 | $ 150,029 | $ 591,072 |
| Income before income taxes | 24,271 | 20,591 | 2,595 | 10,926 | 58,383 |
| Net income | 19,392 | 15,394 | 3,640 | 9,087 | 47,513 |
| Basic earnings per share (1) | $ 0.73 | $ 0.58 | $ 0.14 | $ 0.35 | $ 1.81 |
| Diluted earnings per share (1) | 0.73 | 0.58 | 0.14 | 0.35 | 1.80 |
| | | | | | |
| **As Adjusted** | | | | | |
| Year Ended December 31, 2010 | | | | | |
| Total revenues | $ 145,125 | $ 148,014 | $ 147,904 | $ 150,029 | $ 591,072 |
| Income before income taxes | 23,842 | 18,340 | 1,492 | 14,709 | 58,383 |
| Net income | 19,113 | 13,931 | 2,923 | 11,546 | 47,513 |
| Basic earnings per share (1) | $ 0.72 | $ 0.53 | $ 0.11 | $ 0.44 | $ 1.81 |
| Diluted earnings per share (1) | 0.72 | 0.53 | 0.11 | 0.44 | 1.80 |

(1) The sum of the quarterly reported amounts may not equal the full year, as each is computed independently.

**NOTE 11. BUSINESS COMBINATIONS**

On March 28, 2011, we purchased 100.0 percent of the outstanding voting stock of Mercer Insurance Group, which was funded through a combination of cash and short-term debt. The excess of the purchase price over the estimated fair value of the tangible assets acquired and liabilities assumed at the acquisition date has been allocated to goodwill and other intangible assets of the property and casualty insurance segment.

Due to the short time frame since the acquisition date, our procedures to allocate the purchase price are not complete. We are in the process of completing valuation procedures of the separately identifiable intangible assets acquired and assessing the related useful lives of those assets. The purchase price allocations below have been established on a preliminary basis and may be subject to adjustment within one year from the acquisition date. We expect to continue to obtain further information during the measurement period to assist us in determining the fair value of certain of the assets acquired and liabilities assumed. Any adjustment to the fair values that have been preliminarily established will be recognized in the period that the adjustment is identified.

The following is a summary of the estimated fair value of the assets acquired and liabilities assumed of Mercer Insurance Group at the date of acquisition based on preliminary purchase price allocations:

| (In Thousands) | | March 28, 2011 |
|---|---|---|
| **Assets** | | |
| Available-for-sale fixed maturity securities | $ | 401,548 |
| Equity securities | | 10,666 |
| Cash and cash equivalents | | 18,855 |
| Accrued investment income | | 3,741 |
| Premiums receivable | | 35,822 |
| Value of business acquired | | 27,436 |
| Property and equipment | | 15,516 |
| Reinsurance receivables and recoverables | | 58,193 |
| Prepaid reinsurance premiums | | 6,289 |
| Income taxes receivable | | 2,732 |
| Deferred income taxes | | 4,543 |
| Goodwill and intangible assets | | 31,438 |
| Other assets | | 10,107 |
| Total assets | $ | 626,886 |
| **Liabilities** | | |
| Reserves for losses, claims and loss settlement expenses | $ | 310,647 |
| Unearned premiums | | 72,249 |
| Accrued expenses and other liabilities | | 33,902 |
| Debt | | 3,000 |
| Trust preferred securities | | 15,614 |
| Total liabilities | $ | 435,412 |
| Total net assets acquired | $ | 191,474 |

The fair value of available-for-sale fixed maturity securities is primarily based on quoted prices for similar financial instruments in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument. The fair value of equity securities is primarily based on unadjusted quoted prices in active markets for identical financial instruments that we have the ability to access.

The value of business acquired ("VOBA") at the acquisition date is an intangible asset relating to the difference between the unearned premium reserves assumed in the transaction and the estimated fair value of the unexpired insurance policies, which consists of two components: (1) a provision for loss and loss settlement expenses that will be incurred as the premium and exposure is earned and (2) a provision for policy maintenance costs related to servicing those policies until they expire. Loss and loss settlement expenses are valued in a manner identical to that used for loss reserve valuation. Policy maintenance costs are valued based on estimates of future cash flows that are discounted to present value using duration matched risk-free interest rates. VOBA is reported as a component of deferred policy acquisition costs in the accompanying unaudited Consolidated Balance Sheet and will be substantially amortized over a twelve-month period from the acquisition date in proportion to the timing of the estimated underwriting profit associated with the in-force business.

The fair value of reserves for losses, claims and loss settlement expenses related to incurred claims, and reinsurance receivables and recoverables is determined using a valuation model that is based on actuarial estimates of future cash flows for the underwriting liabilities. These future cash flows are adjusted for the time value of money using duration matched risk-free interest rates, which approximate current U.S. Treasury bill rates, and a risk margin to compensate the acquirer for the risk associated with these liabilities.

The fair value of all other tangible assets and liabilities approximated their carrying values at the acquisition date due to their short-term duration.

The following is a summary of our unaudited pro forma historical results, as if Mercer Insurance Group had been acquired on January 1, 2010:

| (In Thousands) | Three Months Ended March 31, | |
|---|---|---|
| | **2011** | 2010 |
| Revenue | **$ 180,901** | $ 184,294 |
| Net income [1] | **1,902** | 22,864 |
| Basic earnings per share | **0.07** | 0.86 |
| Diluted earnings per share | **0.07** | 0.86 |

(1) The three-month period ended March 31, 2011, includes transaction related expenses incurred which reduced net income by $11.4 million.

The unaudited pro forma results above have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred at January 1, 2010, nor are they necessarily indicative of future operating results. Annualized revenues of Mercer Insurance Group approximates $147.3 million.

**NOTE 12. DEBT**

As a result of our acquisition of Mercer Insurance Group, we have the following debt outstanding at March 31, 2011:

| (In Thousands) | | |
|---|---|---|
| | Repayment of Funds are Due on or Before | Amount Due |
| Federal Home Loan Bank | September 26, 2011 | $ 29,900 |
| Bankers Trust Company | March 23, 2012 [1] | 50,000 |
| Union Bank of California | November 16, 2011 | 3,000 |
| Total | | $ 82,900 |

(1) The borrowing under the line of credit is due on March 23, 2012; however, we have agreed to prepay to the lender the outstanding amount of any loan or loans, plus interest, on or before the nine-month anniversary of the loan issuance date, which was March 24, 2011.

In the first quarter of 2011, United Life Insurance Company borrowed $29.9 million from the Federal Home Loan Bank. Under the terms of the loan, the effective interest rate is 0.37 percent and is calculated on a ratio of a 360 day year and the actual days. The loan agreement contains customary terms and conditions. Interest payments are due at maturity on this line. We deposited $35.2 million in collateral with Federal Home Loan Bank to secure that loan.

In the first quarter of 2011, we entered into a $50.0 million line of credit with Bankers Trust Company. For the three-month period ended March 31, 2011, we utilized our entire line of credit to assist in the funding of our acquisition of Mercer Insurance Group.Under the terms of our credit agreement, interest on outstanding notes is adjusted monthly to the annual London Interbank Offered Rate ("LIBOR"), as published in the Wall Street Journal, plus 180 basis points, calculated using a 360 day year and the actual days of the month the principal is outstanding. In addition, annually the line of credit incurs a facility charge of $25,000. Interest payments are due monthly on this line. The line of credit contains certain financial covenants including covenants that require us to maintain our A.M. Best rating, a debt to capitalization ratio and minimum stockholders equity.

In addition, Mercer Insurance Group has the ability to borrow up to $7.5 million on a bank line of credit with Union Bank of California. Under the terms of our credit agreement, the line of credit bears interest at the bank's base rate or an optional rate based on LIBOR. The effective annual interest rate as of March 31, 2011 was 3.25 percent. In addition, annually the line of credit incurs a facility charge of $10,000. Interest payments are due monthly on this line. The line of credit contains certain financial covenants, including covenants that require Mercer Insurance Group to maintain a minimum statutory surplus and to distribute from subsidiaries no more than 50.0 percent of allowable dividends.

We were in compliance with all covenants for all credit agreements as of March 31, 2011.

**NOTE 13. TRUST PREFERRED SECURITIES**

In connection with our acquisition of Mercer Insurance Group, we acquired the following Trust Preferred Securities previously issued by a subsidiary of Mercer Insurance Group. The following Trust Preferred Securities were outstanding as of March 31, 2011:

| | Issue Date | Amount | Interest Rate | Maturity Date |
|---|---|---|---|---|
| Financial Pacific Statutory Trust I | 12/4/2002 | $ 5,028 | LIBOR + 4.00% | 12/4/2032 |
| Financial Pacific Statutory Trust II | 5/15/2003 | 3,015 | LIBOR + 4.10% | 5/15/2033 |
| Financial Pacific Statutory Trust III | 9/30/2003 | 7,571 | LIBOR + 4.05% | 9/30/2033 |
| Total Trust Preferred Securities | | $ 15,614 | | |

Mercer Insurance Group had previously formed three statutory business trusts for the purpose of issuing Floating Rate Capital Securities (Trust Preferred Securities) and investing the proceeds thereof in Junior Subordinated Debentures of Mercer Insurance Group. Mercer Insurance Group holds $.5 million of equity securities to capitalize the Trusts. Trust Preferred Securities totaling $15.5 million were issued to the public.

Financial Pacific Statutory Trust I (Trust I) is a Connecticut statutory business trust. The Trust issued 5.0 million shares of the Trust Preferred Securities at a price of $1 per share for $5.0 million. The Trust purchased $5.0 million in Junior Subordinated Debentures from Mercer Insurance Group that mature on December 4, 2032. The annual effective rate of interest at March 31, 2011 is 8.74 percent.

Financial Pacific Statutory Trust II (Trust II) is a Connecticut statutory business trust. The Trust issued $3.0 million shares of the Trust Preferred Securities at a price of $1 per share for $3.0 million. The Trust purchased $3.0 million in Junior Subordinated Debentures from Mercer Insurance Group that mature on May 15, 2033. The annual effective rate of interest at March 31, 2011 is 8.9 percent.

Financial Pacific Statutory Trust III (Trust III) is a Delaware statutory business trust. The Trust issued 7.5 million shares of the Trust Preferred Securities at a price of $1 per share for $7.5 million. The Trust purchased $7.6 million in Junior Subordinated Debentures from Mercer Insurance Group that mature on September 30, 2033. The annual effective rate of interest at March 31, 2011 is 8.89 percent.

Mercer Insurance Group has the right, at any time, so long as there are no continuing events of default, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20.0 consecutive quarters; but not beyond the stated maturity of the Junior Subordinated Debentures. To date no interest has been deferred. Mercer Insurance Group entered into three interest rate swap agreements to economically hedge the floating interest rate on the Junior Subordinated Debentures (see Note 14, "Derivative Instruments and Hedging Activities").

The Trust Preferred Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Junior Subordinated Debentures at maturity or their earlier redemption. Mercer Insurance Group has the right to redeem the Junior Subordinated Debentures after December 4, 2007 for Trust I, after May 15, 2008 for Trust II and after September 30, 2008 for Trust III. Mercer Insurance Group has not exercised these rights as of March 31, 2011.

**NOTE 14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

Upon the acquisition of Mercer Insurance Group, we acquired three interest-rate swap agreements that hedge against interest rate risk on the trust preferred securities. The interest rate swaps are contracts to convert, for a period of time, the floating rate of the trust preferred securities issued by Mercer Insurance Group into a fixed rate without exchanging the instruments themselves. As of March 31, 2011, the interest-rate swap agreements had an aggregate notional principal amount of $15.5 million.

The interest rate swaps are designated as non-hedge instruments. Accordingly, the fair value of the interest rate swaps is recognized as an asset or liability, with changes in fair value recognized in earnings. The estimated fair value of the interest rate swaps is based on the valuation received from the financial institution counterparty (“counterparty”).

By using financial instruments to manage exposure to changes in interest rates, we are exposed to market and credit risk. In this instance, market risk is the potential for loss due to a decrease in the fair value of securities resulting from uncontrollable fluctuations in interest rates. Credit risk is the potential failure of the counterparty to perform under the terms of the contract. If the fair value of a contract is positive, the counterparty would owe, therefore exposing us to credit risk. The credit risk inherent has been minimized by entering into transactions with high-quality counterparties, whose credit rating is higher than Aa, as rated by Moody's.

A summary of the fair value of interest rate swaps outstanding as of March 31, 2011, is as follows:

| | Three Months Ended March 31, 2011 | | |
|---|---|---|---|
| (In Thousands) | Balance Sheet Location | Fair Value Liability | |
| Interest rate swaps | | | |
| Union Bank of California (Trust I) | Accrued expenses and other liabilities | $ | 355 |
| Union Bank of California (Trust II) | Accrued expenses and other liabilities | | 260 |
| Union Bank of California (Trust III) | Accrued expenses and other liabilities | | 682 |
| Total derivatives | | $ | 1,297 |

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders of
United Fire & Casualty Company

We have reviewed the consolidated balance sheet of United Fire & Casualty Company as of March 31, 2011, and the related consolidated statements of income for the three-month periods ended March 31, 2011 and 2010, the consolidated statements of cash flows for the three-month periods ended March 31, 2011 and 2010, and the consolidated statement of stockholders' equity for the three-month period ended March 31, 2011. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Fire & Casualty Company as of December 31, 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 28, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
Ernst & Young LLP

Chicago, Illinois
May 10, 2011

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 and the Securities Exchange Act of 1934 for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ materially from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about our company, the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will continue," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed in such 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 II Item 1A, "Risk Factors" of this document. Among the factors that could cause our actual outcomes and results to differ are:

- The adequacy of our loss and loss settlement expense reserves established for Hurricane Katrina, which are based on management's estimates.
- The frequency and severity of claims, including those related to catastrophe losses, and the impact those claims have on our loss reserve adequacy.
- Developments in the domestic and global financial markets that could affect our investment portfolio and financing plans.
- The calculation and recovery of deferred policy acquisition costs ("DAC").
- The valuation of pension and other postretirement benefit obligations.
- Our relationship with our agents.
- Our relationship with our reinsurers.
- The financial strength rating of our reinsurers.
- Changes in industry trends and significant industry developments.
- The resolution of regulatory issues and litigation pertaining to and arising out of Hurricane Katrina.
- Governmental actions, policies and regulations, including, but not limited to, domestic health care reform, financial services regulatory reform, corporate governance, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions.
- NASDAQ policies or regulations relating to corporate governance and the cost to comply.

These are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the Securities and

Exchange Commission, we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

**CRITICAL ACCOUNTING ESTIMATES**

Critical accounting estimates are defined as those that are representative of significant judgments and uncertainties and that potentially may result in materially different results under different assumptions and conditions. We base our discussion and analysis of our results of operations and financial condition on the amounts reported in our Consolidated Financial Statements, which we have prepared in accordance with GAAP. As we prepare these Consolidated Financial Statements, we must make estimates and assumptions that affect the reported amounts of assets and liabilities; and the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses for the reporting period. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. Our critical accounting estimates are: the valuation of investments; the valuation of reserves for losses, claims, and loss settlement expenses; the valuation of reserves for future policy benefits; and the calculation of the deferred policy acquisition costs asset. These critical accounting estimates are more fully described in our Management's Discussion and Analysis of Results of Operations and Financial Condition presented in our Annual Report on Form 10-K for the year ended December 31, 2010.

**INTRODUCTION**

The purpose of the Management's Discussion and Analysis is to provide an understanding of our results of operations and consolidated financial position. Our Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements and related notes, including those in our Annual Report on Form 10-K for the year ended December 31, 2010. When we provide information on a statutory basis, we label it as such, otherwise, all other data is presented in accordance with GAAP.

This discussion and analysis is presented in these sections:

- Our Business
- Consolidated Financial Highlights
- Results of Operations for Property and Casualty Insurance, Life Insurance and Investment Portfolio
- Liquidity and Capital Resources
- Statutory Financial Measures

**OUR BUSINESS**

Founded in 1946, United Fire & Casualty Company provides insurance protection for individuals and businesses through several regional companies. We are licensed as a property and casualty insurer in 43 states plus the District of Columbia and are represented by more than 1,000 independent agencies. Our life insurance subsidiary is licensed in 29 states and is represented by more than 900 independent agencies.

We operate two business segments, each with a wide range of products:

- property and casualty insurance, which includes commercial insurance, personal insurance, surety bonds and assumed insurance; and
- life insurance, which includes deferred and immediate annuities, universal life products and traditional life (primarily single premium whole life insurance) products.

We manage these business segments separately, as they generally do not share the same customer base, and each has different products, pricing, and expense structures.

For the three months ended March 31, 2011, property and casualty business accounted for 89.1 percent of our net premiums earned, of which 90.1 percent was generated from commercial lines. Life insurance business made up 10.9 percent of our net premiums earned, of which 68.8 percent was generated from traditional life insurance products.

For the three months ended March 31, 2011, more than half of our property and casualty premiums were written in Iowa, Texas, Missouri, Louisiana, and Illinois, and over three-fourths of our life insurance premiums, which excludes annuities, were written in Iowa, Illinois, Wisconsin, Minnesota and Nebraska.

We evaluate segment profit or loss based upon operating and investment results. Segment profit or loss described in the following sections of the Management's Discussion and Analysis is reported on a pre-tax basis. Additional segment information is presented in Part I, Item 1, Note 6 “Segment Information” to the Consolidated Financial Statements.

Our primary sources of revenue are premiums and investment income. Major categories of expenses include losses and loss settlement expenses, changes in reserves for future policy benefits, operating expenses and interest on policyholders’ accounts.

The profitability of our company is influenced by many factors, including price, competition, economic conditions, interest rates, catastrophic events and other natural disasters, man-made disasters, state regulations, court decisions, and changes in the law. Management believes that climate change considerations will not have a material impact on our profitability, unless a connection between future increased extreme weather events and climate change is ultimately proven true.

To manage these risks and uncertainties, we seek to achieve consistent profitability through strong agency relationships, exceptional customer service, fair and prompt claims handling, disciplined underwriting, superior loss control services, and effective and efficient use of technology.

**CONSOLIDATED FINANCIAL HIGHLIGHTS**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| (In Thousands) | **2011** | 2010 | % |
| **Revenues** | | | |
| Net premiums earned | **$ 114,204** | $ 114,308 | (0.1)% |
| Investment income, net of investment expenses | **27,063** | 27,968 | (3.2) |
| Net realized investment gains | | | |
| Other-than-temporary impairment charges | **—** | (342) | — |
| All other net realized gains | **2,653** | 3,068 | (13.5) |
| Total net realized investment gains | **2,653** | 2,726 | (2.7) |
| Other income | **156** | 123 | 26.8 |
| | **$ 144,076** | $ 145,125 | (0.7)% |
| | | | |
| **Benefits, Losses and Expenses** | | | |
| Losses and loss settlement expenses | **$ 76,182** | $ 68,363 | 11.4 |
| Increase in liability for future policy benefits | **8,182** | 6,390 | 28.0 |
| Amortization of deferred policy acquisition costs | **26,046** | 26,516 | (1.8) |
| Other underwriting expenses | **16,057** | 9,213 | 74.3 |
| Interest on policyholders' accounts | **10,670** | 10,801 | (1.2) |
| | **$ 137,137** | $ 121,283 | 13.1 % |
| **Income before income taxes** | **$ 6,939** | $ 23,842 | (70.9)% |
| Federal income tax expense | **1,129** | 4,729 | (76.1) |
| **Net Income** | **$ 5,810** | $ 19,113 | (69.6)% |

The following is a summary of our financial performance for the three-month periods ended March 31, 2011:

***Consolidated Results of Operations***

- Net income was $5.8 million for the three-month period ended March 31, 2011, compared to $19.1 million for the same period of 2010. The deterioration is largely attributable to the assumed reinsurance losses of $10.0 million related to the New Zealand earthquake and the earthquake and tsunami in Japan. Also contributing were transaction costs totaling $7.9 million related to our acquisition of Mercer Insurance Group, Inc.

- Net premiums written for the property and casualty insurance segment increased 3.3 percent in the three-month period ended March 31, 2011, compared to the same period of 2010, reflecting an increase in new business being written and a slight increase in retention rates.

- Deferred annuity deposits decreased 17.0 percent in the three-month period ended March 31, 2011, as compared to the same period of 2010. Deferred annuity sales continued to decline, as interest rates remain at historic lows and as some consumers with a greater tolerance for risk are choosing to surrender their annuities and place the funds in products with greater risk and potentially greater return. Deferred annuity deposits are not recorded as a component of net premiums written or net premiums earned; however, they do generate investment income.

- Pre-tax catastrophe losses totaled $12.4 million for the three-month period ended March 31, 2011 (compared to $3.2 million in the same period of 2010) of which $12.0 million was related to our assumed reinsurance portfolio, while the remaining $.4 million in losses were the result of business written directly through agents.

- Our combined ratio was affected by our assumed reinsurance losses and acquisition expenses for Mercer Insurance Group. It increased 14.3 percentage points to 106.5 percent in the three-month period ended March 31, 2011, from 92.2 percent in the same period of 2010.

***Consolidated Financial Condition***

- Net cash outflow related to our annuity business was $6.2 million in the three-month period ended March 31, 2011, compared to $1.1 million in the same period of 2010. The decline is attributable to the decline in annuity deposits.

- As of March 31, 2011, the book value per share of our common stock was $27.42. Under our share repurchase program, which expires in August 2011, we are authorized to purchase an additional 172,826 shares of common stock. We did not purchase shares of our common stock in the first quarter of 2011.

- Net unrealized investment gains totaled $101.9 million as of March 31, 2011, a decrease of $.8 million or 0.7 percent since December 31, 2010.

- Our stockholders' equity increased to $718.4 million at March 31, 2011, from $716.4 million at December 31, 2010.

**RESULTS OF OPERATIONS**

**Property and Casualty Insurance Segment Results**

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | **2011** | **2010** |
| Net premiums written [1] | **$ 110,726** | $ 107,124 |
| Net premiums earned | **$ 101,764** | $ 101,979 |
| Losses and loss settlement expenses | **(71,665)** | (63,628) |
| Amortization of deferred policy acquisition costs | **(24,030)** | (24,043) |
| Other underwriting expenses | **(12,726)** | (6,360) |
| Underwriting gain (loss) [1] | **$ (6,657)** | $ 7,948 |
| | | |
| Investment income, net of investment expenses | **8,737** | 8,637 |
| Net realized investment gains | | |
| Other-than-temporary impairment charges | **—** | (36) |
| All other net realized gains | **1,208** | 2,212 |
| Total net realized investment gains | **1,208** | 2,176 |
| Other income | **8** | (58) |
| Income before income taxes | **$ 3,296** | $ 18,703 |
| | | |
| **GAAP Ratios:** | | |
| Net loss ratio | **58.2%** | 59.3% |
| Catastrophes - effect on net loss ratio | **12.2** | 3.1 |
| Net loss ratio | **70.4%** | 62.4% |
| Expense ratio [2] | **36.1** | 29.8 |
| Combined ratio | **106.5%** | 92.2% |

(1) The Statutory Financial Measures section of this report defines data prepared in accordance with statutory accounting practices which, is a comprehensive basis of accounting other than U.S. GAAP.
(2) Includes policyholder dividends.

- **Net premiums written** increased in the first quarter of 2011, compared to the same period in 2010.
  - **Commercial lines** - We are encouraged by the increase in net premiums written, reflecting an increase in new business being written and a slight increase in policy retention rates. Overall, a sluggish economy continues to create financial concerns for our insureds, and the competitive pricing environment continues to impact our business. During the first quarter of 2011, we slightly reduced our commercial lines renewal pricing levels to retain quality accounts, keeping

approximately 80.0 percent of our accounts, which is in line with our retention goals. New business pricing remained unchanged.

 - **Personal lines** continues to provide positive growth in written premium, and we continue to be successful in obtaining increases in personal lines rates in certain states.

- **Federal income tax** decreased $3.1 million in the first quarter of 2011, as compared to the same period in 2010, due to lower pretax income in 2011, the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

- **GAAP combined ratio** increased by 14.3 percentage points compared to the first quarter of 2010, due primarily to the assumed reinsurance losses of $10.0 million related to the New Zealand earthquake and the earthquake and tsunami in Japan. Also contributing to the increase were transaction costs totaling $7.9 million related to our acquisition of Mercer Insurance Group.

  - **Losses and loss settlement expenses** increased 12.6 percent in the first quarter of 2011, as compared to the same period in 2010. The deterioration is primarily due to our assumed catastrophe losses during the quarter.

  - **Noncatastrophe claims experience -** overall claims frequency was relatively flat in the first quarter of 2011, while claims severity decreased slightly.

  - **Other underwriting expenses** increased 100.1 percent in the first quarter of 2011, primarily due to transaction costs of $7.9 million related to our acquisition of Mercer Insurance Group that were incurred during the quarter.

For a detailed discussion of our consolidated investment results, refer to the “Investment Portfolio” section of this item.

The following tables display our premiums earned, losses and loss settlement expenses and loss ratio by line of business for the three-month periods ended March 31, 2011 and 2010:

| Three Months Ended March 31, (In Thousands) Unaudited | 2011 Premiums Earned | 2011 Losses and Loss Settlement Expenses Incurred | 2011 Loss Ratio | 2010 Premiums Earned | 2010 Losses and Loss Settlement Expenses Incurred | 2010 Loss Ratio |
|---|---|---|---|---|---|---|
| Commercial lines | | | | | | |
| Other liability [1] | **$ 27,929** | **$ 11,181** | **40.0%** | $ 28,214 | $ 18,841 | 66.8% |
| Fire and allied lines [2] | **23,898** | **19,668** | **82.3** | 24,384 | 19,799 | 81.2 |
| Automobile | **22,694** | **13,658** | **60.2** | 23,010 | 13,830 | 60.1 |
| Workers' compensation | **11,638** | **9,891** | **85.0** | 11,218 | 4,278 | 38.1 |
| Fidelity and surety | **4,061** | **(9)** | **(0.2)** | 4,679 | 209 | 4.5 |
| Miscellaneous | **203** | **217** | **106.9** | 202 | 36 | 17.8 |
| Total commercial lines | **$ 90,423** | **$ 54,606** | **60.4%** | $ 91,707 | $ 56,993 | 62.1% |
| | | | | | | |
| Personal lines | | | | | | |
| Fire and allied lines [3] | **$ 6,247** | **$ 2,199** | **35.2%** | $ 5,979 | $ 2,067 | 34.6% |
| Automobile | **3,744** | **1,863** | **49.8** | 3,467 | 2,881 | 83.1 |
| Miscellaneous | **123** | **2** | **1.6** | 87 | (27) | (31.0) |
| Total personal lines | **$ 10,114** | **$ 4,064** | **40.2%** | $ 9,533 | $ 4,921 | 51.6% |
| Reinsurance assumed | **$ 1,227** | **$ 12,995** | **N/A** | $ 739 | $ 1,714 | 231.9% |
| Total | **$ 101,764** | **$ 71,665** | **70.5%** | $ 101,979 | $ 63,628 | 62.4% |

(1) “Other liability” is business insurance covering bodily injury and property damage arising from general business operations, accidents on the insured's premises, and products manufactured or sold.
(2) “Fire and allied lines” includes fire, allied lines, commercial multiple peril, and inland marine.
(3) “Fire and allied lines” includes fire, allied lines, homeowners, and inland marine.

- **Other liability** - The loss ratio improved 26.8 percentage points to 40.0 percent in the three months ended March 31, 2011, from 66.8 percent in the three months ended March 31, 2010. The improvement in our loss ratio was due to an overall decline in severity quarter over quarter.

- **Workers' compensation** - The loss ratio deteriorated 46.9 percentage points to 85.0 percent in the three months ended March 31, 2011, from 38.1 percent in the three months ended March 31, 2010. The deterioration in this line was due to an increase in severity, as the result of several large losses that occurred in the first quarter of 2011.

- **Fidelity and surety** - In the three months ended March 31, 2011, we had favorable development of 0.2 percent compared to a loss ratio of 4.5 percent in the three months ended March 31, 2010. The favorable development in this line is due to minimal losses in the first quarter of 2011, along with recoveries from salvage and subrogation on prior year claims.

- **Personal lines automobile** - The loss ratio improved 33.3 percentage points to 49.8 percent in the three months ended March 31, 2011, from 83.1 percent in the three months ended March 31, 2010. The improvement in our loss ratio was due to an increase in our premiums earned along with a slight decrease in frequency and a reduction in the average claim size.

**Life Insurance Segment Results**

| (In Thousands) | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| **Revenues** | | |
| Net premiums earned | **$ 12,440** | $ 12,329 |
| Investment income, net | **18,326** | 19,331 |
| Net realized investment gains | | |
| Other-than-temporary impairment charges | **—** | (306) |
| All other net realized gains | **1,445** | 856 |
| Total net realized investment gains | **1,445** | 550 |
| Other income | **148** | 181 |
| **Total Revenues** | **$ 32,359** | $ 32,391 |
| | | |
| **Benefits, Losses and Expenses** | | |
| Losses and loss settlement expenses | **$ 4,517** | $ 4,735 |
| Increase in liability for future policy benefits | **8,182** | 6,390 |
| Amortization of deferred policy acquisition costs | **2,016** | 2,473 |
| Other underwriting expenses | **3,331** | 2,853 |
| Interest on policyholders' accounts | **10,670** | 10,801 |
| **Total Benefits, Losses and Expenses** | **$ 28,716** | $ 27,252 |
| | | |
| **Income Before Income Taxes** | **$ 3,643** | $ 5,139 |

- **Net premiums earned** was flat in the first quarter of 2011, as compared to the same period of 2010, as we generally experience in the first quarter.

- **Investment income** decreased 5.2 percent in the first quarter of 2011, compared to the same period of 2010; as our fixed maturity securities were called or matured, we were unable to obtain the same level of return on the reinvestment of these funds.

- **Increase in liability for future policy benefits** increased 28.0 percent in the first quarter of 2011, compared to the same period of 2010. This reflects the impact on our reserves of the growth in the sale our single premium whole life insurance product and the demographics of insureds who purchased that product.

- **Interest on policyholders' accounts** decreased 1.2 percent for the first quarter of 2011, as compared to the same period of 2010. As the guaranteed interest period on policies expires, the interest rate credited to the policies is lower due to market rates being lower than the rates at the inception of the policy.

- **Deferred annuity sales** decreased 17.0 percent in the first quarter of 2011, as compared to the same period of 2010. Deferred annuity sales continued to decline, as interest rates remain at historic lows and as some consumers with a greater tolerance for risk are choosing to surrender their annuities and place the funds in products with greater risk and potentially greater return. Deferred annuity sales are not recorded as a component of net premiums written or net premiums earned; however, they do generate investment income.

- **Net cash outflow** related to our annuity business was $6.2 million in the first quarter of 2011, compared to $1.1 million in the same period of 2010.

**Investment Portfolio**

Our invested assets totaled $2,843.0 million at March 31, 2011, compared to $2,482.9 million at December 31, 2010. At March 31, 2011, fixed maturity securities comprised 92.4 percent of our investment portfolio, while equity securities accounted for 5.9 percent of the value of our portfolio. Because the primary purpose of our investment portfolio is to fund future claims payments, we follow a conservative investment philosophy, investing in a diversified portfolio of high quality, intermediate-term taxable corporate bonds, taxable U.S. government bonds and tax-exempt U.S. municipal bonds.

***Composition***

We develop our investment strategies based on a number of factors, including estimated duration of reserve liabilities, short- and long-term liquidity needs, projected tax status, general economic conditions, expected rates of inflation and regulatory requirements. We administer our investment portfolio based on investment guidelines approved by management and the investment committee of our Board of Directors that comply with applicable statutory regulations.

The composition of our investment portfolio at March 31, 2011, is presented at carrying value in the following table:

| | Property & Casualty Insurance Segment | | Life Insurance Segment | | Total | |
|---|---|---|---|---|---|---|
| (Dollars in Thousands) | | Percent of Total | | Percent of Total | | Percent of Total |
| Fixed maturities [(1)] | $ 1,124,211 | 86.4% | $ 1,501,557 | 97.5% | $ 2,625,768 | 92.4% |
| Equity securities | 147,670 | 11.3 | 21,216 | 1.4 | 168,886 | 5.9 |
| Trading securities | 13,323 | 1.0 | — | — | 13,323 | 0.5 |
| Mortgage loans | — | — | 6,468 | 0.4 | 6,468 | 0.2 |
| Policy loans | — | — | 7,289 | 0.5 | 7,289 | 0.3 |
| Other long-term investments | 16,249 | 1.2 | 3,894 | 0.2 | 20,143 | 0.7 |
| Short-term investments | 1,100 | 0.1 | — | — | 1,100 | — |
| Total | $ 1,302,553 | 100.0% | $ 1,540,424 | 100.0% | $ 2,842,977 | 100.0% |

(1) Available-for-sale fixed maturities are carried at fair value. Held-to-maturity fixed maturities are carried at amortized cost.

At March 31, 2011, we classified $2,619.9 million, or 99.8 percent, of our fixed maturities portfolio as available-for-sale, compared to $2,278.4 million, or 99.7 percent, at December 31, 2010. We classify our remaining fixed maturities as held-to-maturity or trading. We record held-to-maturity securities at amortized cost. We record trading securities, primarily convertible redeemable preferred debt securities, at fair value, with any changes in fair value recognized in earnings.

As of March 31, 2011 and December 31, 2010, we did not have direct exposure to investments in subprime mortgages or other credit enhancement vehicles. Our exposure to derivative instruments and hedging is described in detail in Note 14, “Derivative Instruments and Hedging Activities.”

***Credit Quality***

The following table shows the composition of fixed maturity securities held in our available-for-sale, held-to-maturity and trading security portfolios, by credit rating at March 31, 2011 and December 31, 2010. Information contained in the table is generally based upon the issue credit ratings provided by Moody's, unless the rating is unavailable, in which case we obtain it from Standard & Poor's.

| (In Thousands) | **March 31, 2011** | | **December 31, 2010** | |
|---|---|---|---|---|
| Rating | **Carrying Value** | **% of Total** | **Carrying Value** | **% of Total** |
| AAA | **$ 392,289** | **14.9%** | $ 279,009 | 12.1% |
| AA | **613,854** | **23.3** | 480,478 | 20.9 |
| A | **591,780** | **22.4** | 476,044 | 20.7 |
| Baa/BBB | **919,223** | **34.8** | 938,781 | 40.9 |
| Other/Not Rated | **121,945** | **4.6** | 123,367 | 5.4 |
| | **$ 2,639,091** | **100.0%** | $ 2,297,679 | 100.0% |

Changes in the credit ratings of our fixed maturity securities portfolio at March 31, 2011, from December 31, 2010, is primarily due to the inclusion of Mercer Insurance Group's invested assets in our portfolio at March 31, 2011.

***Duration***

Our investment portfolio comprises primarily fixed maturity securities whose fair value is susceptible to market risk, specifically interest rate changes. Duration is a measurement used to quantify our inherent interest rate risk and analyze our ability to match our invested assets to our claims liabilities. If our invested assets and claims liabilities have similar durations, then any change in interest rates will have an equal and opposite effect on these accounts. Mismatches in the duration of assets and liabilities can cause significant fluctuations in our results of operations. The primary purpose for matching invested assets and claims liabilities is liquidity. With appropriate matching, our investments will mature when cash is needed, preventing the need to liquidate other assets prematurely.

*Group*

The weighted average duration of our portfolio of fixed maturity securities, at March 31, 2011, is 5.9 years compared to 5.2 years at December 31, 2010.

*Property and Casualty Insurance Segment*

The weighted average duration of our portfolio of fixed maturity securities, at March 31, 2011, is 7.2 years compared to 6.5 years at December 31, 2010.

*Life Insurance Segment*

The weighted average duration of our portfolio of fixed maturity securities, at both March 31, 2011 and December 31, 2010, is 3.6 years.

***Investment Results***

We invest the premiums received from our policyholders and annuitants in order to generate investment income, which is an important component of our revenues and profitability. The amount of investment income that we are able to generate is affected by many factors, some of which are beyond our control. Some of these factors are: volatility in the financial markets, economic growth, inflation, interest rates, world political conditions, terrorism attacks or threats, adverse events affecting other companies in our industry or the industries in which we invest and other unpredictable national or world events.

Our net investment income decreased 3.2 percent in the first quarter of 2011, as compared to the same period of 2010, as interest rates remain at a historical low. Net realized investment gains were $2.7 million in both the first quarter of 2011 and 2010. There were no other-than-temporary impairment charges in the first quarter of 2011 compared to $0.3 million in the same period of 2010.

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.

Changes in unrealized gains on available-for-sale securities do not affect net income and earnings per share but do impact comprehensive income, stockholders' equity and book value per share. We believe that any unrealized losses on our available-for-sale securities at March 31, 2011, are temporary based upon our current analysis of the issuers of the securities that we hold and current market events. It is possible that we could recognize impairment losses in future periods on securities that we own at March 31, 2011, if future events and information cause us to determine that a decline in value is other-than-temporary. However, we endeavor to invest in high quality assets to provide protection from future credit quality issues and corresponding impairment write-downs.

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity measures our ability to generate sufficient cash flows to meet our short- and long-term cash obligations. Our cash inflows are primarily a result of premiums, annuity deposits, reinsurance recoveries, sales or maturities of investments, and investment income. Cash provided from these sources is used primarily for loss and loss settlement expenses, payment of policyholder benefits under life insurance contracts; annuity withdrawals, operating expenses, dividends, pension plan contributions, and in recent years, common share repurchases.

Cash outflows may be variable because of the uncertainty regarding settlement dates for losses. In addition, the timing and amount of individual catastrophe losses are inherently unpredictable and could increase our liquidity requirements. The timing and amount of reinsurance recoveries may be affected by reinsurer solvency and reinsurance coverage disputes.

Historically, we have generated substantial cash inflows from operations. It is our policy to invest the cash generated from operations in securities with maturities that correlate to the anticipated timing of payments for losses and loss settlement expenses of the underlying insurance policies. The majority of our assets are invested in available-for-sale fixed maturity securities.

The following table displays a summary of cash sources and uses in 2011 and 2010.

| Cash Flow Summary | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| (In Thousands) | | **2011** | | 2010 |
| Cash provided provided by (used in) | | | | |
| Operating activities | **$** | **31,268** | $ | 29,716 |
| Investing activities | | **(123,768)** | | (156,262) |
| Financing activities | | **78,215** | | 79,914 |
| Net decrease in cash and cash equivalents | **$** | **(14,285)** | $ | (46,632) |

### Operating Activities

Net cash flows provided by operating activities totaled $31.3 million and $29.7 million for the three-month periods ended March 31, 2011 and 2010, respectively. Cash flows for the three-month period ended March 31, 2011, reflected a higher level of: property and casualty insurance premiums collected; loss and loss settlement expense payments; and operating expenses paid, as compared to the same period of 2010. Additionally, we experienced a lower level of investment income received.

Our cash flows from operations were sufficient to meet our liquidity needs for the three-month periods ended March 31, 2011 and 2010.

### Investing Activities

Cash in excess of operating requirements is generally invested in fixed maturity securities and equity securities. Fixed maturities provide regular interest payments and allow us to match the duration of our liabilities. Equity securities provide dividend income, potential dividend income growth and potential appreciation. For further discussion of our investments, including our philosophy and portfolio, see the “Investment Portfolio” section contained in this item.

In addition to investment income, possible sales of investments and proceeds from calls or maturities of fixed maturity securities also can provide liquidity. During the next five years, $1.5 billion, or 56.1 percent of our fixed maturity portfolio will mature.

We invest funds required for short-term cash needs primarily in money market accounts, which are classified as cash equivalents. At March 31, 2011, our cash and cash equivalents included $67.7 million related to these money market accounts, compared to $34.4 million at December 31, 2010.

Net cash flows used in investing activities totaled $123.8 million and $156.3 million for the three-month periods ended March 31, 2011 and 2010, respectively. In the three-month period ended March 31, 2011, we had cash inflows from sales of investments, scheduled and unscheduled investment maturities, redemptions and prepayments that totaled $204.3 million compared to $91.2 million for the same period in 2010.

Our cash outflows for investment purchases totaled $155.4 million for the three-month period ended March 31, 2011, compared to $168.1 million for the same period in 2010. In 2011, as in 2010, we have purchased a higher level of fixed maturity securities rather than other investment vehicles, such as short-term investments, which continue to be less profitable due to the lower market interest rates. In the three-month period ended March 31, 2011, we had cash outflows totaling $172.6 million related to our acquisition of Mercer Insurance Group.

**Financing Activities**

Net cash flows provided by financing activities totaled $78.2 million and $79.9 million for the three-month periods ended March 31, 2011 and 2010, respectively. Included in our 2010 cash flows was $78.8 million related to the change in our securities lending collateral for a program that was terminated in December 2010. Also impacting cash flows were borrowed funds totaling $79.9 million related to our acquisition of Mercer Insurance Group. For further discussion of this, please see Note 12. “Debt.”

In the three-month period ended March 31, 2011, net cash inflows from our life insurance segment's annuity and universal life deposits totaled $2.3 million, compared to $7.9 million for the same period of 2010, as interest rates continue to remain at historic lows and some consumers sought products with greater risk. In the three-month period ended March 31, 2011, we made no repurchases of our common stock, compared to $2.8 million in the same period in 2010.

***Line of Credit***

In the first quarter of 2011, we entered into a $50.0 million line of credit with Bankers Trust Company. This line of credit is available if our operating and investing cash flows are not sufficient to support our operations. For the three-month period ended March 31, 2011, we utilized our entire line of credit to assist in the funding of our acquisition of Mercer Insurance Group. For further discussion of the utilization of our line of credit, please see Note 12. “Debt.”

Under the terms of our credit agreement, interest on outstanding notes is adjusted monthly to the annual London Interbank Offered Rate (“LIBOR”), as published in the Wall Street Journal, plus 180 basis points, calculated using a 360 day year and the actual days of the month the principal is outstanding. In addition, annually the line of credit incurs a facility charge of $25,000. Interest payments are due monthly on this line. The line of credit contains certain financial covenants including covenants that require us to maintain our A.M. Best rating, a debt to capitalization ratio and minimum stockholders equity.

In addition, Mercer Insurance Group has the ability to borrow up to $7.5 million on a bank line of credit with Union Bank of California. Under the terms of our credit agreement, the line of credit bears interest at the bank’s base rate or an optional rate based on LIBOR. The effective annual interest rate as of March 31, 2011 was 3.25 percent. In addition, annually the line of credit incurs a facility charge of $10,000. Interest payments are due monthly on this line. The line of credit contains certain financial covenants, including covenants that require Mercer Insurance Group to maintain a minimum statutory surplus and to distribute from subsidiaries no more than 50 percent of allowable dividends.

At the date of acquisition, Mercer Insurance Group had utilized $3.0 million of the outstanding line of credit.

We were in compliance with all covenants for all credit agreements as of March 31, 2011.

**Stockholders' Equity**

Stockholders' equity increased 0.3 percent to $718.4 million at March 31, 2011, from $716.4 million at December 31, 2010. The increase in our stockholders' equity was primarily attributable to net income of $5.8 million. This was partially offset by stockholder dividends of $3.9 million and net unrealized investment depreciation of $0.8 million, net of tax. At March 31, 2011, book value per share was $27.42 compared to $27.35 at December 31, 2010.

**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. As of March 31, 2011, our remaining potential contractual obligation was $11.0 million.

## STATUTORY FINANCIAL MEASURES

United Fire and its subsidiaries are required to file financial statements based on statutory accounting principles in each of the states where our insurance companies are domiciled and licensed to conduct business. Management analyzes financial data and statements that are prepared in accordance with statutory accounting principles and GAAP.

Regulation G promulgated by the Securities and Exchange Commission does not require reconciliation to GAAP of data prepared under a system of regulation of a government or governmental authority or self-regulatory organization that is applicable to the registrant.

The following definitions of key statutory financial measures are provided for our readers' convenience.

**Premiums written** is a measure of our overall business volume. Net premiums written comprise direct and assumed premiums written, less ceded premiums written. Direct premiums written is the amount of premiums charged for policies issued during the period. For the property and casualty insurance segment there are no differences between direct statutory premiums written and direct premiums written under GAAP. However, for the life insurance segment, annuity deposits (i.e., sales) are included in direct statutory premiums written, whereas they are excluded for GAAP.

Assumed premiums written is consideration or payment we receive in exchange for insurance we provide to other insurance companies. We report these premiums as revenue as they are earned over the underlying policy period. Ceded premiums written is the portion of direct premiums written that we cede to our reinsurers under our reinsurance contracts. Premiums written is an important measure of business production for the period under review.

| | Three Months Ended March 31, | |
|---|---|---|
| (In Thousands) | **2011** | 2010 |
| Net premiums written | **$ 123,159** | $ 119,436 |
| Net change in unearned premium | **(9,090)** | (5,186) |
| Net change in prepaid reinsurance premium | **135** | 58 |
| Net premiums earned | **$ 114,204** | $ 114,308 |

**Combined ratio** is a commonly used statutory financial measure of underwriting performance. A combined ratio below 100.0 percent generally indicates a profitable book of business. The combined ratio is the sum of two separately calculated ratios, the loss and loss settlement expense ratio (the "net loss ratio") and the underwriting expense ratio (the "expense ratio").

When prepared in accordance with GAAP, the net loss ratio is calculated by dividing the sum of losses and loss settlement expenses by net premiums earned. The expense ratio is calculated by dividing nondeferred underwriting expenses and amortization of deferred policy acquisition costs by net premiums earned.

When prepared in accordance with statutory accounting principles, the net loss ratio is calculated by dividing the sum of losses and loss settlement expenses by net premium earned; the expense ratio is calculated by dividing underwriting expenses by net premiums written.

**Underwriting gain (loss)** is the gain or loss by an insurance company from the business of insurance. Underwriting income is equal to net premiums earned less incurred losses and loss settlement expenses, amortization of deferred policy acquisition costs, and other underwriting expenses. We use this financial measure in evaluating the results of our operations and to analyze the profitability of our property and casualty insurance segment separately from our investment results.

**Statutory surplus** is the excess of admitted assets, those recognized and accepted by the state insurance laws to determine solvency, over liabilities.

## NON-GAAP FINANCIAL MEASURES

We believe that disclosure of certain Non-GAAP financial measures enhances investor understanding of our financial performance. The following Non-GAAP financial measure is utilized in this filing:

**Catastrophe losses** utilize the designations of the Insurance Services Office (ISO) and are reported with loss and loss settlement expense amounts net of reinsurance recoverables, unless specified otherwise.  According to the ISO, a catastrophe loss is defined as a single unpredictable incident or series of closely related incidents that result in $25.0 million or more in U.S. industry-wide direct insured losses to property and that affect a significant number of insureds and insurers (“ISO catastrophe”). In addition to ISO catastrophes, we also include as catastrophes those events (“non-ISO catastrophes”), which may include U.S. or international losses, that we believe are, or will be, material to our operations, either in amount or in number of claims made. Management, may determine for comparison purposes that it is more meaningful to exclude extraordinary catastrophe losses and resulting litigation, such as Hurricane Katrina. The frequency and severity of catastrophic losses we experience in any year affect our results of operations and financial position. In analyzing the underwriting performance of our property and casualty insurance segment, we evaluate performance both including and excluding catastrophe losses. Portions of our catastrophe losses may be recoverable under our catastrophe reinsurance agreements. We include a discussion of the impact of catastrophes because we believe it is meaningful for investors to understand the variability in periodic earnings.

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| (In Thousands) | | **2011** | | 2010 |
| ISO catastrophes [1] | **$** | **357** | $ | 3,027 |
| Non-ISO catastrophes [2] | | **12,065** | | 129 |
| Total catastrophes | **$** | **12,422** | $ | 3,156 |

(1) This number does not include development for Hurricane Katrina claims litigation totaling $3.8 million and $5.4 million for the three-month periods ended March 31, 2011 and 2010.
(2) This number includes international assumed losses.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to market risk arising from potential losses in our investment portfolio due to adverse changes in interest rates and market prices. However, we have the ability to hold fixed maturity investments to maturity. Our investment guidelines define the overall framework for managing our market and other investment risks including accountability and controls. In addition, each of our subsidiaries has specific investment policies that delineate the investment limits and strategies that are appropriate given each entity's liquidity, surplus, product, and regulatory requirements. We respond to market risk by managing the character of investment purchases.

It is our philosophy that we do not utilize financial instrument hedges or derivative financial instruments to manage risks, nor do we enter into any swap, forward or option contracts, but attempt to mitigate our exposure through active portfolio management. However, as a result of our acquisition of Mercer Insurance Group in 2011, our investment portfolio does utilize derivative instruments and hedges. Our exposure to derivative instruments and hedging is described in detail in Note 14, “Derivative Instruments and Hedging Activities.”

In addition, we place the majority of our investments in high-quality, liquid securities and limit the amount of credit exposure to any one issuer. At March 31, 2011, we did not hold investments in sub-prime mortgages, credit default swaps, or other credit-enhancement exposures.

While our primary market risk exposure is change in interest rates, we do have exposure to changes in equity prices and limited exposure to foreign currency exchange rates.

There have been no material changes in our market risk or market risk factors from that reported in our Annual Report on Form 10-K for the year ended December 31, 2010.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

### Changes in Internal Control Over Financial Reporting

Our management, including our chief executive officer and chief financial officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, no such change in our internal control over financial reporting occurred during the fiscal quarter to which this report relates.

# PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

For a detailed discussion of our legal proceedings, refer to Note 9. “Contingent Liabilities” in the Notes to Unaudited Consolidated Financial Statements of this Form 10-Q.

## ITEM 1A. RISK FACTORS

Our business is subject to a number of risks, including those identified in Part I, Item 1A of our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2011, that could have a material effect on our business, results of operations, financial condition, and/or liquidity and that could cause our operating results to vary significantly from period to period. The risks described in the above mentioned document are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also have a material effect on our business, results of operations, financial condition and/or liquidity.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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 (i) the trading price on NASDAQ drops below 130 percent of its book value, (ii) sufficient excess capital is available to purchase the stock, and (iii) we are optimistic about future market trends and the performance of our company. Our Share Repurchase Program may be modified or discontinued at any time. It is currently set to expire in August 2011. For the three-month period ended March 31, 2011, we did not repurchase any shares of our common stock.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. (REMOVED AND RESERVED)

None.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

| Exhibit number | Exhibit description | Filed herewith |
|---|---|---|
| 10.1 | Loan Agreement, dated as of February 4, 2011, among United Life and Federal Home Loan Bank of Des Moines. | X |
| 10.2 | Terms of Agreement, dated as of March 24, 2011, between Federal Home Loan Bank and United Life Insurance Company | X |
| 11 | Statement Re Computation of Per Share Earnings. All information required by Exhibit 11 is presented within Note 7 of the Notes to Unaudited Consolidated Financial Statements, in accordance with the FASB guidance on Earnings per Share | X |
| 31.1 | Certification of Randy A. Ramlo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X |
| 31.2 | Certification of Dianne M. Lyons pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | X |
| 32.1 | Certification of Randy A. Ramlo pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X |
| 32.2 | Certification of Dianne M. Lyons pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | X |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED FIRE & CASUALTY COMPANY
(Registrant)

| | |
|---|---|
| /s/ Randy A. Ramlo | /s/ Dianne M. Lyons |
| Randy A. Ramlo | Dianne M. Lyons |
| President, Chief Executive Officer, | Vice President, Chief Financial Officer and |
| Director and Principal Executive Officer | Principal Accounting Officer |
| | |
| May 10, 2011 | May 10, 2011 |
| (Date) | (Date) |

**Exhibit 31.1**

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Randy A. Ramlo, certify that:

1. I have reviewed this quarter report on Form 10-Q of United Fire & Casualty Company;

2. Based on my knowledge, this quarter report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarter report;

3. Based on my knowledge, the Consolidated Financial Statements and other financial information included in this quarter report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this quarter report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2011

/s/ Randy A. Ramlo
Randy A. Ramlo
Chief Executive Officer

**Exhibit 31.2**

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dianne M. Lyons, certify that:

1. I have reviewed this quarter report on Form 10-Q of United Fire & Casualty Company;

2. Based on my knowledge, this quarter report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarter report;

3. Based on my knowledge, the Consolidated Financial Statements and other financial information included in this quarter report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this quarter report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

    5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

        a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

        b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2011

/s/ Dianne M. Lyons
Dianne M. Lyons
Chief Financial Officer

**Exhibit 32.1**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarter report of United Fire & Casualty Company (the “Company”) on Form 10-Q for the period ending March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Randy A. Ramlo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 10, 2011

/s/ Randy A. Ramlo
Randy A. Ramlo
Chief Executive Officer

*A signed original of this written statement required by Section 906 has been provided to United Fire & Casualty Company and will be retained by United Fire & Casualty Company and furnished to the Securities and Exchange Commission or its staff upon request.*

**Exhibit 32.2**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarter report of United Fire & Casualty Company (the “Company”) on Form 10-Q for the period ending March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dianne M. Lyons, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 10, 2011

/s/ Dianne M. Lyons
Dianne M. Lyons
Chief Financial Officer

*A signed original of this written statement required by Section 906 has been provided to United Fire & Casualty Company and will be retained by United Fire & Casualty Company and furnished to the Securities and Exchange Commission or its staff upon request.*

**EXHIBIT 10.1**

FHLB
DES MOINES

## Advances, Pledge and Security Agreement

### Delivery

This Advances, Pledge and Security Agreement ("Agreement"), effective this 4th day of February, 2011 is entered between United Life Insurance Company ("Member"), with principal offices at Cedar Rapids, Iowa, and the Federal Home Loan Bank of Des Moines ("Bank"), with principal offices in Des Moines, Iowa.

**WHEREAS,** the Bank may from time to time make available extensions of credit to the Member ("Advances"), in accordance with the Federal Home Loan Bank Act, the regulations and directives of the Federal Housing Finance Agency, the Confirmations issued hereunder, and the policies and procedures currently set forth in the Bank's Member Products Policy, as amended, superseded or replaced by the Bank's Board of Directors from time to time, and the Bank's Credit and Collateral Procedures, as amended, superseded or replaced by the Bank's management from time to time (collectively referred to herein as the "Member Policies and Procedures");

**WHEREAS,** the Member desires, from time to time, to obtain Advances from the Bank in accordance with the terms and conditions of this Agreement, the Confirmations issued hereunder and the Member Policies and Procedures; and

**WHEREAS,** the Bank requires that all Advances, and all other indebtedness, arising from any and all obligations or liabilities of the Member to the Bank be secured pursuant to this Agreement, and the Member agrees to provide such security;

**NOW THEREFORE,** for good and valuable consideration, intending to be legally bound, and with respect to each and every such Advance, the Bank and the Member agree as follows:

**Section 1. Applications.** The Member shall request an Advance in such form as shall be specified by the Bank. Nothing contained in this Agreement or the Member Policies and Procedures shall be construed as an agreement or commitment by the Bank to grant any Advance hereunder. The Bank expressly reserves its right and power to either grant or deny in its sole discretion any Advance.

**Section 2. Confirmation of Advance.** Each Advance, and, except as otherwise provided, all other indebtedness, shall be evidenced by a writing or electronic record, in such form or forms as may be determined by the Bank from time to time ("Confirmation"), issued by the Bank to the Member. The Member and the Bank shall be bound by the terms and conditions set forth herein, in the Confirmation and in the Member Policies and Procedures. Any inconsistencies between the terms and conditions of a Confirmation, this Agreement, any funding agreement, if applicable, or the Member Policies and Procedures, shall be resolved in favor of this Agreement.

**Section 3. Payment to the Bank.** The Member shall repay each Advance and make payments of interest thereon and any and all costs, expenses, fees and penalties relating thereto as specified herein and in the Member Policies and Procedures and the related Confirmation. All payments shall be made at the office of the Bank in Des Moines, Iowa, or at such other place as the Bank, or its successors or assigns, may from time to time appoint in writing.

The Member shall maintain in its demand deposit account(s) with the Bank (collectively, the "Demand Deposit Account") an amount at least equal to the amounts then currently due and payable to the Bank on outstanding Advances. The Member hereby authorizes the Bank to debit the Demand Deposit Account for all amounts due and payable to the Bank on any Advance or other indebtedness. If the amount in the Demand Deposit Account is, at any time, insufficient to pay such due and payable amounts, the Bank may, without notice to the Member, apply any other funds or assets then in the possession of the Bank to the payment of such amounts.

Past due payments of principal, interest, or other amounts payable in connection with any Advance may, at the option of the Bank, bear interest until paid at a default rate that is 3% per annum higher than the then current rate being charged by the Bank for Advances.

**Section 4. Creation of Security Interest in Collateral.**

A. As collateral security for any and all Advances and other indebtedness, the Member

B. hereby assigns, transfers, pledges and grants a security interest to the Bank, its successors or assigns all of the following (collectively, the "Collateral"):

1. all Capital Stock of the Bank now or hereafter owned by Member, and all deposit accounts now or hereafter maintained by the Member with the Bank; and

2. such property of Member as is described on a Collateral Listing substantially in the form of Exhibit A or in such other form as may be determined by the Bank from time to time, transmitted from time to time by Member to Bank and delivered by Member to Bank as collateral hereunder and identified as such.

The Member shall promptly deliver the Collateral to the Bank or its authorized agents, in the manner specified by the Member Policies and Procedures or as otherwise specified in writing by the Bank.

C. The Member undertakes and agrees to keep and maintain at all times Collateral (exclusive of Bank Capital Stock and Member's deposit accounts) which has an Advance

Equivalency sufficient to fully secure its Advances. Advance Equivalency is calculated by applying commercially reasonable Collateral Maintenance Levels to the fair market value or book value of Collateral. The Member acknowledges that the Bank may increase such Collateral Maintenance Levels, in a commercially reasonable and nondiscriminatory manner as determined by the Bank, by providing written notice of any such increase to the Member at least thirty (30) calendar days prior to implementing the same.

D. The Bank agrees to allow the Member to withdraw any Collateral specified in a written request to the Bank, provided that the Bank reasonably determines that the remaining Collateral (exclusive of Bank Capital Stock and Member's deposit accounts), after giving effect to such withdrawal, has an Advance Equivalency at least equal to Member's Advances.

E. The Member agrees to make, execute and deliver to the Bank such assignments, endorsements, listings, powers, or other documents or instruments, or to take any such other measures as the Bank may reasonably request in order to protect its security interest in the Collateral. The Member authorizes the Bank to file any and all financing statements and amendments thereto as the Bank reasonably deems desirable to perfect and protect its security interest in the Collateral.

F. The Member agrees to provide any information regarding the Collateral reasonably requested by the Bank and to make its books and records available to the Bank audits or verification pursuant to Section 9.

G. Member agrees to provide any information requested by the Bank in connection with an Advance or Collateral and any information contained in any status report, schedule, or other documents requested or required hereunder and any other information given from time to time by the Member as to each item of Collateral.

H. Unless otherwise directed by the Member, the Bank undertakes and agrees to transfer all income received by the Bank on any Collateral to the Member's Demand Deposit Account. Notwithstanding the foregoing, however, in the event that a default as described in Section 6 has occurred and is continuing, the Bank shall directly apply any such income received in satisfaction of the amount in default.

I. The sole duty of the Bank with respect to any Collateral delivered by the Member shall be to use reasonable care in the custody and preservation of the Collateral.

**Section 5. Covenants.** The Member represents, warrants, and covenants to the Bank, which representations, warranties, and covenants shall be deemed to be repeated at all times until the termination of this Agreement:

A. No Event of Default, as defined in Section 6, with respect to the Member has occurred and is continuing or would occur as a result of the Member entering into or performing its obligations under this Agreement or any Advance.

B. The Member owns and has marketable title to the Collateral free and clear of any and all liens, claims, or encumbrances of any kind, and has the right and authority to grant a security interest in the Collateral and to subject all of the Collateral to this Agreement.

C. All of the Collateral meets the standards and requirements with respect thereto established by the Member Policies and Procedures.

D. The Member at all times maintains and accurately reflects the terms of this Agreement, including the Bank's interest in Collateral, and all Advances and other indebtedness on its books and records.

E. The Member has the full power and authority and has received all corporate and governmental authorizations and approvals as may be required to enter into and perform its obligations under this Agreement and any Advance.

**Section 6. Events of Default.** The Bank may consider the Member in default hereunder upon the occurrence of any of the following events or conditions:

A. Failure of the Member to pay any interest, or repay any principal or pay any other amount due in connection with any Advance and such failure has not been cured five (5) business days after receipt of notice of such failure;

B. Breach or failure to perform by the Member of any covenant, promise, condition, obligation or liability contained or referred to herein, or any other agreement to which the Member and the Bank are parties and such breach or failure has not been cured five (5) business days after receipt of notice of such breach or failure;

C. Proof that any representation, statement or warranty made or furnished in any manner to the Bank by or on behalf of the Member in connection with all or part of any Advance was false in any material respect when made or furnished;

D. The issuance of any tax levy, seizure, attachment, garnishment, levy of execution or other process with respect to the Member the amount of which is greater than five percent (5%) of the Member's capital and surplus;

E. Any suspension of payment by the Member to any creditor or any events which result in acceleration of the maturity of any indebtedness of the Member to others under any indenture, agreement or other undertaking the aggregate amount of which is greater than the lesser of five percent (5%) of Member's capital and surplus or five percent (5%) of the Bank's capital and surplus, as determined in accordance with the accounting principles governing the Member's or Bank's published financial statements, respectively;

F. Any: (i) application for, or appointment of, a receiver for, the Member or for any part of the property of the Member; (ii) voluntary dissolution of or adjudication of insolvency, or assignment for benefit of creditors, or general transfer of assets by the Member; (iii) takeover of the management of the Member by any supervisory authority; (iv) liquidation, merger, or sale of a substantial portion of the Member's assets outside of the ordinary course of the Member's business; (v) termination of the membership of the

Member in the Bank; or (vi) at any time that in the case of Advances made under the provisions of 12 U.S.C. § 1431 (g)( 4) or any successor provisions are outstanding, any increase in the creditor liabilities of the Member, excepting its liabilities to the Bank, in any manner to an amount exceeding 5% of the Member's net assets; or

G. Determination by the Bank based on reasonable evidence and in good faith that a material adverse change has occurred in the financial condition of the Member from that disclosed at the time of the making of any Advance, or from the condition of the Member as theretofore most recently disclosed to the Bank in any manner.

**Section 7. Bank Remedies in the Event of Default.** Upon the occurrence of any Event of Default hereunder, the Bank may, at its option, declare the entire amount of any and all Advances or other indebtedness to be immediately due and payable. Without limitation of any of its rights and remedies hereunder or under other law, the Bank shall have all of the remedies of a secured party under the Uniform Commercial Code of the State of Iowa. The Member agrees to pay all the costs and expenses of the Bank in the collection of the secured indebtedness and enforcement of the Bank's rights hereunder including, without limitation, reasonable attorney's fees. The Bank may sell the Collateral or any part thereof in such manner and for such price as the Bank deems appropriate without any liability for any loss due to decrease in the market value of the Collateral during the period held. The Bank shall have the right to purchase all or part of the Collateral at public or private sale. If any notification of intended disposition of any of the Collateral is required by law, such notification shall be deemed reasonable and properly given if mailed, postage prepaid, at least five days before any such disposition to the address of the Member appearing on the records of the Bank.

The proceeds of any sale shall be applied in the following order: first, to pay all costs and expenses of every kind for the enforcement of this Agreement or the care, collection, safekeeping, sale, foreclosure, delivery or otherwise respecting the Collateral (including expenses for legal services); then to interest and fees on all indebtedness of the Member to the Bank; then to the principal amount of any such indebtedness whether or not such indebtedness is due or accrued. The Bank, at its discretion or as assigned by law, may apply any surplus to indebtedness of Member to third parties claiming a secondary security interest in the Collateral. Any remaining surplus shall be paid to the Member.

**Section 8. Appointment of Bank as Attorney-in-Fact.** Member does hereby make, constitute and appoint Bank its true and lawful attorney-in-fact to deal with the Collateral in the Event of Default and, in its name and stead to release, collect, compromise, settle, and release or record any note, mortgage or deed of trust which is a part of such Collateral as fully as the Member could do if acting for itself. The powers herein granted are coupled with an interest, and are irrevocable, and full power of substitution is granted to the Bank in the premises.

**Section 9. Audit and Verification of Collateral.** In extension and not in limitation of all requirements of law respecting examination of the Member by or on behalf of the Bank, the Member agrees that all Collateral pledged hereunder shall always be subject to audit and verification by or on behalf of the Bank in its corporate capacity.

**Section 10. Resolution to be Furnished by Member.** The Member agrees to furnish to the Bank at the execution of this Agreement, and from time to time hereafter, a certified copy of a resolution of its Board of Directors or other governing body authorizing such of the Member's officers, agents, and employees as the Member shall select, to apply for Advances from the Bank. In lieu of requiring an additional resolution upon execution of this Agreement, the Bank may rely on a previously furnished resolution of the Member's Board of Directors or other governing body with respect to Advances made pursuant to this Agreement.

**Section 11. Applicable Law.** This Agreement and all Advances and other indebtedness obtained hereunder shall be governed by the statutory and common law of the United States and, to the extent federal law incorporates or defers to state law, the laws (exclusive of choice of law provisions) of the State of Iowa. Notwithstanding the foregoing, the Uniform Commercial Code as in effect in the State of Iowa shall apply to the parties' rights and obligations with respect to the Collateral. If any portion of this Agreement conflicts with applicable law, such conflict shall not affect any other provision of this Agreement that can be given effect without the conflicting provision, and to this end the provisions of this Agreement are severable.

**Section 12. Jurisdiction.** In any action or proceeding brought by the Bank or the Member in order to enforce any right or remedy under tills Agreement, Member hereby submits to the jurisdiction of the United States District Court for the Southern District of Iowa, or if such action or proceeding may not be brought in Federal Court, the jurisdiction of the Iowa District Court in Polk County. If any action or proceeding is brought by the Member seeking to obtain relief against the Bank arising out of this Agreement and such relief is not granted by a court of competent jurisdiction, the Member will pay all attorney's fees and court costs incurred by the Bank in connection therewith.

**Section 13. Effective Date; Agreement Constitutes Entire Agreement.** This Agreement shall be effective on the date of execution of this Agreement by the parties hereto. Except as set forth in this paragraph, this Agreement, together with the Member Policies and Procedures and any applicable Confirmations, shall embody the entire agreement and understanding between the parties hereto relating to the subject matter hereof and thereof. This Agreement may not be amended except by written amendment executed by the Bank and the Member. Each such Confirmation and the Member Policies and Procedures shall be incorporated herein. Advances made by the Bank to the Member prior to the effective date of this Agreement shall be governed exclusively by the terms of the prior agreements pursuant to which such Advances were made, except that (i) any default thereunder shall constitute default hereunder, (ii) Collateral furnished as security hereunder shall also secure such prior Advances and (iii) the rights and obligations with respect to such Collateral shall be governed by the terms of this Agreement and the Member Policy and Procedures as amended, superseded or replaced from time to time.

**Section 14. Section Headings.** Section headings are not to be considered part of this Agreement. Section headings are solely for convenience of reference, and shall not affect the meaning or interpretation of this Agreement or any of its provisions.

**Section 15. Successors and Assigns.** This Agreement shall be binding upon each of the parties, successors and permitted assigns. The Member may not assign any obligation hereunder without the prior written consent of the Bank. The Bank may assign any or all of its rights and obligations hereunder or with respect to any Advance or other indebtedness to any other party.

**Section 16. No Waiver of Rights.** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise of any right, power, or privilege or the exercise of any other right, power or privilege.

**Section 17. Remedies Cumulative.** The rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

**IN WITNESS WHEREOF,** each of the parties has caused this Agreement to be signed in its name by its duly authorized representatives as of the dates below.

**UNITED LIFE INSURANCE COMPANY**

Full Corporate Name of Customer

By: /s/ Randy A. Ramlo

Title: President / CEO

Date: February 4, 2011

**FEDERAL HOME LOAN BANK OF DES MOINES**

By: /s/ Jodie L. Stephens

Title: Collateral Risk Manager

Date: 02/07/11

**EXHIBIT 10.2**

## ADVANCE CONFIRMATION

United Life Insurance Company
118 2nd Ave SE
PO Box 73909
Cedar Rapids, IA 52407-3909

March 24, 2011

| | |
|---|---|
| **Member Number:** | 1131 |
| **Type of Advance:** | Repo Advance |
| **Advance Number:** | 110324A00003 |
| **Advance Amount:** | 29,900,000.00 |
| **Interest Rate:** | 0.37% |
| **Interest Calculation:** | Interest begins accruing on the day the advance settles and is calculated on an actual/360 day basis. |
| **Settlement Date:** | March 24, 2011 |
| **Maturity Date:** | September 26, 2011 |
| **Payment Date:** | Due on the Maturity Date. |
| **Documentation:** | FHLB Advances, Pledge and Security Agreement. |
| **Prepayment Option:** | United Life Insurance Company may elect to prepay this advance in whole by providing oral notice 2 business days prior to requested payment date. |
| **Prepayment Fee:** | The Bank calculates the prepayment fee using the following methodology: |

All future cash flows (i.e., interest and remaining principal) scheduled up to and including the stated maturity date (or expected maturity date based on the Bank's assessment of the option exercise date in the case of an option-embedded advance) shall be discounted based on the Bank's current available cost of funds for each scheduled future cash flow payment date. The present value of the cash flows in excess of the remaining face amount of the advance plus any time value associated with option-embedded advances shall be deemed the prepayment fee. The computed prepayment fee excludes accrued interest. Accrued interest, the remaining face amount of the advance, and the prepayment fee shall be due to the Bank on the date of prepayment.

Prepayment fee = Present Value of Cash Flows (formula defined below) + any Time Value (time value is applicable to option-embedded advances only) - the outstanding face amount of the advance.

$$\mathbf{NPV} = \sum_{t=1}^{n} \frac{C_t}{(1+r_t)^t} - C_0$$

Where
t - The time of the cash flow
n - The time to stated maturity (or expected maturity for advances with embedded option)
r - The discount rate (The Bank's cost of funds at time t)
$C_t$ -the net cash flow (the amount of cash) at time t
$C_0$ - the outstanding face amount of the advance on the computation date (t = 0)

Upon payment of the prepayment fee, the rights and obligations of each party to the advance shall cease.

Please retain this in your files as evidence of disbursement. If you do not notify the Bank of any inaccuracies in this information within three (3) business days of its receipt, you are bound by the terms of this confirmation.

Federal Home Loan Bank MoneyDesk
1.800.544.3452 (11*)