

UNITED FIRE & CASUALTY CO
Form 10-K
March 01, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___

Commission File Number 2-39621

UNITED FIRE & CASUALTY COMPANY

(Exact name of registrant as specified in its charter)

Iowa
(State of Incorporation)

118 Second Avenue SE

Cedar Rapids, Iowa
(Address of principal executive offices)

42-0644327
(IRS Employer Identification No.)

52407-3909
(Zip Code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of February 23, 2007, 27,651,393 shares of common stock were outstanding. The aggregate market value of voting stock held by nonaffiliates of the registrant as of June 30, 2006, was approximately \$611.3 million. For purposes of this calculation, all directors and executive officers of the registrant are considered affiliates.

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United Fire & Casualty Company and Subsidiaries

PART I.

ITEM 1. BUSINESS

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

The terms United Fire, we, us, or our refer to United Fire & Casualty Company or United Fire & Casualty Company and its consolidated subsidiaries and affiliate, as the context requires. We are engaged in the business of writing property and casualty insurance and life insurance. We are an Iowa corporation incorporated in January 1946. Our principal executive office is located at 118 Second Avenue SE, P.O. Box 73909, Cedar Rapids, Iowa 52407-3909. Telephone: 319-399-5700.

Our organizational structure is as follows:

In May 2006, we closed on the sale of our subsidiary, American Indemnity Company, a Texas domiciled property and casualty insurance company licensed in 26 states and the District of Columbia. The sale involved only American Indemnity Company and did not affect the business of any of our other Texas subsidiaries or the operations at our Gulf Coast Regional Office in Galveston, Texas. American Indemnity Company had not written or renewed any

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policies of insurance since November 2003 and was sold as a shell company with no liabilities and only the capital assets necessary to maintain its licenses.

We report our operations in two business segments: property and casualty insurance and life insurance. A table reflecting revenues, net income and assets attributable to our operating segments is included in Part II, Item 8, Note 10, "Segment Information." All intercompany balances have been eliminated in consolidation.

As of December 31, 2006, we employed 645 full-time employees.

Our Web site provides access to our electronic filings with the Securities and Exchange Commission. The public may access and view all of our filings, including our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports through the Investor Relations section of our Web site free of charge. We also voluntarily provide paper and electronic copies of our filings free of charge upon request. Our company Web site address is www.unitedfiregroup.com.

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

We are licensed as a property and casualty insurer in 41 states, primarily in the Midwest, West and South. We have 891 independent agencies representing us and our property and casualty subsidiaries. Our life insurance subsidiary is licensed in 27 states, primarily in the Midwest and West and is represented by 899 independent agencies. The following table depicts the top five states for direct premiums written for our property and casualty insurance operations and life insurance operations.

Top Five States for Direct Premium Written

Property and Casualty Insurance:

| | | |
|---|------|---|
| Texas | 12.8 | % |
| Iowa | 12.7 | % |
| Colorado | 10.6 | % |
| Louisiana | 10.4 | % |
| Missouri | 8.1 | % |
| Total Percent of Direct Premium Written | 54.6 | % |

Life Insurance:

| | | |
|---|------|---|
| Iowa | 47.6 | % |
| Wisconsin | 9.9 | % |
| Minnesota | 9.4 | % |
| Nebraska | 7.7 | % |
| Illinois | 6.6 | % |
| Total Percent of Direct Premium Written | 81.2 | % |

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

We compete in the United States property and casualty insurance market with approximately 3,200 other insurers. The industry is highly competitive, with insurers competing on the basis of service, price and coverage. Because we rely heavily on independent agencies, we utilize a profit-sharing plan as an incentive for agents to place high-quality

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property and casualty business with us. We estimate property and casualty agencies will receive profit-sharing commissions of \$13.4 million in 2007, based on business produced by the agencies in 2006.

Our life insurance company also operates in a highly competitive industry. We encounter significant competition in all lines of business from other life insurance companies and other providers of financial services. Our life insurance company utilizes competitive commission rates, other sales incentives and quality service to attract and maintain its relationship with independent agencies.

To enhance our ability to compete, we utilize technology in a variety of ways to assist our agents and improve the delivery of service to our policyholders. For example, our public Web site, which provides general company and product information, includes a section accessible exclusively to our agents where they can quote new business, submit applications, submit change requests, report new claims and process payments electronically. Our agents can access detailed information about their policyholders' accounts, including policy declarations, coverage forms, billing transactions and claims information. Our agents can also use the agent-only portion of our Web site to access their experience reports, review detailed information about our products, order sales literature and download our applications, questionnaires and other forms. Our surety bond agents can issue and upload contract, license and permit bonds online, submit new bid bond requests and view detailed bond information. Our life agents can quote new life policies, view the status of customers' applications and access detailed information on our annuity, universal life, term life and whole life policies. We electronically scan and store our documents, allowing multiple users to simultaneously retrieve and view them. Additionally, we provide our policyholders secure online access to their account information. We also offer a variety of online payment options for our policyholders, including payment via credit card, debit card and electronic check. We believe our investment in technology allows us to provide enhanced service to our agents, policyholders and investors.

United Fire & Casualty Company and Subsidiaries

Property and casualty insurance segment

We write both commercial and personal lines of property and casualty insurance. We focus on our commercial lines, which represented 92.3 percent of our direct property and casualty premiums written for the year ended December 31, 2006. Our primary commercial lines are tailored business packages that include the following coverages: fire and allied lines, other liability, automobile, workers' compensation and surety.

Our personal lines, which represented 7.7 percent of our direct property and casualty premiums written for the year ended December 31, 2006, consist primarily of automobile and fire and allied lines coverage, including homeowners.

The table below is a summary of our property and casualty direct premiums written by major category.

| (Dollars in Thousands) | | Percent | | Percent | | Percent | |
|---------------------------|-----------|----------|------------|----------|------------|----------|--|
| Years Ended December 31 | 2006 | of Total | 2005 | of Total | 2004 | of Total | |
| Commercial lines: | | | | | | | |
| Fire and allied lines (1) | \$148,252 | 29.4 % | \$ 137,768 | 29.0 % | \$ 144,861 | 30.3 % | |
| Other liability (2) | 143,534 | 28.5 % | 131,489 | 27.6 % | 124,290 | 26.0 % | |
| Automobile | 99,431 | 19.7 % | 95,121 | 20.0 % | 96,044 | 20.1 % | |
| Workers' compensation | 43,370 | 8.6 % | 37,746 | 8.0 % | 34,055 | 7.1 % | |
| Surety | 27,298 | 5.4 % | 27,296 | 5.8 % | 28,816 | 6.0 % | |
| Miscellaneous | 3,549 | 0.7 % | 3,189 | 0.7 % | 3,189 | 0.7 % | |
| Total commercial lines | \$465,434 | 92.3 % | \$ 432,609 | 91.1 % | \$ 431,255 | 90.2 % | |
| Personal lines: | | | | | | | |
| Fire and allied lines (3) | \$22,761 | 4.5 % | \$ 22,288 | 4.7 % | \$ 23,218 | 4.7 % | |
| Automobile | 15,876 | 3.1 % | 19,416 | 4.1 % | 23,946 | 5.0 % | |
| Miscellaneous | 350 | 0.1 % | 355 | 0.1 % | 421 | 0.1 % | |
| Total personal lines | \$38,987 | 7.7 % | \$ 42,059 | 8.9 % | \$ 47,585 | 9.8 % | |
| Total | \$504,421 | | \$ 474,668 | | \$ 478,840 | | |

(1) Fire and allied lines includes fire, allied lines, commercial multiple peril and inland marine.

(2) 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.

(3) Fire and allied lines includes fire, allied lines, homeowners and inland marine.

The following table shows loss ratios, expense ratios and combined ratios on a statutory basis for the periods indicated for us and for the property and casualty industry. Industry ratios were obtained from A.M. Best Company.

| Years Ended December 31 | 2006 | Industry (1) | 2005 | Industry | 2004 | Industry |
|-------------------------|------|--------------|------|----------|------|----------|
|-------------------------|------|--------------|------|----------|------|----------|