UNITED FIRE & CASUALTY CO
Form 10-Q
November 01, 2010
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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 September 30, 2010

Commission File Number 001-34257

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

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

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

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

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

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

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

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

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

As of October 25, 2010, 26,231,509 shares of common stock were outstanding.

United Fire & Casualty Company and Subsidiaries
Index to Quarterly Report on Form 10-Q
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FORWARD-LOOKING INFORMATION

It is important to note that our actual results could differ materially from those projected in our forward-looking statements. Information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Part I, Item 2 “Management's Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A “Risk Factors.”

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PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

United Fire & Casualty Company and Subsidiaries
Consolidated Balance Sheets

(In Thousands, Except Per Share Data and Number of Shares)	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Investments		
Fixed maturities (including $75,973, at fair value, of securities loaned in 2010)		
Held-to-maturity, at amortized cost (fair value $7,181 in 2010 and $9,720 in 2009)	$7,081	$9,605
Available-for-sale, at fair value (amortized cost $2,199,862 in 2010 and $2,075,733 in 2009)	2,346,069	2,158,391
Equity securities, at fair value (cost $51,443 in 2010 and $53,306 in 2009)	134,419	132,718
Trading securities, at fair value (amortized cost $12,494 in 2010 and $11,724 in 2009)	13,167	12,613
Mortgage loans	6,573	7,328
Policy loans	7,575	7,947
Other long-term investments	16,806	15,880
Short-term investments	1,100	7,359
	$2,532,790	$2,351,841
Cash and cash equivalents	$147,812	$190,852
Accrued investment income	29,521	28,697
Securities lending collateral	77,845	—
Premiums receivable	137,658	127,456
Deferred policy acquisition costs	79,726	92,505
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $32,773 in 2010 and $30,812 in 2009)	21,671	22,278
Reinsurance receivables and recoverables	52,997	40,936
Prepaid reinsurance premiums	1,677	1,673
Income taxes receivable	20,425	28,197
Other assets	14,380	18,109
TOTAL ASSETS	$3,116,502	$2,902,544
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	$609,448	$606,045
Life insurance	1,378,896	1,321,600
Unearned premiums	216,562	206,010
Securities lending payable	77,845	—
Accrued expenses and other liabilities	77,102	84,934
Deferred income taxes	29,222	11,220
TOTAL LIABILITIES	$2,389,075	$2,229,809
Stockholders' Equity		
	$87,438	$88,443

Common stock, $3.33 1/3 par value; authorized 75,000,000 shares; 26,231,509 and 26,533,040 shares issued and outstanding in 2010 and 2009, respectively		
Additional paid-in capital	136,255	139,403
Retained earnings	410,823	384,242
Accumulated other comprehensive income, net of tax	92,911	60,647
TOTAL STOCKHOLDERS' EQUITY	$727,427	$672,735
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,116,502	$2,902,544

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

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

(In Thousands, Except Per Share Data and Number of Shares)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Revenues				
Net premiums earned	$119,158	$120,759	$350,548	$358,751
Investment income, net of investment expenses	27,084	27,786	83,343	78,416
Realized investment gains (losses)				
Other-than-temporary impairment charges	—	—	(459)	(18,139)
All other realized gains	1,322	1,925	6,853	3,423
Total realized investment gains (losses)	1,322	1,925	6,394	(14,716)
Other income	340	231	758	559
	$147,904	$150,701	$441,043	$423,010
Benefits, Losses and Expenses				
Losses and loss settlement expenses	$89,312	$115,167	$230,432	$291,803
Future policy benefits	7,218	6,101	20,983	15,363
Amortization of deferred policy acquisition costs	29,364	29,015	83,937	87,216
Other underwriting expenses	8,492	8,377	25,863	26,287
Interest on policyholders' accounts	10,923	10,630	32,371	30,799
	$145,309	$169,290	$393,586	$451,468
Income (loss) before income taxes	$2,595	$(18,589)	$47,457	$(28,458)
Federal income tax expense (benefit)	(1,045)	(8,433)	9,031	(16,238)
Net Income (Loss)	$3,640	$(10,156)	$38,426	$(12,220)
Weighted average common shares outstanding	26,279,382	26,591,951	26,356,431	26,598,957
Basic earnings (loss) per common share	$0.14	$(0.38)	$1.46	$(0.46)
Diluted earnings (loss) per common share	$0.14	$(0.38)	$1.46	$(0.46)
Cash dividends declared per common share	$0.15	$0.15	$0.45	$0.45

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

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

(In Thousands, Except Per Share Data and Number of Shares)	Nine Months Ended September 30, 2010
Common stock	
Balance, beginning of year	$88,443
Shares repurchased (304,586 shares)	(1,015)
Shares issued for stock-based awards (3,055 shares)	10
Balance, end of period	$87,438
Additional paid-in capital	
Balance, beginning of year	$139,403
Compensation expense and related tax benefit for stock-based award grants	1,300
Shares repurchased	(4,492)
Shares issued for stock-based awards	44
Balance, end of period	$136,255
Retained earnings	
Balance, beginning of year	$384,242
Net income	38,426
Dividends on common stock ($0.45 per share)	(11,845)
Balance, end of period	$410,823
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	$60,647
Change in net unrealized appreciation (1)	31,187
Change in underfunded status of employee benefit plans	1,077
Balance, end of period	$92,911
Summary of changes	
Balance, beginning of year	$672,735
Net income	38,426
All other changes in stockholders' equity accounts	16,266
Balance, end of period	$727,427

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

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

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

(In Thousands)	Nine Months Ended September 30, 2010	2009
Cash Flows From Operating Activities		
Net income (loss)	$38,426	$(12,220)
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	3,500	2,229
Depreciation and amortization	2,163	2,695
Stock-based compensation expense	1,295	1,688
Realized investment (gains) losses	(6,394)	14,716
Net cash flows from trading investments	(835)	(1,374)
Deferred income tax expense (benefit)	2,424	(10,180)
Changes in:		
Accrued investment income	(824)	(1,549)
Premiums receivable	(10,202)	(11,691)
Deferred policy acquisition costs	(6,355)	(2,521)
Reinsurance receivables	(12,061)	3,449
Prepaid reinsurance premiums	(4)	(295)
Income taxes receivable	7,772	2,178
Other assets	3,729	28,221
Future policy benefits and losses, claims and loss settlement expenses	31,014	26,367
Unearned premiums	10,552	8,870
Accrued expenses and other liabilities	(6,174)	901
Deferred income taxes	(1,795)	(317)
Other, net	110	648
Total adjustments	$17,915	$64,035
Net cash provided by operating activities	$56,341	$51,815
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	$3,402	$11,420
Proceeds from call and maturity of held-to-maturity investments	2,553	3,291
Proceeds from call and maturity of available-for-sale investments	323,859	246,178
Proceeds from short-term and other investments	4,385	28,681
Purchase of available-for-sale investments	(439,755)	(349,661)
Purchase of short-term and other investments	(4,708)	(11,254)
Change in securities lending collateral	(77,845)	(89,035)
Net purchases and sales of property and equipment	(1,509)	(7,857)
Net cash used in investing activities	$(189,618)	$(168,237)
Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	$111,621	$220,377
Withdrawals from investment and universal life contracts	(81,936)	(113,778)
Change in securities lending payable	77,845	89,035
Payment of cash dividends	(11,845)	(11,971)
Repurchase of common stock	(5,507)	(538)
Issuance of common stock	54	19
Tax benefit from issuance of common stock	5	20
Net cash provided by financing activities	$90,237	$183,164
Net Change in Cash and Cash Equivalents	$(43,040)	$66,742

Cash and Cash Equivalents at Beginning of Period	190,852	109,582
Cash and Cash Equivalents at End of Period	$147,812	$176,324

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

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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. 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. 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, 2009. The review report of Ernst & Young LLP as of and for the three- and nine-month periods ended September 30, 2010, accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."

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.

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 in our unaudited Consolidated Financial Statements.

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

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 September 30, 2010 and 2009, we made payments for income taxes of $3.6 million and $0.5 million, respectively. For the nine-month periods ended September 30, 2010 and 2009, we made income tax payments of $14.1 million and $2.3 million respectively, and received tax refunds of $13.5 million and $10.3 million, respectively, due to overpayment of prior year tax and operating loss carrybacks.

We made no significant payments of interest for the nine-month periods ended September 30, 2010 and 2009, other than for interest credited to policyholders' accounts.

Income Taxes

We reported a Federal income tax expense of $9.0 million (at an effective tax rate of 19.0 percent) and a Federal income tax benefit of $16.2 million for the nine-month periods ended September 30, 2010 and 2009 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 for the nine-month periods ended September 30, 2010 and 2009. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However,

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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 income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. We are no longer subject to U.S. 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.

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 September 30, 2010, there were approximately 105 individual policyholder cases pending and seven 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. This ruling has been appealed by the plaintiff policyholders. 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 nine-month period ended September 30, 2010, we concluded 110 of the approximately 215 lawsuits that were pending at December 31, 2009.

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 as we feel it was not supported by the evidence. On October 14, 2009, we were notified that our appeal to the Louisiana Fourth Circuit Court of Appeals was denied. We sought review of this decision by the Louisiana Supreme Court and in September 2010, we argued the appeal to the Court. The case is currently in the briefing stage and we expect a decision before year-end. We have reserved each case included in this class action based on the estimated exposure attributable to our policy. However, if we do not obtain relief in our appeal, we will review and adjust our estimate of recorded reserves if we believe such adjustment is necessary.

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. However, 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.

We consider all of our other litigation pending as of September 30, 2010 to be ordinary, routine, and incidental to

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our business.

Securities Lending

We participate in a securities lending program administered by The Northern Trust Company ("Northern Trust"). The program generates investment income and we receive discounts from Northern Trust on unrelated investment fees. Pursuant to the lending agreement, Northern Trust as our agent, loans certain of our fixed maturity securities to other institutions for short periods of time. Borrowers of these securities must deposit collateral, generally in the form of cash, with Northern Trust that is equal to at least 102% of the market value of the loaned securities, plus accrued interest. Northern Trust marks the loaned securities to market daily at an aggregate level per borrower. As the market value of the loaned securities fluctuates, the borrower either deposits additional collateral or Northern Trust refunds collateral to the borrower in order to maintain the collateral level at 102%. We retain the right to terminate the loan at any time, whereupon the borrower must return the loaned securities to Northern Trust. If the borrower defaults and does not return the securities, Northern Trust will use the deposited collateral to purchase equivalent securities for us. If Northern Trust is unable to purchase equivalent securities, we would receive the deposited collateral in place of the borrowed securities.

Under the accounting guidance for secured borrowing transactions, the collateral deposited by the borrower and our obligation to return that collateral to the borrower is reported in the accompanying Consolidated Balance Sheets as an asset ("securities lending collateral") and a corresponding liability ("securities lending payable") at September 30, 2010. There were no securities on loan under the program at December 31, 2009. At September 30, 2010, we had securities totaling $76.0 million on loan under the program. At September 30, 2010, collateral received and managed by our agent having a fair value of $77.8 million had been reinvested in short-term, highly liquid investments.

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 are 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 for the information required to be disclosed upon our adoption of the guidance effective January 1, 2010. We are currently evaluating the impact the adoption of the guidance effective January 1, 2011 will have on the disclosures made in our Consolidated Financial Statements.

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Pending Accounting Standards

Financial Services - Insurance

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 directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. 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 the adoption of the guidance effective January 1, 2012, will have on our Consolidate Financial Statements.

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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 September 30, 2010 and December 31, 2009, is as follows:

September 30, 2010	(Dollars in Thousands)			
	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
United States government and government-sponsored enterprises				
Collaterialized mortgage obligations	$92	$5	$—	$97
Mortgage-backed securities	468	50	—	518
States, municipalities and political subdivisions				
General obligations	953	14	—	967
Special revenue	5,568	138	107	5,599
Total Held-to-Maturity Fixed Maturities	$7,081	$207	$107	$7,181
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
United States government and government-sponsored enterprises				
Collaterialized mortgage obligations	$17,545	$2,828	$—	$20,373
Mortgage-backed securities	2	—	—	2
US Treasury	42,659	1,443	—	44,102
Agency	101,997	348	16	102,329
States, municipalities and political subdivisions				
General obligations	370,995	34,715	19	405,691
Special revenue	219,475	16,160	167	235,468
Foreign bonds				
Canadian	69,479	5,203	72	74,610
Other foreign	92,410	5,908	100	98,218
Public utilities				
Electric	206,484	15,801	89	222,196
Natural gas	54,783	3,374	—	58,157
Other	3,384	345	—	3,729
Corporate bonds				
Banks, trusts and insurance companies	272,589	15,269	2,927	284,931
Transportation	30,758	1,427	1	32,184
Energy	151,375	9,213	—	160,588
Technology	102,857	8,006	37	110,826
Basic industry	115,465	7,113	194	122,384
Credit cyclicals	57,756	4,080	—	61,836
Other	289,849	18,871	275	308,445
Total Available-For-Sale Fixed Maturities	$2,199,862	$150,104	$3,897	$2,346,069

Equity securities				
Common stocks				
Public utilities				
Electric	$6,319	$4,663	$27	$10,955
Natural gas	838	995	—	1,833
Banks, trusts and insurance companies				
Banks	6,478	27,739	163	34,054
Insurance	3,129	10,441	32	13,538
Other	1,505	986	—	2,491
All other common stocks				
Transportation	1	—	—	1
Energy	4,903	4,534	6	9,431
Technology	8,100	6,499	231	14,368
Basic industry	7,019	6,552	—	13,571
Credit cyclicals	116	631	—	747
Other	11,574	20,521	21	32,074
Nonredeemable preferred stocks	1,461	2	107	1,356
Total Available-for-Sale Equity Securities	$51,443	$83,563	$587	$134,419
Total Available-for-Sale Securities	$2,251,305	$233,667	$4,484	$2,480,488

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December 31, 2009	(Dollars in Thousands)			
	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
United States government and government-sponsored enterprises				
Collateralized mortgage obligations	$955	$21	$—	$976
Mortgage-backed securities	534	73	—	607
States, municipalities and political subdivisions				—
General obligations	1,478	21	5	1,494
Special revenue	6,638	163	158	6,643
Total Held-to-Maturity Fixed Maturities	$9,605	$278	$163	$9,720
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
United States government and government-sponsored enterprises				
Collateralized mortgage obligations	$17,452	$1,500	$—	$18,952
Mortgage-backed securities	2	—	—	2
US Treasury	35,278	564	192	35,650
Agency	71,667	6	1,048	70,625
States, municipalities and political subdivisions				
General obligations	371,098	19,408	128	390,378
Special revenue	219,991	8,605	1,234	227,362
Foreign bonds				
Canadian	55,979	2,847	—	58,826
Other	79,115	3,571	272	82,414
Public utilities				
Electric	212,699	11,603	298	224,004
Natural gas	54,936	2,870	—	57,806
Other	3,597	181	—	3,778
Corporate bonds				
Banks, trusts and insurance companies	287,409	10,061	8,261	289,209
Transportation	30,427	1,775	15	32,187
Energy	145,933	6,653	247	152,339
Technology	84,123	5,180	131	89,172
Basic industry	105,631	4,266	330	109,567
Credit cyclicals	69,686	2,912	13	72,585
Other	230,710	13,874	1,049	243,535
Total Available-For-Sale Fixed Maturities	$2,075,733	$95,876	$13,218	$2,158,391
Equity securities				
Common stocks				
Public utilities				
Electric	$6,646	$3,649	$262	$10,033
Natural gas	838	846	—	1,684
Banks, trusts and insurance companies				

Banks	6,517	29,503	131	35,889
Insurance	3,129	8,634	111	11,652
Other	1,505	437	—	1,942
All other common stocks				
Transportation	38	1,555	—	1,593
Energy	4,903	4,650	24	9,529
Technology	8,100	5,995	185	13,910
Basic industry	7,156	6,403	110	13,449
Credit cyclicals	1,402	1,774	—	3,176
Other	11,611	17,241	20	28,832
Nonredeemable preferred stocks	1,461	—	432	1,029
Total Available-for-Sale Equity Securities	$53,306	$80,687	$1,275	$132,718
Total Available-for-Sale Securities	$2,129,039	$176,563	$14,493	$2,291,109

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Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading securities at September 30, 2010, 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. 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	
September 30, 2010	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Trading Amortized Cost	Fair Value
Due in one year or less	$450	$454	$223,914	$229,173	$2,825	$2,959
Due after one year through five years	6,068	6,109	1,136,404	1,213,833	1,903	1,982
Due after five years through 10 years	3	3	747,012	803,555	—	—
Due after 10 years	—	—	74,985	79,133	7,766	8,226
Mortgage-backed securities	468	518	2	2	—	—
Collateralized mortgage obligations	92	97	17,545	20,373	—	—
	$7,081	$7,181	$2,199,862	$2,346,069	$12,494	$13,167

Realized Investment Gains and Losses

We determine the cost of investments sold by the specific identification method. A summary of realized investment gains (losses) resulting from investment sales, calls and impairment charges is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2010	2009	2010	2009
Realized investment gains (losses)				
Fixed maturities	$897	$233	$1,759	$(5,268)
Equity securities	121	662	5,030	(11,320)
Trading securities	665	698	(19)	1,537
Mortgage loans	(361)	—	(361)	—
Other long-term investments	—	332	(15)	332
Short-term investments	—	—	—	3
Total realized investment gains (losses)	$1,322	$1,925	$6,394	$(14,716)

For the three- and nine-month periods ended September 30, 2010 and 2009, the proceeds and gross realized gains and losses on the sale of available-for-sale securities were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2010	2009	2010	2009
Proceeds from sales	$—	$3,061	$3,402	$11,420
Gross realized gains	—	1,007	1,915	1,007
Gross realized losses	—	346	—	772

There were no sales of held-to-maturity securities during the three-month or nine-month periods ended September 30, 2010 and 2009.

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

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investment gains and losses. Our portfolio of trading securities had a fair value of $13.2 million and $12.6 million at September 30, 2010 and December 31, 2009 respectively.

The realized gains (losses) attributable to the change in fair value during the reporting period of trading securities held at September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2010	2009	2010	2009
Trading				
Realized gains	$681	$579	$—	$1,394
Realized losses	—	—	215	—

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 September 30, 2010, our remaining potential contractual obligation was $11.9 million.

Unrealized Appreciation and Depreciation

A summary of changes in net unrealized investment appreciation is as follows:

	Nine Months Ended September 30,	
(In Thousands)	2010	2009
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities and equity securities	$67,113	$158,671
Deferred policy acquisition costs	(19,133)	(64,806)
Income tax effect	(16,793)	(32,997)
Total change in net unrealized appreciation, net of tax	$31,187	$60,868

We continually monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires other-than-temporary-impairment ("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 September 30, 2010 and December 31, 2009. 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 September 30, 2010, 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 the securities until such time that the fair value recovers or the securities mature.

We have evaluated the unrealized losses reported for all of our equity securities at September 30, 2010, and have concluded that the duration and severity of these losses do not warrant the recognition of an OTTI charge at September 30, 2010. Our largest unrealized loss greater than 12 months on an individual equity security at

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September 30, 2010 was $0.2 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.

(Dollars in Thousands)

September 30, 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	$589	$ 107	$589	$ 107
Total Held-to-Maturity Fixed Maturities	—	$—	$ —	2	$589	$ 107	$589	$ 107
AVAILABLE-FOR-SALE								
Fixed maturities								
Bonds								
United States government and government-sponsored enterprises								
Agency	—	—	—	6	14,984	16	14,984	16
States, municipalities and political subdivisions								
General obligations	2	1,010	19	—	—	—	1,010	19
Special revenue	1	891	19	6	6,099	148	6,990	167
Foreign bonds								
Canadian	—	—	—	1	5,837	72	5,837	72
Other foreign	—	—	—	2	4,712	100	4,712	100
Public utilities								
Electric	2	3,537	89	—	—	—	3,537	89
Corporate bonds								
Banks, trusts and insurance companies	1	—	17	33	39,478	2,910	39,478	2,927
Transportation	2	2,430	1	—	—	—	2,430	1
Technology	—	—	—	1	3,441	37	3,441	37
Basic industry	—	—	—	2	4,806	194	4,806	194
Other	1	4,570	178	5	5,478	97	10,048	275
Total Available-For-Sale Fixed Maturities	9	$12,438	$ 323	56	$84,835	$ 3,574	$97,273	$ 3,897
Equity securities								
Common stocks								
Public utilities								
Electric	3	$282	$ 26	4	$—	$ 1	$282	$ 27
Banks, trusts and insurance companies								
Banks	1	262	2	1	395	161	657	163

Insurance	2	159	4	2	322	28	481	32
All other common stocks								
Energy	2	207	6	—	—	—	207	6
Technology	4	841	44	3	628	187	1,469	231
Other	1	86	4	2	170	17	256	21
Nonredeemable preferred stocks	—	—	—	2	1,124	107	1,124	107
Total Available-for-Sale Equity Securities	13	$ 1,837	$ 86	14	$ 2,639	$ 501	$ 4,476	$ 587
Total Available-for-Sale Securities	22	$ 14,275	$ 409	70	$ 87,474	$ 4,075	$ 101,749	$ 4,484
Total	22	$ 14,275	$ 409	72	$ 88,063	$ 4,182	$ 102,338	$ 4,591

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(Dollars in Thousands) December 31, 2009	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								
General obligations	1	$300	$ 5	—	$—	$ —	$300	$ 5
Special revenue	—	—	—	1	679	158	679	158
Total Held-to-Maturity Fixed Maturities	1	$300	$ 5	1	$679	$ 158	$979	$ 163
AVAILABLE-FOR-SALE								
Fixed maturities								
Bonds								
United States government and government- sponsored enterprises								
US Treasury	5	$11,772	$ 192	—	$—	$ —	$11,772	$ 192
Agency	5	24,755	246	10	42,198	802	66,953	1,048
States, municipalities and political subdivisions								
General obligations	2	966	23	3	2,118	105	3,084	128
Special revenue	21	22,892	463	10	9,401	771	32,293	1,234
Foreign bonds								
Other	2	1,329	19	4	10,492	253	11,821	272
Public utilities								
Electric	1	4,958	99	6	7,761	199	12,719	298
Corporate bonds								
Banks, trusts and insurance companies	13	20,789	813	46	70,871	7,448	91,660	8,261
Transportation	—	—	—	1	1,997	15	1,997	15
Energy	1	3,189	37	5	9,710	210	12,899	247
Technology	4	8,263	65	1	952	66	9,215	131
Basic industry	6	15,843	136	2	4,806	194	20,649	330
Credit cyclicals	3	5,217	13	—	—	—	5,217	13
Other	1	3,270	72	7	16,892	977	20,162	1,049
Total Available-For-Sale Fixed Maturities	64	$123,243	$ 2,178	95	$177,198	$ 11,040	$300,441	$ 13,218
Equity securities								
Common stocks								
Public utilities								
Electric	—	$—	$ —	12	$2,074	$ 262	$2,074	$ 262
Banks, trusts and insurance companies								
Banks	—	—	—	1	425	131	425	131
Insurance	2	299	46	3	391	65	690	111

All other common stock								
Energy	—	—	—	2	188	24	188	24
Technology	—	—	—	5	2,235	185	2,235	185
Basic industry	—	—	—	2	151	110	151	110
Other	—	—	—	3	258	20	258	20
Nonredeemable preferred stocks	—	—	—	5	1,030	432	1,030	432
Total Available-for-Sale Equity Securities	2	$299	$ 46	33	$6,752	$ 1,229	$7,051	$ 1,275
Total Available-for-Sale Securities	66	$123,542	$ 2,224	128	$183,950	$ 12,269	$307,492	$ 14,493
Total	67	$123,842	$ 2,229	129	$184,629	$ 12,427	$308,471	$ 14,656

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NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

We estimate the fair value of our financial instruments based on relevant market information or by discounting estimated future cash flows at estimated current market discount rates appropriate to the specific asset or liability.

In most cases, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. When quoted market prices do not exist, we base fair values on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

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

The estimated fair value of policy loans is equivalent to carrying value. We do not make policy loans for amounts in excess of the cash surrender value of the related policy. In all instances, the policy loans are fully collateralized by the related liability for future policy benefits for traditional insurance policies or by the policyholders' account balance for interest-sensitive 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 September 30, 2010 and December 31, 2009 is as follows:

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(In Thousands)	September 30, 2010 Fair Value	Carrying Value	December 31, 2009 Fair Value	Carrying Value
Assets				
Investments				
Held-to-maturity fixed maturities	$7,181	$7,081	$9,720	$9,605
Available-for-sale fixed maturities	2,346,069	2,346,069	2,158,391	2,158,391
Equity securities	134,419	134,419	132,718	132,718
Trading securities	13,167	13,167	12,613	12,613
Mortgage loans	7,919	6,573	8,229	7,328
Policy loans	7,575	7,575	7,947	7,947
Other long-term investments	16,806	16,806	15,880	15,880
Short-term investments	1,100	1,100	7,359	7,359
Cash and cash equivalents	147,812	147,812	190,852	190,852
Accrued investment income	29,521	29,521	28,697	28,697
Liabilities				
Policy reserves				
Annuity (accumulations)	$1,036,160	$973,973	$1,087,457	$914,003
Annuity (benefit payments)	87,219	84,379	85,336	77,025

FASB 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 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

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fluctuations. In our opinion, the pricing obtained at September 30, 2010, 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 FASB 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 in our Consolidated Balance Sheets at September 30, 2010 and December 31, 2009:

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(In Thousands)		Fair Value Measurements		
	September 30, 2010	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
United States government and government-sponsored enterprises				
Collateralized mortgage obligations	$20,373	$—	$20,373	$—
Mortgage-backed securities	2	—	2	—
US Treasury	44,102	—	44,102	—
Agency	102,329	—	102,329	—
States, municipalities and political subdivisions				
General obligations	405,691	—	405,691	—
Special revenue	235,468	—	234,412	1,056
Foreign bonds				
Canadian	74,610	—	74,610	—
Other	98,218	—	96,824	1,394
Public utilities				
Electric	222,196	—	222,161	35
Natural gas	58,157	—	58,157	—
Other	3,729	—	3,729	—
Corporate bonds				
Banks, trusts and insurance companies	284,931	—	272,818	12,113
Transportation	32,184	—	32,184	—
Energy	160,588	—	160,588	—
Technology	110,826	—	110,826	—
Basic industry	122,384	—	117,578	4,806
Credit cyclicals	61,836	—	59,292	2,544
Other	308,445	—	302,377	6,068
Total Available-For-Sale Fixed Maturities	$2,346,069	$—	$2,318,053	$28,016
Equity securities				
Common stocks				
Public utilities				
Electric	$10,955	$10,955	$—	$—
Natural gas	1,833	1,833	—	—
Banks, trusts and insurance companies				
Banks	34,054	34,054		—
Insurance	13,538	13,538	—	—
Other	2,491	2,491	—	—
All other common stocks				
Transportation	1	1	—	—
Energy	9,431	9,431	—	