

UNITED FIRE & CASUALTY CO

Form 10-Q

July 31, 2009

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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 June 30, 2009
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 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 July 28, 2009, 26,591,951 shares of common stock were outstanding.

United Fire & Casualty Company and Subsidiaries
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June 30, 2009

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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.

Table of Contents**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)	June 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$12,541 in 2009 and \$15,146 in 2008)	\$ 12,513	\$ 15,177
Available-for-sale, at fair value (amortized cost \$1,998,786 in 2009 and \$1,942,466 in 2008)	2,028,801	1,898,569
Equity securities, at fair value (cost \$55,449 in 2009 and \$66,246 in 2008)	107,674	120,985
Trading securities, at fair value (amortized cost \$11,091 in 2009 and \$8,713 in 2008)	11,247	8,055
Mortgage loans	7,579	7,821
Policy loans	7,705	7,808
Other long-term investments	13,686	11,216
Short-term investments	13,715	26,142
	\$ 2,202,920	\$ 2,095,773
Cash and cash equivalents	\$ 152,973	\$ 109,582
Accrued investment income	28,861	27,849
Premiums receivable	153,980	134,295
Deferred policy acquisition costs	121,587	158,265
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$29,283 in 2009 and \$27,994 in 2008)	18,081	15,275
Reinsurance receivables and recoverables	53,050	60,275
Prepaid reinsurance premiums	1,854	1,559
Income taxes receivable	16,633	26,974
Deferred income taxes	6,723	8,297
Other assets	49,527	48,986
TOTAL ASSETS	\$ 2,806,189	\$ 2,687,130
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	\$ 592,853	\$ 586,109
Life insurance	1,248,442	1,167,665
Unearned premiums	233,531	216,966
Accrued expenses and other liabilities	78,180	74,649
TOTAL LIABILITIES	\$ 2,153,006	\$ 2,045,389

Stockholders Equity

Common stock, \$3.33 1/3 par value; authorized 75,000,000 shares; 26,591,951 and 26,624,086 shares issued and outstanding in 2009 and 2008, respectively	\$ 88,640	\$ 88,747
Additional paid-in capital	139,343	138,511
Retained earnings	400,588	410,634
Accumulated other comprehensive income, net of tax	24,612	3,849
TOTAL STOCKHOLDERS EQUITY	\$ 653,183	\$ 641,741
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 2,806,189	\$ 2,687,130

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues				
Net premiums earned	\$ 119,671	\$ 123,274	\$ 237,992	\$ 246,217
Investment income, net of investment expenses	27,359	27,844	50,630	55,899
Realized investment gains (losses)	(13,153)	944	(16,641)	(210)
Other income	169	184	328	383
	\$ 134,046	\$ 152,246	\$ 272,309	\$ 302,289
Benefits, Losses and Expenses				
Losses and loss settlement expenses	\$ 90,558	\$ 100,707	\$ 176,636	\$ 168,189
Future policy benefits	5,874	5,360	9,262	11,206
Amortization of deferred policy acquisition costs	28,795	32,029	58,201	64,555
Other underwriting expenses	9,970	5,568	18,456	12,488
Disaster charges and other related expenses, net of recoveries	(188)	3,753	(546)	3,753
Interest on policyholders' accounts	10,397	10,217	20,169	20,663
	\$ 145,406	\$ 157,634	\$ 282,178	\$ 280,854
Income (loss) before income taxes	\$ (11,360)	\$ (5,388)	\$ (9,869)	\$ 21,435
Federal income tax expense (benefit)	(6,026)	(3,865)	(7,805)	2,831
Net Income (Loss)	\$ (5,334)	\$ (1,523)	\$ (2,064)	\$ 18,604
Weighted average common shares outstanding	26,591,777	27,153,114	26,602,518	27,171,955
Basic earnings (loss) per common share	\$ (0.20)	\$ (0.06)	\$ (0.08)	\$ 0.68
Diluted earnings (loss) per common share	\$ (0.20)	\$ (0.06)	\$ (0.08)	\$ 0.68
Cash dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.30	\$ 0.30

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

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

(In Thousands Except Number of Shares)	Six Months Ended June 30,	
	2009	2008
Common stock		
Balance, beginning of year	\$ 88,747	\$ 90,653
Shares repurchased (33,300 in 2009 and 174,564 in 2008)	(111)	(582)
Shares issued for stock-based awards (1,165 in 2009 and 7,120 in 2008)	4	24
Balance, end of period	\$ 88,640	\$ 90,095
Additional paid-in capital		
Balance, beginning of year	\$ 138,511	\$ 149,511
Compensation expense and related tax benefit for stock-based award grants	1,244	861
Shares repurchased	(427)	(4,648)
Shares issued for stock-based awards	15	111
Balance, end of period	\$ 139,343	\$ 145,835
Retained earnings		
Balance, beginning of year	\$ 410,634	\$ 439,860
Net income (loss)	(2,064)	18,604
Dividends on common stock (\$0.15 per share in 2009 and 2008)	(7,982)	(8,163)
Balance, end of period	\$ 400,588	\$ 450,301
Accumulated other comprehensive income, net of tax		
Balance, beginning of year	\$ 3,849	\$ 71,473
Change in net unrealized appreciation ⁽¹⁾	19,973	(31,704)
Change in underfunded status of employee benefit plans ⁽²⁾	790	425
Balance, end of period	\$ 24,612	\$ 40,194
Summary of changes		
Balance, beginning of year	\$ 641,741	\$ 751,497
Net income (loss)	(2,064)	18,604
All other changes in stockholders' equity accounts	13,506	(43,676)
Balance, end of period	\$ 653,183	\$ 726,425

(1) The change in net unrealized

appreciation is
net of
reclassification
adjustments and
income taxes.

- (2) The recognition
of the
underfunded
status of
employee
benefit plans is
net of income
taxes.

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

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

(In Thousands)	Six Months Ended June 30,	
	2009	2008
Cash Flows From Operating Activities		
Net income (loss)	\$ (2,064)	\$ 18,604
Adjustments to reconcile net income to net cash provided by operating activities		
Net bond premium accretion	1,548	1,389
Depreciation and amortization	1,805	1,718
Stock-based compensation expense	1,267	824
Realized investment losses	16,641	210
Net cash flows from trading investments	(2,352)	1,384
Deferred income tax benefit	(9,673)	(2,165)
Changes in:		
Accrued investment income	(1,012)	355
Premiums receivable	(19,685)	(36,474)
Deferred policy acquisition costs	(3,992)	(923)
Reinsurance receivables	7,225	(3,065)
Prepaid reinsurance premiums	(295)	627
Income taxes receivable (payable)	10,341	(5,396)
Other assets	(541)	(30,801)
Future policy benefits and losses, claims and loss settlement expenses	15,274	47,043
Unearned premiums	16,565	15,235
Accrued expenses and other liabilities	4,746	5,655
Deferred income taxes		(548)
Other, net	953	2,249
 Total adjustments	 \$ 38,815	 \$ (2,683)
 Net cash provided by operating activities	 \$ 36,751	 \$ 15,921
 Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	\$ 8,360	\$ 920
Proceeds from call and maturity of held-to-maturity investments	2,675	9,550
Proceeds from call and maturity of available-for-sale investments	177,632	233,587
Proceeds from short-term and other investments	17,925	54,840
Purchase of available-for-sale investments	(251,479)	(352,123)
Purchase of short-term and other investments	(7,534)	(50,263)
Net purchases and sales of property and equipment	(4,662)	(401)
 Net cash used in investing activities	 \$ (57,083)	 \$ (103,890)
 Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	\$ 163,857	\$ 88,928
Withdrawals from investment and universal life contracts	(91,610)	(102,970)
Payment of cash dividends	(7,982)	(8,163)
Repurchase of common stock	(538)	(5,229)

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Issuance of common stock	19	118
Tax benefit (expense) from issuance of common stock	(23)	37
Net cash provided by (used in) by financing activities	\$ 63,723	\$ (27,279)
Net Change in Cash and Cash Equivalents	\$ 43,391	\$ (115,248)
Cash and Cash Equivalents at Beginning of Period	109,582	252,565
Cash and Cash Equivalents at End of Period	\$ 152,973	\$ 137,317

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 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, 2008. The review report of Ernst & Young LLP as of and for the three- and six-month periods ended June 30, 2009, accompanies the unaudited Consolidated Financial Statements included in Item 1 of Part I.

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.

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. We made payments for income taxes of \$1.8 million for the six-month period ended June 30, 2009, compared to \$13.8 million for the six-month period ended June 30, 2008. We made no significant payments of interest for the six-month periods ended June 30, 2009 and 2008, other than interest credited to policyholders' accounts.

Income Taxes

For the six-month period ended June 30, 2009, we reported a federal income tax benefit of \$7.8 million, compared to federal income tax expense of \$2.8 million at an effective tax rate of 13.2 percent for the six-month period ended June 30, 2008. Our effective tax rate differs from 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. In 2008, an adjustment to the valuation allowance on our deferred tax assets contributed to a further reduction in our effective tax rate.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We are no longer subject to U.S. federal income tax examination by tax authorities for years before 2004 and state income tax examination for years before 2003. There are no ongoing examinations of income tax returns by federal or state tax authorities.

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Contingent Liabilities

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 June 30, 2009, there were in excess of 300 individual policyholder cases pending, and an additional 11 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 pretrial 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. The Federal trial court recently ruled that certification of policyholder claims as a class would be inappropriate, but this decision may be appealed. Lafayette Insurance Company, as a Louisiana domiciled insurance company, is subject to jurisdiction in state court, and this ruling will not be determinative of class certification decisions in those state court suits seeking class certification. In light of an April 8, 2008 Louisiana Supreme Court decision finding that flood damage was clearly excluded from coverage, state and federal courts have been reviewing the pending lawsuits seeking class certification and other pending lawsuits in order to expedite pre-trial discovery and to move the cases towards trial.

In June 2008, a commercial policyholder was awarded approximately \$21.0 million in additional Hurricane Katrina damages by a Federal Court jury sitting in New Orleans. The claims associated with this litigation represent what we consider to be our single largest exposure as a result of that hurricane. In response to this verdict, we recorded an incurred loss, net of excess of loss of reinsurance, of \$10.8 million in 2008. However, we have filed an appeal of this verdict, as we believe that the award includes damages that were attributable to flooding (and thus excluded from coverage) and that there were other errors at trial prejudicial to us. According to Louisiana law we were required to place \$29.0 million on deposit with the State of Louisiana for this case while we pursue an appeal. This appeal remains pending as of June 30, 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 claim was at least partially denied or misadjusted. We have appealed this order as we feel it is not supported by the evidence. We expect the appeal process to take many additional months.

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 should be 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 June 30, 2009 to be ordinary, routine, and incidental to our business.

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Securities Lending

We participate in a securities lending program, which generates net investment income and discounts other investment fees we are charged, by lending certain investments to other institutions for short periods of time. Borrowers of these securities must deposit and maintain, at all times, collateral in the form of cash or U.S. Treasury securities with the Northern Trust Corporation (Northern Trust), the third-party custodian, equal to at least 102% of the market value of the securities loaned plus accrued interest. If a borrower fails to return the borrowed security, Northern Trust will use the collateral to purchase the same or similar security as a replacement for the borrowed security that was not returned by the borrower. However, we would receive the collateral in place of the borrowed security if Northern Trust is unable to purchase the same or similar security.

All collateral is held by Northern Trust. We have the right to access the collateral only if the institution borrowing our securities is in default under the lending agreement. Therefore, we do not recognize the receipt of the collateral held by Northern Trust or the obligation to return the collateral at the conclusion of the lending agreement in our Consolidated Financial Statements. We also maintain effective control of the loaned securities and have the right and ability to redeem the securities loaned on short notice. Therefore, we continue to classify these securities as invested assets in our Consolidated Financial Statements. At June 30, 2009, we had securities totaling \$67.9 million on loan under the program.

Recently Issued Accounting Standards

Adopted Accounting Standards

SFAS No. 141(R), Business Combinations

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations, a replacement of SFAS No. 141, Business Combinations. SFAS No. 141(R) provides revised guidance on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. In addition, SFAS No. 141(R) provides revised guidance on the recognition and measurement of goodwill, as well as guidance specific to the recognition, classification, and measurement of assets and liabilities related to insurance and reinsurance contracts acquired in a business combination. We will apply the provisions of SFAS No. 141(R) prospectively to business combinations occurring on or after January 1, 2009. The adoption of SFAS No. 141(R) did not have any impact on the amounts reported in our Consolidated Financial Statements.

SFAS No. 165, Subsequent Events

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 is effective for interim or annual periods ending after June 15, 2009. We evaluated all events or transactions that occurred after June 30, 2009 through July 31, 2009, the date on which our interim Consolidated Financial Statements are filed, for potential recognition and/or disclosure in our Consolidated Financial Statements. We did not identify any material subsequent events during this period.

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FSP SFAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

In April 2009, the FASB issued FASB Staff Position (FSP) SFAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. Under FSP SFAS No. 157-4, transactions or quoted prices may not accurately reflect fair value if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities). In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any weight on that transaction price as an indicator of fair value. FSP SFAS No. 157-4 is effective for periods ending after June 15, 2009. The adoption of FSP SFAS No. 157-4 did not have any impact on the amounts reported in our Consolidated Financial Statements.

FSP SFAS No. 115-2 and SFAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued FSP SFAS No. 115-2 and SFAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP SFAS No. 115-2). FSP SFAS No. 115-2 provides new guidance on the recognition and presentation of other-than-temporary impairments (OTTI) for fixed maturity securities that are classified as available-for-sale and held-to-maturity and replaces the current requirement that an entity have the positive intent and ability to hold an impaired security until recovery of its amortized cost basis in order to conclude an impairment was not other-than-temporary with the requirement that management not intend to sell the impaired security and that it is more likely than not it will not be required to sell the impaired security before the recovery of its amortized cost basis. If management concludes a security is other-than-temporarily impaired, FSP SFAS No. 115-2 requires that the difference between the fair value and the amortized cost of the security be presented as an OTTI realized loss with an offset for any noncredit-related loss component of the OTTI realized loss to be recognized in accumulated other comprehensive income. Accordingly, only the credit loss component will have an impact on earnings for the reporting period.

We have analyzed all fixed maturity securities held in our investment portfolio at June 30, 2009, that were deemed to be other-than-temporarily impaired in the current (or prior) period to determine whether any portion of the OTTI realized loss should be reclassified and reported as a component of accumulated other comprehensive income. Our analysis indicated that, in all instances, the recognition of the OTTI realized loss was the result of the deterioration in credit quality of the issuer of the underlying security, which corresponded to the bankruptcy of the issuer for the majority of securities. As such, the amount of OTTI realized loss recorded for these securities was properly recognized in current (or prior) period earnings.

FSP SFAS No. 115-2 also requires extensive disclosures for both fixed maturity securities and equity securities on an interim and annual basis to provide further disaggregated information as well as information about how the credit loss component of the OTTI realized loss was determined along with a roll forward of such amount for each reporting period. FSP SFAS No. 115-2 is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP SFAS No. 115-2 did not have any impact on our financial position or results of operations.

FSP SFAS No. 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued FSP SFAS No. 107-1 and Accounting Principles Board (APB) No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP SFAS No. 107-1). FSP SFAS No. 107-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require fair value of financial instrument disclosure in interim financial statements and amends APB No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. The provisions of FSP SFAS No. 107-1 are effective for interim periods ending after June 15, 2009. The adoption of FSP SFAS No. 107-1 did not have any impact on our financial position or results of operations.

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Pending Accounting Standards

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS No. 168 will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS No. 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We do not expect the adoption of SFAS No. 168 to have any impact on our Consolidated Financial Statements.

FSP SFAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued FSP SFAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. FSP SFAS No. 132(R)-1 requires an employer to provide certain disclosures about the assets held by its defined benefit pension or other postretirement plans. The required disclosures include the investment policies and strategies of the plans, the fair value of the major categories of plan assets, the inputs and valuation techniques used to develop fair value measurements and a description of significant concentrations of risk in plan assets. FSP SFAS No. 132(R)-1 is effective for fiscal years ending after December 15, 2009. We do not expect the adoption of SFAS No. 132(R)-1 to have a material impact on our Consolidated Financial Statements.

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A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities as of June 30, 2009 and December 31, 2008, is as follows:

	Cost or Amortized Cost	(Dollars in Thousands)		Fair Value
		Gross Unrealized Appreciation	Gross Unrealized Depreciation	
June 30, 2009				
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
United States government				
Collateralized mortgage obligations	\$ 1,427	\$ 45	\$	\$ 1,472
Mortgage-backed securities	575	59		634
States, municipalities and political subdivisions				
General obligations	1,803	29	13	1,819
Special revenue	8,708	164	256	8,616
Total Held-to-Maturity Fixed Maturities	\$ 12,513	\$ 297	\$ 269	\$ 12,541

AVAILABLE-FOR-SALE