UNITED FIRE & CASUALTY CO
Form 10-Q
May 03, 2010

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, 2010
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 þ 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 þ	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 þ

As of April 28, 2010, 26,367,819 shares of common stock were outstanding.

United Fire & Casualty Company and Subsidiaries
Index to Quarterly Report on Form 10-Q
March 31, 2010

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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)	**March 31, 2010 (unaudited)**	December 31, 2009
ASSETS		
Investments		
Fixed maturities (including $76,704, at fair value, pledged as collateral for securities lending in 2010)		
Held-to-maturity, at amortized cost (fair value $8,707 in 2010 and $9,720 in 2009)	**$ 8,629**	$ 9,605
Available-for-sale, at fair value (amortized cost $2,162,256 in 2010 and $2,075,733 in 2009)	**2,259,822**	2,158,391
Equity securities, at fair value (cost $52,905 in 2010 and $53,306 in 2009)	**143,396**	132,718
Trading securities, at fair value (amortized cost $11,090 in 2010 and $11,724 in 2009)	**11,693**	12,613
Mortgage loans	**7,199**	7,328
Policy loans	**7,699**	7,947
Other long-term investments	**16,110**	15,880
Short-term investments	**1,100**	7,359
	$ 2,455,648	$ 2,351,841
Cash and cash equivalents	**$ 144,220**	$ 190,852
Accrued investment income	**30,086**	28,697
Securities lending collateral	**78,769**	
Premiums receivable	**131,609**	127,456
Deferred policy acquisition costs	**88,633**	92,505
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $31,495 in 2010 and $30,812 in 2009)	**22,187**	22,278
Reinsurance receivables and recoverables	**39,584**	40,936
Prepaid reinsurance premiums	**1,731**	1,673
Income taxes receivable	**10,762**	28,197
Other assets	**16,467**	18,109
TOTAL ASSETS	**$ 3,019,696**	$ 2,902,544
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	**$ 602,139**	$ 606,045
Life insurance	**1,336,843**	1,321,600
Unearned premiums	**211,196**	206,010
Securities lending payable	**78,769**	
Accrued expenses and other liabilities	**73,357**	84,934
Deferred income taxes	**18,929**	11,220

TOTAL LIABILITIES	**$ 2,321,233**	$ 2,229,809
Stockholders Equity		
Common stock, $3.33 1/3 par value; authorized 75,000,000 shares; 26,366,814 and 26,533,040 shares issued and outstanding in 2010 and 2009, respectively	**$ 87,889**	$ 88,443
Additional paid-in capital	**137,647**	139,403
Retained earnings	**399,679**	384,242
Accumulated other comprehensive income, net of tax	**73,248**	60,647
TOTAL STOCKHOLDERS EQUITY	**$ 698,463**	$ 672,735
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 3,019,696**	$ 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 March 31, 2010	2009
Revenues		
Net premiums earned	**$ 114,308**	$ 118,321
Investment income, net of investment expenses	**27,968**	23,271
Realized investment gains (losses)		
Other-than-temporary impairment charges	**(342)**	(4,556)
All other realized gains	**3,068**	1,068
Total realized investment gains (losses)	**2,726**	(3,488)
Other income	**123**	159
	$ 145,125	$ 138,263
Benefits, Losses and Expenses		
Losses and loss settlement expenses	**$ 68,363**	$ 86,078
Future policy benefits	**6,390**	3,388
Amortization of deferred policy acquisition costs	**26,516**	29,406
Other underwriting expenses	**8,784**	8,128
Interest on policyholders accounts	**10,801**	9,772
	$ 120,854	$ 136,772
Income before income taxes	**$ 24,271**	$ 1,491
Federal income tax expense (benefit)	**4,879**	(1,779)
Net Income	**$ 19,392**	$ 3,270
Weighted average common shares outstanding	**26,435,269**	26,613,378
Basic earnings per common share	**$ 0.73**	$ 0.12
Diluted earnings per common share	**$ 0.73**	$ 0.12
Cash dividends declared per common share	**$ 0.15**	$ 0.15

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)		Three Months Ended March 31, 2010
Common stock		
Balance, beginning of year	$	88,443
Shares repurchased (166,276 shares)		(554)
Shares issued for stock-based awards (50 shares)		
Balance, end of period	$	87,889
Additional paid-in capital		
Balance, beginning of year	$	139,403
Compensation expense and related tax benefit for stock-based award grants		448
Shares repurchased		(2,204)
Shares issued for stock-based awards		
Balance, end of period	$	137,647
Retained earnings		
Balance, beginning of year	$	384,242
Net income		19,392
Dividends on common stock ($0.15 per share)		(3,955)
Balance, end of period	$	399,679
Accumulated other comprehensive income, net of tax		
Balance, beginning of year	$	60,647
Change in net unrealized appreciation (1)		12,201
Change in underfunded status of employee benefit plans		400
Balance, end of period	$	73,248
Summary of changes		
Balance, beginning of year	$	672,735
Net income		19,392
All other changes in stockholders equity accounts		6,336
Balance, end of period	$	698,463

(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)	Three Months Ended March 31, 2010	2009
Cash Flows From Operating Activities		
Net income	**$ 19,392**	$ 3,270
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	**834**	705
Depreciation and amortization	**735**	899
Stock-based compensation expense	**447**	858
Realized investment (gains) losses	**(2,726)**	3,488
Net cash flows from trading investments	**752**	(2,068)
Deferred income tax expense (benefit)	**2,313**	(3,208)
Changes in:		
Accrued investment income	**(1,389)**	(1,012)
Premiums receivable	**(4,153)**	(7,540)
Deferred policy acquisition costs	**(3,364)**	(1,927)
Reinsurance receivables	**1,352**	9,419
Prepaid reinsurance premiums	**(58)**	(224)
Income taxes receivable	**17,435**	1,674
Other assets	**1,642**	47
Future policy benefits and losses, claims and loss settlement expenses	**3,480**	(6,489)
Unearned premiums	**5,186**	5,595
Accrued expenses and other liabilities	**(10,969)**	4,157
Deferred income taxes	**(1,387)**	
Other, net	**194**	1,545
Total adjustments	**$ 10,324**	$ 5,919
Net cash provided by operating activities	**$ 29,716**	$ 9,189
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	**$ 603**	$ 8,049
Proceeds from call and maturity of held-to-maturity investments	**984**	2,156
Proceeds from call and maturity of available-for-sale investments	**86,868**	83,586
Proceeds from short-term and other investments	**2,781**	5,234
Purchase of available-for-sale investments	**(165,250)**	(129,264)
Purchase of short-term and other investments	**(2,850)**	(2,046)
Change in securities lending collateral	**(78,769)**	(80,424)
Net purchases and sales of property and equipment	**(629)**	(3,094)
Net cash used in investing activities	**$ (156,262)**	$ (115,803)
Cash Flows From Financing Activities		
Policyholders account balances		
Deposits to investment and universal life contracts	**$ 34,378**	$ 75,338
Withdrawals from investment and universal life contracts	**(26,521)**	(48,064)

Change in securities lending payable		**78,769**		80,424
Payment of cash dividends		**(3,955)**		(3,994)
Repurchase of common stock		**(2,758)**		(538)
Issuance of common stock		**1**		7
Tax benefit from issuance of common stock				5
Net cash provided by financing activities	**$**	**79,914**	$	103,178
Net Change in Cash and Cash Equivalents	**$**	**(46,632)**	$	(3,436)
Cash and Cash Equivalents at Beginning of Period		**190,852**		109,582
Cash and Cash Equivalents at End of Period	**$**	**144,220**	$	106,146

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 Compan 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, 2009. The review report of Ernst & Young LLP as of and for the three-month period ended March 31, 2010, 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.

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. We made no payments for income taxes for the three-month periods ended March 31, 2010 and 2009, respectively. We received tax refunds totaling $13.5 million and $.3 million in the three-month periods ended March 31, 2010 and 2009, respectively, due to overpayment of prior year tax and operating loss carrybacks. We made no significant payments of interest for the three-month periods ended March 31, 2010 and 2009, other than interest credited to policyholders accounts.

Income Taxes

We reported a federal income tax expense of $4.9 million and a federal income tax benefit of $1.8 million for the three-month periods ended March 31, 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 three-month periods ended March 31, 2010 and 2009. 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.

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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 for years before 2004 and state income tax examination for years before 2004. There are no ongoing examinations of income tax returns by federal or state tax authorities.

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, 2010, there were approximately 165 individual policyholder cases pending, and an additional 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 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. 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 three-month period ended March 31, 2010, we concluded approximately 50 of the 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 are seeking review of this decision by the Louisiana Supreme Court. Our petition for review remains pending at March 31, 2010. We have reserved each case included in this class action based on the estimated exposure attributable to our policy. However, if our request for relief is denied, we will review recorded reserves and adjust them if we believe adjustment to be 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 March 31, 2010 to be ordinary, routine, and incidental to our business.

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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 March 31, 2010. There were no securities on loan under the program at December 31, 2009. At March 31, 2010, we had securities totaling $76.7 million on loan under the program. At March 31, 2010, collateral received with a fair value of $78.8 million has 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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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, 2010 and December 31, 2009, is as follows:

	(Dollars in Thousands)			
March 31, 2010	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
United States government				
Collateralized mortgage obligations	$ 713	$ 12	$	$ 725
Mortgage-backed securities	518	73		591
States, municipalities and political subdivisions				
General obligations	1,354	20		1,374
Special revenue	6,044	121	148	6,017
Total Held-to-Maturity Fixed Maturities	$ 8,629	$ 226	$ 148	$ 8,707
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
United States government				
Collateralized mortgage obligations	$ 17,477	$ 1,745	$	$ 19,222
Mortgage-backed securities	2			2
US Treasury	43,956	537	117	44,376
Agency	107,000	262	264	106,998
States, municipalities and political subdivisions				
General obligations	371,747	19,486	192	391,041
Special revenue	220,089	8,956	1,015	228,030
Foreign bonds				
Canadian	66,336	3,697	13	70,020
Other foreign	85,051	4,303	92	89,262
Public utilities				
Electric	215,757	12,577	127	228,207
Natural gas	61,044	3,200	58	64,186
Other	3,537	191		3,728
Corporate bonds				
Bank, trust and insurance companies	272,315	11,981	4,662	279,634
Transportation	29,426	1,435	10	30,851
Energy	150,460	7,293	189	157,564
Technology	103,872	5,829	144	109,557
Basic industry	115,567	5,097	220	120,444
Credit cyclicals	61,427	3,534		64,961

Other		237,193		15,106		560	251,739
Total Available-For-Sale Fixed Maturities	$	2,162,256	$	105,229	$	7,663	$ 2,259,822
Equity securities							
Common stocks							
Public utilities							
Electric	$	6,319	$	3,819	$	27	$ 10,111
Natural gas		838		839			1,677
Bank, trust and insurance companies							
Banks		6,478		34,348		66	40,760
Insurance		3,129		10,161		65	13,225
Other		1,505		976			2,481
All other common stocks							
Energy		4,903		4,635		6	9,532
Technology		8,100		7,670		155	15,615
Basic industry		7,135		8,379		79	15,435
Credit cyclicals		1,402		1,802			3,204
Other		11,635		18,580		15	30,200
Nonredeemable preferred stocks		1,461				305	1,156
Total Available-for-Sale Equity Securities	$	52,905	$	91,209	$	718	$ 143,396
Total Available-for-Sale Securities	$	2,215,161	$	196,438	$	8,381	$ 2,403,218

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	(Dollars in Thousands)			
December 31, 2009	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
United States government				
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				
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 March 31, 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.

	Held-To-Maturity		Available-For-Sale		Trading	
(Dollars in Thousands) March 31, 2010	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 556	$ 568	$ 194,173	$ 198,634	$	$
Due after one year through five years	6,523	6,500	1,057,241	1,117,949	4,812	4,870
Due after five years through 10 years	319	323	767,860	795,673		
Due after 10 years			125,503	128,342	6,278	6,823
Mortgage-backed securities	518	591	2	2		
Collateralized mortgage obligations	713	725	17,477	19,222		
	$ 8,629	$ 8,707	$ 2,162,256	$ 2,259,822	$ 11,090	$ 11,693

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 other-than-temporary impairment (OTTI) charges, is as follows:

	Three Months Ended March 31,	
(In Thousands)	**2010**	2009
Realized investment gains (losses)		
Fixed maturities	**$ 489**	$ (3,276)
Equity securities	**2,344**	(509)
Trading securities	**(92)**	297
Other long-term investments	**(15)**	
Total realized investment gains (losses)	**$ 2,726**	$ (3,488)

For the three-month periods ended March 31, 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 March 31,	
(In Thousands) Years Ended December 31	**2010**	2009
Proceeds from sales	**$ 602**	$ 8,049
Gross realized gains	**402**	
Gross realized losses		80

There were no sales of held-to-maturity securities during the three-months ended March 31, 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 investment gains and losses. Our portfolio of trading securities had a fair value of $11.7 million and $12.6 million at March 31, 2010 and December 31, 2009, respectively.

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The realized gains (losses) attributable to the change in fair value of trading securities still held at March 31, 2010 and 2009 were $(.3) million and $.3 million, respectively.

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, 2010, our remaining potential contractual obligation was $12.6 million.

Unrealized Appreciation and Depreciation

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

	Three Months Ended March 31,	
(In Thousands)	**2010**	2009
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities and equity securities	**$ 25,987**	$ (1,025)
Deferred policy acquisition costs	**(7,236)**	(9,589)
Income tax effect	**(6,550)**	4,319
Total change in net unrealized appreciation, net of tax	**$ 12,201**	$ (6,295)

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 present a summary of fixed maturity and equity securities that were in an unrealized loss position at March 31, 2010 and December 31, 2009. It is possible that we could recognize OTTI charges in future periods on securities held at March 31, 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 as the value recovers or the securities mature.

We have evaluated the unrealized losses reported for all of our equity securities at March 31, 2010, and have concluded that the duration and severity of these losses do not warrant the recognition of an OTTI charge at March 31, 2010. Our largest unrealized loss greater than 12 months on an individual equity security at March 31, 2010 was $.1 million. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

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(Dollars in Thousands) March 31, 2010 Type of Investment	Less than 12 months Number of Issues	Fair Value	Gross Unrealized Depreciation	12 months or longer Number of Issues	Fair Value	Gross Unrealized Depreciation	Total Fair Value	Gross Unrealized Depreciation
HELD-TO-MATURITY								
Fixed maturities								
Bonds								
States, municipalities and political subdivisions								
Special revenue		$	$	1	$ 690	$ 148	$ 690	$ 148
Total Held-to-Maturity Fixed Maturities		$	$	1	$ 690	$ 148	$ 690	$ 148
AVAILABLE-FOR-SALE								
Fixed maturities								
Bonds								
United States government								
US Treasury	9	$ 15,847	$ 117	1	$ 1,995	$	$ 17,842	$ 117
Agency	2	6,988	12	13	32,748	252	39,736	264
States, municipalities and political subdivisions								
General obligations	3	2,497	92	3	2,123	100	4,620	192
Special revenue	19	20,418	337	9	8,782	678	29,200	1,015
Foreign bonds								
Canadian	1	2,075	5	2	4,063	8	6,138	13
Other foreign	2	2,445	13	4	8,583	79	11,028	92
Public utilities								
Electric	4	7,447	89	3	5,641	38	13,088	127
Natural gas	1	3,838	51	1	2,234	7	6,072	58
Corporate bonds								
Bank, trust and insurance	2	3,325	33	42	58,898	4,629	62,223	4,662
Transportation				2	3,662	10	3,662	10
Energy	3	8,297	35	5	13,968	154	22,265	189
Technology	3	9,646	52	3	7,484	92	17,130	144
Basic industry	2	4,990	13	4	9,749	207	14,739	220
Other	5	16,741	269	6	11,355	291	28,096	560
Total Available-For-Sale Fixed Maturities	56	$ 104,554	$ 1,118	98	$ 171,285	$ 6,545	$ 275,839	$ 7,663
Equity securities								
Common stocks								
Public utilities								
Electric		$	$	5	$ 424	$ 27	$ 424	$ 27
Bank, trust and insurance companies								

Banks				1	490	66	490	66
Insurance	2	329	16	3	408	49	737	65
All other common stock								
Energy				2	207	6	207	6
Technology				3	941	155	941	155
Basic industry				2	182	79	182	79
Other				3	262	15	262	15
Nonredeemable preferred stocks				5	1,156	305	1,156	305
Total Available-for-Sale Equity Securities	**2**	**$ 329**	**$ 16**	**24**	**$ 4,070**	**$ 702**	**$ 4,399**	**$ 718**
Total Available-for-Sale Securities	**58**	**$ 104,883**	**$ 1,134**	**122**	**$ 175,355**	**$ 7,247**	**$ 280,238**	**$ 8,381**
Total	**58**	**$ 104,883**	**$ 1,134**	**123**	**$ 176,045**	**$ 7,395**	**$ 280,928**	**$ 8,529**

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(In Thousands) December 31, 2009 Type of Investment	Less than 12 months Number of Issues	Fair Value	Gross Unrealized Depreciation	12 months or longer Number of Issues	Fair Value	Gross Unrealized Depreciation	Total 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								
All other government								
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								
All other 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 particular asset or liability shown.

In most cases, we use quoted market prices to determine the fair value of fixed maturities, equity securities, trading securities and short-term investments. Where 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 March 31, 2010 and December 31, 2009 is as follows:

	March 31, 2010		December 31, 2009	
(In Thousands)	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Assets				
Investments				
Held-to-maturity fixed maturities	**$ 8,707**	**$ 8,629**	$ 9,720	$ 9,605
Available-for-sale fixed maturities	**2,259,822**	**2,259,822**	2,158,391	2,158,391
Trading securities	**11,693**	**11,693**	12,613	12,613
Equity securities	**143,396**	**143,396**	132,718	132,718
Mortgage loans	**8,050**	**7,199**	8,229	7,328
Policy loans	**7,699**	**7,699**	7,947	7,947
Other long-term investments	**16,110**	**16,110**	15,880	15,880
Short-term investments	**1,100**	**1,100**	7,359	7,359
Cash and cash equivalents	**144,220**	**144,220**	190,852	190,852
Accrued investment income	**30,086**	**30,086**	28,697	28,697
Liabilities				
Policy reserves				
Annuity (accumulations)	**$ 963,438**	**$ 921,701**	$ 1,087,457	$ 914,003
Annuity (benefit payments)	**79,568**	**78,749**	85,336	77,025

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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.

Level 2: Valuations are based on quoted prices, 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 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 that we have had several years experience with 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, 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, and 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.

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The following tables present the categorization for our financial instruments measured at fair value on a recurring basis in our Consolidated Balance Sheets at March 31, 2010 and December 31, 2009:

(In Thousands)		Fair Value Measurements		
Description	March 31, 2010	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
United States government				
Collateralized mortgage obligations	$ 19,222	$	$ 19,222	$
Mortgage-backed securities	2		2	
US Treasury	44,376		44,376	
Agency	106,998		106,998	
States, municipalities and political subdivisions				
General obligations	391,041		391,041	
Special revenue	228,030		226,920	1,110
Foreign bonds				
Canadian	70,020		70,020	
Other	89,262		87,868	1,394
Public utilities				
Electric	228,207		228,172	35
Natural gas	64,186		64,186	
Other	3,728		3,728	
Corporate bonds				
Banks, trusts and insurance companies	279,634		267,437	12,197
Transportation	30,851		30,851	
Energy	157,564		157,564	
Technology	109,557		109,557	
Basic industry	120,444		115,638	4,806
Credit cyclicals	64,961		62,311	2,650
Other	251,739		245,579	6,160
Total Available-For-Sale Fixed Maturities	$ 2,259,822	$	$ 2,231,470	$ 28,352
Equity securities				
Common stocks				
Public utilities				
Electric	$ 10,111	$ 10,111	$	$
Natural gas	1,677	1,677		
Banks, trusts and insurance companies				
Banks	40,760	40,760		
Insurance	13,225	13,225		
Other	2,481	2,481		
All other common stocks				
Transportation				
Energy	9,532	9,532		
Technology	15,615	15,586	29	
Basic industry	15,435	15,435		
Credit cyclicals	3,204	3,204		

Other	30,200	29,938	262	
Nonredeemable preferred stocks	1,156	934	222	
Total Available-for-Sale Equity Securities	**$ 143,396**	**$ 142,883**	**$ 513**	**$**
Total Available-for-Sale Securities	**$ 2,403,218**	**$ 142,883**	**$ 2,231,983**	**$ 28,352**
TRADING				
Fixed maturities				
Bonds				
Foreign bonds	$ 2,755	$	$ 2,755	$
Public utilities	1,422		1,422	
Corporate bonds				
Energy	2,710		2,710	
Technology	2,883		2,883	
Other	370		370	
Redeemable Preferred Stock	1,553	1,553		
Total Trading Securities	**$ 11,693**	**$ 1,553**	**$ 10,140**	**$**
Short-Term Investments	**$ 1,100**	**$ 1,100**	**$**	**$**
Money Market Accounts	**$ 15,987**	**$ 15,987**	**$**	**$**
Total	**$ 2,431,998**	**$ 161,523**	**$ 2,242,123**	**$ 28,352**

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(In Thousands)			Fair Value Measurements	
Description	December 31, 2009	Level 1	Level 2	Level 3
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
United States government				
Collateralized mortgage obligations	$ 18,952	$	$ 18,952	$
Mortgage-backed securities	2		2	
US Treasury	35,650		35,650	
Agency	70,625		70,625	
States, municipalities and political subdivisions				
General obligations	390,378		390,378	
Special revenue	227,362		226,252	1,110
Foreign bonds				
Canadian	58,826		58,826	
Other	82,414		81,020	1,394
Public utilities				
Electric	224,004		223,934	70
Natural gas	57,806		57,806	
Other	3,778		3,778	
Corporate bonds				
Banks, trusts and insurance companies	289,209		275,181	14,028
Transportation	32,187		32,187	
Energy	152,339		152,339	
Technology	89,172		89,172	
Basic industry	109,567		104,761	4,806
Credit cyclicals	72,585		69,737	2,848
Other	243,535		237,332	6,203
Total Available-For-Sale Fixed Maturities	$ 2,158,391	$	$ 2,127,932	$ 30,459
Equity securities				
Common stocks				
Public utilities				
Electric	$ 10,033	$ 10,033	$	$
Natural gas	1,684	1,684		
Banks	35,889	35,889		
Insurance	11,652	11,652		
Other	1,942	1,942		
All other common stocks				
Transportation	1,593	1,593		
Energy	9,529	9,529		
Technology	13,910	13,879	31	
Basic industry	13,449	13,449		
Credit cyclicals	3,176	3,176		
Other	28,832	28,573	259	
Nonredeemable preferred stocks	1,029	1,029		

Total Available-for-Sale Equity Securities	$	132,718	$	132,428	$	290	$	
Total Available-for-Sale Securities	$	2,291,109	$	132,428	$	2,128,222	$	30,459
TRADING								
Fixed maturities								
Bonds								
Foreign bonds	$	2,689	$		$	2,689	$	
Public utilities		1,460				1,460		
Corporate bonds								
Energy		2,310				2,310		
Technology		4,314				4,314		
Other		532		211		321		
Redeemable Preferred Stock		1,308		1,308				
Total Trading Securities	$	12,613	$	1,519	$	11,094	$	
Short-Term Investments	$	7,359	$	1,100	$	6,005	$	254
Money Market Accounts	$	96,163	$	96,163	$		$	
Total	$	2,407,244	$	231,210	$	2,145,321	$	30,713

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

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

For the three-month period ended March 31, 2010, the change in our securities categorized as Level 1 and Level 2 is the result of investment purchases made during the period and an increase in the unrealized appreciation on available-for-sale securities since December 31, 2009. There were no significant transfers of securities in or out of Level 1 or Level 2 during the period.

The securities categorized as Level 3 include holdings in certain private placement fixed maturity and equity securities and certain securities that were determined to be other-than-temporarily impaired in a prior period for which there is not an active market. The fair value of our Level 3 private placement securities is determined by management in reliance on pricing received from our independent pricing services and brokers consistent with the estimation of 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, 2010:

(In Thousands)	States, municipalities and political subdivisions	Foreign bonds	Public utilities	Corporate bonds	Short-term investments	Total
Balance at December 31, 2009	$ 1,110	$ 1,394	$ 70	$ 27,885	$ 254	$ 30,713
Realized losses (1)			(1)			(1)
Unrealized gains (1)				55		55
Amortization				1		1
Purchases						
Disposals			(34)	(2,382)		(2,416)
Transfers in				254		254
Transfers out					(254)	(254)
Balance at March 31, 2010	$ 1,110	$ 1,394	$ 35	$ 25,813	$	$ 28,352

(1) Realized gains are recorded as a component of current operations

whereas unrealized gains (losses) are recorded as a component of comprehensive income (loss).

The amount reported in the previous table as disposals under the column corporate bonds, included $2.1 million of corporate bonds that were disposed of due to issuer debt restructuring. The securities disposed of included $.3 million of securities previously classified as short-term investments that were transferred to corporate bonds as a result of this debt restructuring.

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NOTE 4. EMPLOYEE BENEFITS

Our pension and postretirement benefit expense for the three-month periods ended March 31, 2010 and 2009 is as follows:

	Three Months Ended March 31,	
(In Thousands)	**2010**	2009
Pension expense	**$ 1,362**	$ 757
Other postretirement benefit expense	**629**	570

We previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009 that we expected to contribute $3.0 million to the pension plan in 2010. For the three-month period ended March 31, 2010, we have contributed $1.0 million to the pension plan. We anticipate that the total contribution for the 2010 plan year will not vary significantly from the expected contribution.

NOTE 5. STOCK-BASED COMPENSATION

Nonqualified Employee Stock Award Plan

The United Fire & Casualty Company 2008 Stock Plan (the 2008 Stock Plan) authorizes the issuance of restricted stock awards, stock appreciation rights, incentive stock options, and nonqualified stock options for up to 1,900,000 shares of United Fire common stock to employees, with 860,310 authorized shares available for future issuance at March 31, 2010. The 2008 Stock Plan is administered by the Board of Directors, which determines those employees that will receive awards under the 2008 Stock Plan, 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, in 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 years from the grant date. Restricted stock awards granted pursuant to the 2008 Stock Plan fully vest after five 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 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, 2010	Inception to Date
Beginning balance	**919,525**	1,900,000
Number of awards granted	**(74,065)**	(1,099,040)
Number of awards forfeited or expired	**14,850**	59,350
Ending balance	**860,310**	860,310
Number of option awards exercised	**50**	167,092
Number of restricted stock awards vested		

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Nonqualified Nonemployee Director Stock Option and Restricted Stock Plan

We have a nonemployee director stock option and restricted stock plan that authorizes United Fire to grant restricted stock and nonqualified stock options to purchase 150,000 shares of United Fire s common stock, with 70,003 options available for future issuance at March 31, 2010. The Board of Directors has the authority to determine which nonemployee directors receive awards under the plan, when options and restricted 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 nonemployee 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, 2010**	Inception to Date
Beginning balance	**70,003**	150,000
Number of awards granted		(86,000)
Number of awards forfeited or expired		6,003
Ending balance	**70,003**	70,003
Number of awards exercised		400

Stock-Based Compensation Expense

For the three-month periods ended March 31, 2010 and 2009, we recognized stock-based compensation expense of $.4 million, and $.9 million respectively. As of March 31, 2010, we have $3.8 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 a term of five years, 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.

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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 three 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), investment results, 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, 2009.

The following analyses for the three-month periods ended March 31, 2010 and 2009 have been reconciled to the amounts reported in our unaudited Consolidated Financial Statements to adjust for inter-segment eliminations.

(In Thousands)	Property and Casualty Insurance	Life Insurance	Total
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**
Realized investment gains	**2,176**	**550**	**2,726**
Other income (loss)	**(58)**	**181**	**123**
Revenues	**$ 112,779**	**$ 32,470**	**$ 145,249**
Inter-segment Eliminations	**(45)**	**(79)**	**(124)**
Total Revenues	**$ 112,734**	**$ 32,391**	**$ 145,125**
Net Income	**$ 16,076**	**$ 3,316**	**$ 19,392**
Assets	**$ 1,326,707**	**$ 1,692,989**	**$ 3,019,696**
Invested Assets	**$ 953,963**	**$ 1,501,685**	**$ 2,455,648**
Three Months Ended March 31, 2009			
Net premiums earned	$ 109,214	$ 9,185	$ 118,399
Investment income, net of investment expenses	6,091	17,223	23,314
Realized investment losses	(717)	(2,771)	(3,488)
Other income	28	131	159
Revenues	$ 114,616	$ 23,768	$ 138,384
Inter-segment Eliminations	(43)	(78)	(121)
Total Revenues	$ 114,573	$ 23,690	$ 138,263
Net Income	$ 1,864	$ 1,406	$ 3,270

Assets	$	1,289,833	$	1,501,460	$ 2,791,293
Invested Assets	$	877,965	$	1,245,992	$ 2,123,957

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 stock options outstanding 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 represent the number of dilutive common shares, which we add to the denominator of the earnings per share calculation.

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The components of basic and diluted earnings per share are as follows for the three-month periods ended March 31, 2010 and 2009:

	Three Months Ended March 31,			
	2010		2009	
(In Thousands Except Per Share Data)	Basic	Diluted	Basic	Diluted
Net income	**$ 19,392**	**$ 19,392**	$ 3,270	$ 3,270
Weighted-average common shares outstanding	**26,435**	**26,435**	26,613	26,613
Add dilutive effect of restricted stock awards		**19**		19
Add dilutive effect of stock options				10
Weighted-average common shares for EPS calculation	**26,435**	**26,454**	26,613	26,642
Earnings per common share	**$ 0.73**	**$ 0.73**	$ 0.12	$ 0.12
Awards excluded from diluted EPS calculation(1)		**972**		681

(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 (loss) and the related tax effects for the three-month periods ended March 31, 2010 and 2009.

	Three Months Ended March 31,	
(In Thousands)	**2010**	2009
Net income	**$ 19,392**	$ 3,270
Other comprehensive income (loss)		
Change in net unrealized appreciation on investments	**21,477**	(13,173)
Adjustment for net realized (gains) losses included in income	**(2,726)**	3,488
Adjustment for costs included in employee benefit expense	**615**	316
Other comprehensive income (loss), before tax	**19,366**	(9,369)

Income tax effect		**(6,765)**		3,279
Other comprehensive income (loss), after tax		**12,601**		(6,090)
Comprehensive income (loss)	**$**	**31,993**	$	(2,820)

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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, 2010, and the related consolidated statements of income and cash flows for the three-month periods ended March 31, 2010 and 2009 and the consolidated statement of stockholders equity for the three-month period ended March 31, 2010. 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 interim 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, 2009, 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 March 1, 2010, 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, 2009, 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 3, 2010

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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), e goal(s), target(s), forecast(s), project(s), predict(s), should, could, may, will continue, might, ho 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 reserves established for Hurricane Katrina, which are based on management estimates.
- The resolution of regulatory issues and litigation pertaining to and arising out of Hurricane Katrina.
- 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 valuation of invested assets.
- The calculation and recovery of deferred policy acquisition costs (DAC).
- The valuation of pension and other postretirement benefit obligations.
- The absolute and relative performance of our products or services.
- Our relationship with our agents.
- Our relationship with our reinsurers.
- The financial strength rating of our reinsurers.
- The increased costs and risk associated with the security of our data.
- Changes in industry trends and significant industry developments.
- Governmental actions, policies or 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.

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CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates are defined as those that are reflective of significant judgments and uncertainties and that potentially may result in materially different results under different assumptions and conditions. Our discussion and analysis of our results of operations and financial condition is based upon our Consolidated Financial Statements, which we have prepared in accordance with GAAP. As we prepare these 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 during 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, 2009.

OUR BUSINESS

We operate property and casualty and life insurance businesses, marketing our products through independent agents. Although we maintain a broad geographic presence that includes most of the United States, more than half of our property and casualty premiums were written in Iowa, Texas, Missouri, Louisiana and Illinois for the three-month period ended March 31, 2010. Over three-fourths of our life insurance premiums were written in Iowa, Nebraska, Wisconsin, Minnesota, Illinois and Colorado for the three-month period ended March 31, 2010.

We conduct our operations through two distinct segments: property and casualty insurance and life insurance. We manage these segments separately because they generally do not share the same customer base, and they each have different pricing and expense structures. 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.

Our revenue is primarily composed of 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. Through disciplined underwriting and strong agency relationships, we have traditionally emphasized writing good business at an adequate price, preferring quality to volume. Our goal of consistent profitability is supported by these business strategies.

Our premium written is cyclical in nature and is influenced by many factors, including price competition, economic conditions, interest rates, weather-related events and other catastrophes such as natural disasters (e.g., hurricanes and tornados) and man-made disasters, state regulations, court decisions and changes in the law.

Over the past three years, our commercial lines of business have accounted for over 90.0 percent of our premium revenue. We anticipate that our current composition of commercial lines and personal lines business will not change materially during the coming year.

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RESULTS OF OPERATIONS

Consolidated Financial Highlights

	Three Months Ended March 31,		
(In Thousands)	**2010**	2009	%
Revenues			
Net premiums earned	**$ 114,308**	$ 118,321	(3.4)%
Investment income, net of investment expenses	**27,968**	23,271	20.2
Realized investment gains (losses)			
Other-than-temporary impairment charges	**(342)**	(4,556)	92.5
All other realized gains	**3,068**	1,068	187.3
Total realized investment gains (losses)	**2,726**	(3,488)	178.2
Other income	**123**	159	(22.6)
	$ 145,125	$ 138,263	5.0%
Benefits, Losses and Expenses			
Losses and loss settlement expenses	**$ 68,363**	$ 86,078	(20.6)%
Increase in liability for future policy benefits	**6,390**	3,388	88.6
Amortization of deferred policy acquisition costs	**26,516**	29,406	(9.8)
Other underwriting expenses	**8,784**	8,128	8.1
Interest on policyholders accounts	**10,801**	9,772	10.5
	$ 120,854	$ 136,772	(11.6)%
Income before income taxes	**$ 24,271**	$ 1,491	1,527.8%
Federal income tax expense (benefit)	**4,879**	(1,779)	374.3
Net Income	**$ 19,392**	$ 3,270	493.0%

The following is a summary of our financial performance for the three-month period ended March 31, 2010.

Consolidated Results of Operations

Net income increased from $3.3 million for the three-month period ended March 31, 2009 to $19.4 million for the three-month period ended March 31, 2010, as a result of (i) an increase in net investment income due to an increase in our invested assets quarter over quarter; (ii) an increase in realized gains, as OTTI charges on investments were minimal in the first quarter of 2010; (iii) a decrease in losses and loss settlement expenses due to a reduction in losses incurred from Hurricane Katrina claims litigation and an improvement in our non-catastrophe claims experience; and (iv) a decrease in the amortization of deferred policy acquisition costs.

Our property and casualty segment s premium writings decreased 6.6 percent for the three-month period ended March 31, 2010 as compared to the same period of 2009, due to the affect the weakened economy continues to have on businesses, as they reduce staff and vehicle fleets, and in some cases, go out of business and competition.

Annuity deposits decreased to $17.2 million for the three-month period ended March 31, 2010 from $63.5 million for the three-month period ended March 31, 2009, as annuitants seek other products as the economy continues to recover and money is reinvested into products with greater risk that yield a higher return. We do not record annuity deposits as a component of net premiums written or net premiums earned; however, they do generate investment income.

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Our combined ratio improved from 105.8 percent for the three-month period ended March 31, 2009 to 91.8 percent for the three-month period ended March 31, 2010.

Pre-tax catastrophe losses and loss settlement expenses, excluding Hurricane Katrina, totaled $3.2 million for the three-month period ended March 31, 2010, compared to $3.0 million for the three-month period ended March 31, 2009.

Adverse development from Hurricane Katrina claims litigation decreased from $11.9 million for the three-month period ended March 31, 2009 to $5.4 million for the three-month period ended March 31, 2010.

Consolidated Financial Condition

The decline in annuity deposits along with annuitant withdrawals contributed to a net cash outflow related to our annuity business of $1.1 million in the three-month period ended March 31, 2010, compared to a net cash inflow of $19.4 million in the three-month period ended March 31, 2009.

For the three-month period ended March 31, 2010, we repurchased 166,276 shares of our common stock at an average cost of $16.59. As of March 31, 2010, we are authorized to purchase an additional 349,878 shares of common stock under our Share Repurchase Program, which expires in August 2011.

Unrealized investment gains, net of tax, were $94.7 million at March 31, 2010, which is a 14.8 percent increase from December 31, 2009. This is reflective of the appreciation in market values of our equity securities and increases in the prices of our fixed maturity securities, as interest rates declined.

Our stockholders equity increased to $698.5 million at March 31, 2010 from $672.7 million at December 31, 2009.

Our book value per share increased by $1.14 per share to $26.49 as of March 31, 2010 from $25.35 at December 31, 2009. The change in 2010 is attributable to our net income and an increase in our net unrealized investment gains, net of tax.

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Property and Casualty Insurance Segment Results

	Three Months Ended March 31,	
(In Thousands)	**2010**	2009
Net premiums written [1]	**$ 107,124**	$ 114,649
Net premiums earned	**$ 101,979**	$ 109,214
Losses and loss settlement expenses	**(63,628)**	(82,279)
Amortization of deferred policy acquisition costs	**(24,043)**	(26,898)
Other underwriting expenses	**(5,931)**	(6,093)
Underwriting gain (loss) [1]	**$ 8,377**	$ (6,056)
Investment income, net of underwriting expenses	**8,637**	6,048
Realized investment gains (losses)		
Other-than-temporary impairment charges	**(36)**	(1,810)
All other realized gains	**2,212**	1,093
Total realized investment gains (losses)	**2,176**	(717)
Other income (loss)	**(58)**	28
Income (loss) before income taxes	**$ 19,132**	$ (697)
GAAP Ratios:		
Net loss ratio (without catastrophes)	**54.1%**	61.7%
Hurricane Katrina litigation effect on net loss ratio	**5.2**	10.9
Other catastrophes effect on net loss ratio	**3.1**	2.7
Net loss ratio	**62.4%**	75.3%
Expense ratio [2] [3]	**29.4**	30.5
Combined ratio	**91.8%**	105.8%

(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.

(3) The GAAP expense ratio does not include disaster charges and other related expenses, net of recoveries, which totaled $(23) and $(358) for the three-months ended March 31, 2010 and 2009, respectively.

Net premiums written decreased by $7.5 million, or 6.6 percent, for the three-month period ended March 31, 2010, as compared to the same period of 2009. Our premium writings continued to be affected by the weak economy, as businesses reduce staff and vehicle fleets, and in some cases, go out of business. We have been successful at writing new business; however, the insurance marketplace remains competitive. Accordingly, our pricing level remains relatively flat, with personal lines up slightly and commercial lines flat to slightly lower. We were successful in increasing pricing on a small percentage of our commercial renewals. Our aggregate policy retention rate for personal and commercial lines of business remained at approximately 80 percent for the three-month periods ended March 31, 2010 and 2009, as our underwriters continue to focus on writing good business at an adequate price, preferring quality over volume.

Losses and loss settlement expenses improved 22.7 percent for the three-months ended March 31, 2010, as compared with the same period in 2009, due to a reduction in losses incurred from Hurricane Katrina claims litigation and improvement in our non-catastrophe claims experience. Hurricane Katrina losses and loss settlement expenses contributed $5.4 million to the losses incurred in the three-month period ended March 31, 2010, compared to $11.9 million in the same period of 2009. Excluding Hurricane Katrina development, we incurred $3.2 million in pre-tax catastrophe losses and loss settlement expenses in the three-month period ended March 31, 2010, compared to $3.0 million the same period of 2009.

Overall claims frequency decreased in the three-month period ended March 31, 2010, as compared to the same period of 2009, which is a trend we have seen for several quarters. Claims severity remained stable during the three-month period ended March 31, 2010.

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Amortization of deferred policy acquisition costs decreased 10.6 percent in the three-month period ended March 31, 2010, as compared to the same period of 2009. The decrease in net premiums written have resulted in a reduction of the deferred acquisition costs asset and related amortization.

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, 2010 and 2009.

(In Thousands) Unaudited	**Premiums Earned**	**Losses and Loss Settlement Expenses Incurred**	**Loss Ratio**	Premiums Earned	Losses and Loss Settlement Expenses Incurred	Loss Ratio
Commercial lines						
Other liability [(1)]	**$ 28,214**	**$ 18,841**	**66.8%**	$ 31,052	$ 20,105	64.7%
Fire and allied lines [(2)]	**24,384**	**19,799**	**81.2**	25,400	27,073	106.6
Automobile	**23,010**	**13,830**	**60.1**	24,386	15,210	62.4
Workers compensation	**11,218**	**4,278**	**38.1**	13,211	11,776	89.1
Fidelity and surety	**4,679**	**209**	**4.5**	5,413	273	5.0
Miscellaneous	**202**	**36**	**17.8**	210	51	24.3
Total commercial lines	**$ 91,707**	**$ 56,993**	**62.1%**	$ 99,672	$ 74,488	74.7%
Personal lines						
Fire and allied lines [(3)]	**$ 5,979**	**$ 2,067**	**34.6%**	$ 5,339	$ 3,808	71.3%
Automobile	**3,467**	**2,881**	**83.1**	3,086	2,351	76.2
Miscellaneous	**87**	**(27)**	**N/A**	84	294	N/A
Total personal lines	**$ 9,533**	**$ 4,921**	**51.6%**	$ 8,509	$ 6,453	75.8%
Reinsurance assumed	**739**	**1,714**	**231.9%**	1,033	1,338	129.5%
Total	**$ 101,979**	**$ 63,628**	**62.4%**	$ 109,214	$ 82,279	75.3%

(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.

Commercial Lines

For the three months ended March 31, 2010, the loss ratio for our fire and allied lines improved to 81.2 percent compared to 106.6 percent for the same period of 2009. The change in this line was due to improvement in our non-catastrophe claims experience, as well as a reduction in losses incurred for Hurricane Katrina claims litigation in the three-months ended March 31, 2010, compared to the same period of 2009.

In the workers compensation line of business, our loss ratio was 38.1 percent for the three months ended March 31, 2010, as compared to 89.1 percent for the same period of 2009. The improvement in this line was due to the normal fluctuations that generally occur in this line of business.

Personal Lines

For the three months ended March 31, 2010, the loss ratio for our fire and allied lines was 34.6 percent compared to 71.3 percent for the same period of 2009, due to the improvement in our non-catastrophe claims experience.

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Life Insurance Segment Results

(In Thousands)	Three Months Ended March 31, 2010	2009
Revenues		
Net premiums written [1]	**$ 12,312**	$ 6,197
Net premiums earned	**$ 12,329**	$ 9,107
Investment income, net	**19,331**	17,223
Realized investment gains (losses)		
Other-than-temporary impairment charges	**(306)**	(2,746)
All other realized gains	**856**	(25)
Total realized investment gains (losses)	**550**	(2,771)
Other income	**181**	131
Total Revenues	**$ 32,391**	$ 23,690
Benefits, Losses and Expenses		
Losses and loss settlement expenses	**$ 4,735**	$ 3,799
Increase in liability for future policy benefits	**6,390**	3,388
Amortization of deferred policy acquisition costs	**2,473**	2,508
Other underwriting expenses	**2,853**	2,035
Interest on policyholders accounts	**10,801**	9,772
Total Benefits, Losses and Expenses	**$ 27,252**	$ 21,502
Income Before Income Taxes	**$ 5,139**	$ 2,188

(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.

Net premiums earned increased $3.2 million, or 35.4 percent, in the three-months ended March 31, 2010, as compared with the same period of 2009, due to an increase in sales of our single premium whole life products.

For the three-month period ended March 31, 2010, annuity deposits were $17.2 million compared to $63.5 million for the same period of 2009. The significant decrease in our annuity deposits in 2010 is attributable to annuitants seeking other products, as the economy continues to recover and money is reinvested into products with greater risk that yield a higher return. Annuity deposits are not recorded as a component of net premiums written or net premiums earned; however, the money is invested to generate investment income.

The decline in annuity deposits along with annuitant withdrawals contributed to a net cash outflow related to our annuity business of $1.1 million in the three-month period ended March 31, 2010, compared to a net cash inflow of $19.4 million in the three-month period ended March 31, 2009.

Losses and loss settlement expenses increased $.9 million or 24.6 percent in the three-month period ended March 31, 2010 as compared to the same period of 2009. The increase is attributable to both an increase in the amount of death benefits paid as the sales of our life insurance products have increased in recent years, and a slight increase in surrender benefits.

Liability for future policy benefits increased $3.0 million, or 88.6 percent, in the three-month period ended March 31, 2010 as compared to the same period of 2009. The increase is primarily attributable to an increase in the sale of single premium whole life insurance, as well as an increase in long-term disability claims due to a longer than anticipated duration of claim payments.

Interest on policyholders accounts increased 10.5 percent in the three-month period ended March 31, 2010 as compared to the same period of 2009, due to the growth in our deferred annuity account balances over the last year.

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

Investment Portfolio

Our invested assets at March 31, 2010 totaled $2,455.6 million, compared to $2,351.8 million at December 31, 2009. At March 31, 2010, 92.4 percent of the value of our investment portfolio was fixed maturity securities and 5.8 percent was equity securities. Because the primary purpose of our investment portfolio is to fund future claims payments, we follow a conservative investment philosophy and invest 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 obligation, 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, 2010 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]	$ 801,170	84.0%	$ 1,467,281	97.7%	$ 2,268,451	92.4%
Equity securities	126,411	13.3	16,985	1.1	143,396	5.8
Trading securities	11,693	1.2			11,693	0.5
Mortgage loans			7,199	0.5	7,199	0.3
Policy loans			7,699	0.5	7,699	0.3
Other long-term investments	13,589	1.4	2,521	0.2	16,110	0.7
Short-term investments	1,100	0.1			1,100	
Total	$ 953,963	100.0%	$ 1,501,685	100.0%	$ 2,455,648	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, 2010, we classified $2,259.8 million, or 99.6 percent, of our fixed maturities portfolio as available-for-sale, compared to $2,158.4 million, or 99.6 percent, at December 31, 2009. We classify our remaining fixed maturity securities as held-to-maturity securities (which are reported at amortized cost) or trading securities. 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, 2010 and December 31, 2009, we did not have direct exposure to investments in sub-prime mortgages, derivative securities or other credit enhancement vehicles.

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Credit Quality

The following table displays a breakdown for all of our fixed maturity securities by credit rating at March 31, 2010 and December 31, 2009. Information contained in the table is generally based upon the issue credit ratings provided by Moody s. If credit ratings from Moody s were unavailable, we obtained them from Standard & Poor s.

(In Thousands)	**March 31, 2010**		December 31, 2009	
	Carrying		Carrying	
Rating	**Value**	**% of Total**	Value	% of Total
AAA	**$ 245,716**	**10.8%**	$ 207,199	9.5%
AA	**398,607**	**17.5**	397,380	18.2
A	**553,814**	**24.3**	562,795	25.8
Baa/BBB	**935,174**	**41.0**	869,465	39.9
Other/Not Rated	**146,833**	**6.4**	143,770	6.6
	$ 2,280,144	**100.0%**	$ 2,180,609	100.0%

The credit ratings of our fixed maturity securities portfolio at March 31, 2010 has not changed significantly since December 31, 2009, as the financial markets continue to recover.

Duration

Our investment portfolio is composed primarily of fixed maturity securities whose fair values are susceptible to market risk, specifically interest rate changes. Duration is a measurement we use to quantify our inherent interest rate risk and analyze our ability to match our invested assets to our claim 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 our investments and claim liabilities. 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 claim liabilities is liquidity. With appropriate matching, our investments will mature when cash is needed, preventing the need to liquidate other assets prematurely.

Group

The maximum weighted average duration of our fixed maturity available-for-sale, held-to-maturity and trading security portfolios, including convertible bonds, at March 31, 2010 is 5.6 years compared to 6.0 years at December 31, 2009.

Property and Casualty Insurance Segment

For our property and casualty insurance segment, the maximum weighted average duration of our fixed maturity available-for-sale, held-to-maturity and trading security portfolios, including convertible bonds, at March 31, 2010 is 7.0 years compared to 7.3 years at December 31, 2009.

Life Insurance Segment

For our life insurance segment, the maximum weighted average duration of our fixed maturity available-for-sale, held-to-maturity and trading security portfolios, at March 31, 2010 is 4.0 years compared to 4.3 years at December 31, 2009.

Investment Results

We recorded net investment income of $28.0 million and $23.3 million for the three-month periods ended March 31, 2010 and 2009, respectively. The improvement in the three-month period ended March 31, 2010 was the result of our invested assets increasing from $2.1 billion at March 31, 2009 to $2.5 billion at March 31, 2010, which allowed us to generate more investment income.

Realized investment gains were $2.7 million in the three-month period ended March 31, 2010, compared to realized investment losses of $3.5 million in the same period of 2009. For the three-month period ended March 31, 2010, we incurred OTTI charges of $.3 million attributable to our equity securities, compared to $4.6 million in the three-month period ended March 31, 2009, attributable to our fixed maturity and equity securities.

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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, 2010 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 OTTI charges in future periods on securities that we own at March 31, 2010, 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. Historically, we have generated substantial cash inflows from operations because cash from premium payments is usually received in advance of cash payments made to settle losses. When investing the cash generated from operations, we invest 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.

Our cash outflows are a result of losses and loss settlement expenses, commissions, premium taxes, income taxes, operating expenses, dividends, annuity withdrawals, and investment purchases. 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 following table displays a summary of cash sources and uses in 2010 and 2009.

Cash Flow Summary	**Three Months Ended March 31,**	
(In Thousands)	**2010**	2009
Cash provided provided by (used in)		
Operating activities	**$ 29,716**	$ 9,189
Investing activities	**(156,262)**	(115,803)
Financing activities	**79,914**	103,178
Net decrease in cash and cash equivalents	**$ (46,632)**	$ (3,436)

Net cash flows provided by operating activities for the three-month periods ended March 31, 2010 and 2009 totaled $29.7 million and $9.2 million, respectively. Our operating cash flows increased in the three-month period ended March 31, 2010, as compared with the three-month period ended March 31, 2009, due to an increase in operating income and the receipt of an income tax refund for an overpayment of prior year tax and operating loss carrybacks. This was somewhat offset by payments made for accrued expenses and other liabilities.

Net cash flows used in investing activities for the three-month periods ended March 31, 2010 and 2009 totaled $156.3 million and $115.8 million, respectively. In the three-month period ended March 31, 2010, we had cash inflows from sales of investments, scheduled and unscheduled investment maturities, redemptions and prepayments that totaled $91.2 million compared to $99.0 million for the three-month period ended March 31, 2009. Our cash outflows for investment purchases totaled $168.1 million for the three-month period ended March 31, 2010 compared to $131.3 million for the three-month period ended March 31, 2009.

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Net cash flows provided by financing activities for the three-month periods ended March 31, 2010 and 2009 totaled $79.9 million and $103.2 million, respectively. In the three-month period ended March 31, 2010, net cash flows from our life insurance segment s annuity and universal life deposits totaled $7.9 million compared to $27.3 million for the same period of 2009. Additionally, in the three-month period ended March 31, 2010, our common stock repurchases totaled $2.8 million compared to $.5 million in the three-month period ended March 31, 2009.

If our operating and investing cash flows are not sufficient to support our operations, we may also borrow up to $50.0 million on a bank line of credit. Under the terms of our credit agreement, interest on outstanding notes is payable at the lender s prevailing prime rate, minus 1.0 percent. We did not utilize our line of credit during the first three months of 2010.

Stockholders Equity

Stockholders equity increased 3.8 percent from $672.7 million at December 31, 2009 to $698.5 million at March 31, 2010. The primary increases to stockholders equity were net income of $19.4 million and net unrealized appreciation of $12.2 million, net of tax. This was partially offset by stockholder dividends of $4.0 million and stock repurchases of $2.8 million. At March 31, 2010, book value per share was $26.49 compared to $25.35 at December 31, 2009.

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, 2010, our remaining potential contractual obligation was $12.6 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 or licensed to conduct business. Management analyzes financial data and statements that are prepared in accordance with statutory accounting principles rather than U.S. GAAP.

The following definitions of key statutory measures are provided for our readers convenience. United Fire does not reconcile data prepared under statutory accounting principles to those prepared under U.S. GAAP because Regulation G does not require reconciliation to U.S. 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.

Premiums written is a measure of our overall business volume. Net premiums written comprises direct and assumed premiums written, less ceded premiums written. Direct premiums written is the amount of premiums charged for policies issued during the period. 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.

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(In Thousands)	Three Months Ended March 31, 2010	2009
Net premiums written	**$ 119,436**	$ 120,846
Net change in unearned premium	**(5,186)**	(2,749)
Net change in prepaid reinsurance premium	**58**	224
Net premiums earned	**$ 114,308**	$ 118,321

Combined ratio is a commonly used financial measure of underwriting performance. A combined ratio below 100 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 (referred to as the net loss ratio) and the underwriting expense ratio (the expense ratio).

When prepared in accordance with U.S. 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 DAC 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 and the expense ratio is calculated by dividing underwriting expenses by net premiums written.

Underwriting income (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 segment separately from our investment results.

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 a single unpredictable incident or series of closely related incidents causing severe insured losses that cause $25.0 million or more in industry-wide direct insured losses to property and that affect a significant number of insureds and insurers. We also include as catastrophes those events we believe are, or will be, material to our operations, either in amount or in number of claims made. Management at times 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.

(In Thousands)	Three Months Ended March 31, 2010	2009
ISO catastrophes	**$ 8,378**	$ 14,013
Less Hurricane Katrina loss development	**(5,351)**	(11,944)
ISO catastrophes without Hurricane Katrina	**$ 3,027**	$ 2,069
Non-ISO catastrophes	**129**	908
Total catastrophes	**$ 3,156**	$ 2,977

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to market risk arising from potential losses 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.

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. 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, 2010, we did not hold investments in sub-prime mortgages, derivative securities, credit default swaps or other credit-enhancement exposures.

While our primary market risk exposure is changes 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, 2009.

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, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 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 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 controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls 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.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a detailed discussion of legal proceedings of the Company, refer to Note 1 Legal Proceedings 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 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010, 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.

The following table provides information with respect to purchases of shares of common stock made by or on our behalf or by any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, during the three-month period ended March 31, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may be Purchased Under the Plans or Programs
1/1/10 1/31/10	76,476	$ 16.93	76,476	439,678
2/1/10 2/28/10	89,800	16.29	89,800	349,878
3/1/10 3/31/10				349,878

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

None.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit number	Exhibit description	Filed herewith
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

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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 President, Chief Executive Officer, Director and Principal Executive Officer	Dianne M. Lyons Vice President, Chief Financial Officer and Principal Accounting Officer
May 3, 2010	May 3, 2010
(Date)	(Date)