UNITED FIRE & CASUALTY CO
Form 10-Q
July 30, 2010

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 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 July 26, 2010, 26,321,219 shares of common stock were outstanding.

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

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

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

United Fire & Casualty Company and Subsidiaries
Consolidated Balance Sheets

(In Thousands, Except Per Share Data and Number of Shares)	**June 30, 2010 (unaudited)**	December 31, 2009
ASSETS		
Investments		
Fixed maturities (including $72,956, at fair value, of securities loaned in 2010)		
Held-to-maturity, at amortized cost (fair value $8,103 in 2010 and $9,720 in 2009)	**$ 8,017**	$ 9,605
Available-for-sale, at fair value (amortized cost $2,169,436 in 2010 and $2,075,733 in 2009)	**2,283,526**	2,158,391
Equity securities, at fair value (cost $51,490 in 2010 and $53,306 in 2009)	**123,996**	132,718
Trading securities, at fair value (amortized cost $9,461 in 2010 and $11,724 in 2009)	**9,454**	12,613
Mortgage loans	**7,067**	7,328
Policy loans	**7,504**	7,947
Other long-term investments	**17,145**	15,880
Short-term investments	**1,100**	7,359
	$ 2,457,809	$ 2,351,841
Cash and cash equivalents	**$ 156,839**	$ 190,852
Accrued investment income	**29,458**	28,697
Securities lending collateral	**75,013**	
Premiums receivable	**144,371**	127,456
Deferred policy acquisition costs	**88,222**	92,505
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $32,100 in 2010 and $30,812 in 2009)	**21,815**	22,278
Reinsurance receivables and recoverables	**48,310**	40,936
Prepaid reinsurance premiums	**1,759**	1,673
Income taxes receivable	**16,733**	28,197
Other assets	**16,250**	18,109
TOTAL ASSETS	**$ 3,056,579**	$ 2,902,544
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	**$ 601,527**	$ 606,045
Life insurance	**1,354,009**	1,321,600
Unearned premiums	**222,891**	206,010
Securities lending payable	**75,013**	
Accrued expenses and other liabilities	**79,489**	84,934

Deferred income taxes	**17,715**	11,220
TOTAL LIABILITIES	**$ 2,350,644**	$ 2,229,809
Stockholders Equity		
Common stock, $3.33 1/3 par value; authorized 75,000,000 shares; 26,321,219 and 26,533,040 shares issued and outstanding in 2010 and 2009, respectively	**$ 87,737**	$ 88,443
Additional paid-in capital	**137,322**	139,403
Retained earnings	**411,118**	384,242
Accumulated other comprehensive income, net of tax	**69,758**	60,647
TOTAL STOCKHOLDERS EQUITY	**$ 705,935**	$ 672,735
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 3,056,579**	$ 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 June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues				
Net premiums earned	**$ 117,082**	$ 119,671	**$ 231,390**	$ 237,992
Investment income, net of investment expenses	**28,291**	27,359	**56,259**	50,630
Realized investment gains (losses)				
Other-than-temporary impairment charges	**(117)**	(13,583)	**(459)**	(18,139)
All other realized gains	**2,463**	430	**5,531**	1,498
Total realized investment gains (losses)	**2,346**	(13,153)	**5,072**	(16,641)
Other income	**295**	169	**418**	328
	$ 148,014	$ 134,046	**$ 293,139**	$ 272,309
Benefits, Losses and Expenses				
Losses and loss settlement expenses	**$ 72,757**	$ 90,558	**$ 141,120**	$ 176,636
Future policy benefits	**7,375**	5,874	**13,765**	9,262
Amortization of deferred policy acquisition costs	**28,057**	28,795	**54,573**	58,201
Other underwriting expenses	**8,587**	9,782	**17,371**	17,910
Interest on policyholders accounts	**10,647**	10,397	**21,448**	20,169
	$ 127,423	$ 145,406	**$ 248,277**	$ 282,178
Income (loss) before income taxes	**$ 20,591**	$ (11,360)	**$ 44,862**	$ (9,869)
Federal income tax expense (benefit)	**5,197**	(6,026)	**10,076**	(7,805)
Net Income (Loss)	**$ 15,394**	$ (5,334)	**$ 34,786**	$ (2,064)
Weighted average common shares outstanding	**26,356,353**	26,591,677	**26,395,593**	26,602,518
Basic earnings (loss) per common share	**$ 0.58**	$ (0.20)	**$ 1.32**	$ (0.08)
Diluted earnings (loss) per common share	**$ 0.58**	$ (0.20)	**$ 1.32**	$ (0.08)
Cash dividends declared per common share	**$ 0.15**	$ 0.15	**$ 0.30**	$ 0.30

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

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

(In Thousands, Except Per Share Data and Number of Shares)		Six Months Ended June 30, 2010
Common stock		
Balance, beginning of y ear	$	88,443
Shares repurchased (213,076 shares)		(710)
Shares issued for stock-based awards (1,255 shares)		4
Balance, end of period	$	87,737
Additional paid-in capital		
Balance, beginning of year	$	139,403
Compensation expense and related tax benefit for stock-based award grants		879
Shares repurchased		(2,979)
Shares issued for stock-based awards		19
Balance, end of period	$	137,322
Retained earnings		
Balance, beginning of year	$	384,242
Net income		34,786
Dividends on common stock ($0.30 per share)		(7,910)
Balance, end of period	$	411,118
Accumulated other comprehensive income, net of tax		
Balance, beginning of year	$	60,647
Change in net unrealized appreciation (1)		8,417
Change in underfunded status of employee benefit plans		694
Balance, end of period	$	69,758
Summary of changes		
Balance, beginning of year	$	672,735
Net income		34,786
All other changes in stockholders equity accounts		(1,586)
Balance, end of period	$	705,935

(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)	Six Months Ended June 30, 2010	2009
Cash Flows From Operating Activities		
Net income	**$ 34,786**	$ (2,064)
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	**1,891**	1,548
Depreciation and amortization	**1,455**	1,805
Stock-based compensation expense	**878**	1,267
Realized investment (gains) losses	**(5,072)**	16,641
Net cash flows from trading investments	**2,379**	(2,352)
Deferred income tax expense (benefit)	**2,976**	(9,673)
Changes in:		
Accrued investment income	**(761)**	(1,012)
Premiums receivable	**(16,915)**	(19,685)
Deferred policy acquisition costs	**(7,294)**	(3,992)
Reinsurance receivables	**(7,374)**	7,225
Prepaid reinsurance premiums	**(86)**	(295)
Income taxes receivable	**11,464**	10,341
Other assets	**1,859**	(541)
Future policy benefits and losses, claims and loss settlement expenses	**12,659**	15,274
Unearned premiums	**16,881**	16,565
Accrued expenses and other liabilities	**(4,377)**	4,746
Deferred income taxes	**(1,388)**	
Other, net	**(494)**	953
Total adjustments	**$ 8,681**	$ 38,815
Net cash provided by operating activities	**$ 43,467**	$ 36,751
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	**$ 3,402**	$ 8,360
Proceeds from call and maturity of held-to-maturity investments	**1,603**	2,675
Proceeds from call and maturity of available-for-sale investments	**192,888**	177,632
Proceeds from short-term and other investments	**3,200**	17,925
Purchase of available-for-sale investments	**(277,962)**	(251,479)
Purchase of short-term and other investments	**(3,308)**	(7,534)
Change in securities lending collateral	**(75,013)**	(69,845)
Net purchases and sales of property and equipment	**(960)**	(4,662)
Net cash used in investing activities	**$ (156,150)**	$ (126,928)
Cash Flows From Financing Activities		
Policyholders account balances		
Deposits to investment and universal life contracts	**$ 70,669**	$ 163,857
Withdrawals from investment and universal life contracts	**(55,437)**	(91,610)

Change in securities lending payable	**75,013**	69,845
Payment of cash dividends	**(7,910)**	(7,982)
Repurchase of common stock	**(3,689)**	(538)
Issuance of common stock	**23**	19
Tax benefit from issuance of common stock	**1**	(23)
Net cash provided by financing activities	**$ 78,670**	$ 133,568
Net Change in Cash and Cash Equivalents	**$ (34,013)**	$ 43,391
Cash and Cash Equivalents at Beginning of Period	**190,852**	109,582
Cash and Cash Equivalents at End of Period	**$ 156,839**	$ 152,973

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- and six-month periods ended June 30, 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 payments for income taxes of $10.5 million and $1.8 million for the six-month periods ended June 30, 2010 and 2009, respectively. We received tax refunds totaling $13.5 million and $10.3 million in the six-month periods ended June 30, 2010 and 2009, respectively, due to overpayment of prior year tax and operating loss carrybacks. We made no significant payments of interest for the six-month periods ended June 30, 2010 and 2009, other than for interest credited to policyholders accounts.

Income Taxes

We reported a federal income tax expense of $10.1 million (at an effective tax rate of 22.5 percent) and a federal income tax benefit of $7.8 million for the six-month periods ended June 30, 2010 and 2009, respectively. Our effective tax rate is less than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

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We have recognized no liability for unrecognized tax benefits for the six-month periods ended June 30, 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.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We are no longer subject to U.S. federal or state income tax examination for years before 2004. There are no ongoing examinations of income tax returns by federal or state tax authorities except for the State of Illinois examinations of 2007 and 2008 tax years, which are currently ongoing.

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 June 30, 2010, there were approximately 130 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 six-month period ended June 30, 2010, we concluded approximately 85 of the 215 lawsuits that were pending at December 31, 2009.

In July 2008, Lafayette Insurance Company participated in a hearing in St Bernard Parish, Louisiana after which the court entered an order certifying a class defined as all Lafayette Insurance Company personal lines policyholders within an eight parish area in and around New Orleans who sustained wind damage as a result of Hurricane Katrina and whose claims were at least partially denied or allegedly misadjusted. We appealed this order as we feel it was not supported by the evidence. On October 14, 2009, we were notified that our appeal to the Louisiana Fourth Circuit Court of Appeals was denied. We sought review of this decision by the Louisiana Supreme Court and in May 2010 we were notified that the Court had agreed to review the case. The case is currently in the briefing stage. We have reserved each case included in this class action based on the estimated exposure attributable to our policy. However, if we do not obtain relief in our appeal, we will review 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.

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

Securities Lending

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

Under the accounting guidance for secured borrowing transactions, the collateral deposited by the borrower and our obligation to return that collateral to the borrower is reported in the accompanying Consolidated Balance Sheets as an asset (securities lending collateral) and a corresponding liability (securities lending payable) at June 30, 2010. There were no securities on loan under the program at December 31, 2009. At June 30, 2010, we had securities totaling $73.0 million on loan under the program. At June 30, 2010, collateral received and managed by our agent having a fair value of $75.0 million had been reinvested in short-term highly liquid investments.

Recently Issued Accounting Standards

Adopted Accounting Standards

Fair Value Measurements

In January 2010, the FASB issued revised accounting guidance that clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements. The guidance requires separate disclosures for the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements, along with an explanation for the transfers. Additionally, a separate disclosure is required for purchases, sales, issuances and settlements on a gross basis for Level 3 fair value measurements. The guidance also provides additional clarification for both the level of disaggregation reported for each class of assets or liabilities and disclosures of inputs and valuation techniques used to measure fair value for both recurring and non-recurring fair value measurements for assets and liabilities categorized as Level 2 or Level 3.

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. Refer to Note 3 for the information required to be disclosed upon our adoption of the guidance effective January 1, 2010. We are currently evaluating the impact the adoption of the guidance effective January 1, 2011 will have on the disclosures made in our Consolidated Financial Statements.

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

	(Dollars in Thousands)			
June 30, 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	$ 318	$ 6	$	$ 324
Mortgage-backed securities	487	67		554
States, municipalities and political subdivisions				
General obligations	1,355	18		1,373
Special revenue	5,857	135	140	5,852
Total Held-to-Maturity Fixed Maturities	$ 8,017	$ 226	$ 140	$ 8,103
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
United States government and government-sponsored enterprises				
Collateralized mortgage obligations	$ 17,502	$ 2,263	$	$ 19,765
Mortgage-backed securities	2			2
US Treasury	42,683	1,037		43,720
Agency	103,868	252	29	104,091
States, municipalities and political subdivisions				
General obligations	370,429	24,960	113	395,276
Special revenue	220,513	11,954	485	231,982
Foreign bonds				
Canadian	73,123	5,047		78,170
Other foreign	88,710	4,549	45	93,214
Public utilities				
Electric	212,476	14,081	404	226,153
Natural gas	60,919	3,497		64,416
Other	3,450	277		3,727
Corporate bonds				
Bank, trust and insurance companies	268,671	12,002	5,085	275,588
Transportation	27,934	1,451	5	29,380
Energy	133,611	6,189	436	139,364
Technology	122,988	7,205	22	130,171
Basic industry	122,004	6,026	196	127,834

Credit cyclicals	61,378	3,867		65,245
Other	239,175	16,749	496	255,428
Total Available-For-Sale Fixed Maturities	**$ 2,169,436**	**$ 121,406**	**$ 7,316**	**$ 2,283,526**
Equity securities				
Common stocks				
Public utilities				
Electric	$ 6,319	$ 3,513	$ 47	$ 9,785
Natural gas	838	782		1,620
Bank, trust and insurance companies				
Banks	6,478	28,752	153	35,077
Insurance	3,129	9,048	124	12,053
Other	1,505	628		2,133
All other common stocks				
Energy	4,903	3,460	28	8,335
Technology	8,100	5,371	265	13,206
Basic industry	7,019	4,735	28	11,726
Credit cyclicals	116	549		665
Other	11,621	16,734	141	28,214
Nonredeemable preferred stocks	1,462		280	1,182
Total Available-for-Sale Equity Securities	**$ 51,490**	**$ 73,572**	**$ 1,066**	**$ 123,996**
Total Available-for-Sale Securities	**$ 2,220,926**	**$ 194,978**	**$ 8,382**	**$ 2,407,522**

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

Equity securities				
Common stocks				
Public utilities				
Electric	$ 6,646	$ 3,649	$ 262	$ 10,033
Natural gas	838	846		1,684
Banks, trusts and insurance companies				
Banks	6,517	29,503	131	35,889
Insurance	3,129	8,634	111	11,652
Other	1,505	437		1,942
All other common stocks				
Transportation	38	1,555		1,593
Energy	4,903	4,650	24	9,529
Technology	8,100	5,995	185	13,910
Basic industry	7,156	6,403	110	13,449
Credit cyclicals	1,402	1,774		3,176
Other	11,611	17,241	20	28,832
Nonredeemable preferred stocks	1,461		432	1,029
Total Available-for-Sale Equity Securities	$ 53,306	$ 80,687	$ 1,275	$ 132,718
Total Available-for-Sale Securities	$ 2,129,039	$ 176,563	$ 14,493	$ 2,291,109

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Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading securities at June 30, 2010, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

	Held-To-Maturity		Available-For-Sale		Trading	
(Dollars in Thousands) June 30, 2010	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 556	$ 563	$ 209,044	$ 214,061	$ 2,815	$ 2,748
Due after one year through five years	6,337	6,310	1,085,130	1,150,011	459	494
Due after five years through 10 years	319	352	759,337	797,673		
Due after 10 years			98,421	102,014	6,187	6,212
Mortgage-backed securities	487	554	2	2		
Collateralized mortgage obligations	318	324	17,502	19,765		
	$ 8,017	$ 8,103	$ 2,169,436	$ 2,283,526	$ 9,461	$ 9,454

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 June 30,		Six Months Ended June 30,	
(In Thousands)	**2010**	2009	**2010**	2009
Realized investment gains (losses)				
Fixed maturities	**$ 373**	$ (2,222)	**$ 862**	$ (5,497)
Equity securities	**2,565**	(11,472)	**4,909**	(11,982)
Trading securities	**(592)**	541	**(684)**	838
Other long-term investments			**(15)**	
Total realized investment gains (losses)	**$ 2,346**	$ (13,153)	**$ 5,072**	$ (16,641)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2010**	2009	**2010**	2009
Proceeds from sales	**$ 2,800**	$ 311	**$ 3,402**	$ 8,360
Gross realized gains	**1,513**		**1,915**	
Gross realized losses		346		426

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

Our investment portfolio includes trading securities with embedded derivatives. These securities, which are primarily convertible redeemable preferred debt securities, are recorded at fair value. Income or loss, including the change in the fair value of these trading securities, is recognized currently in earnings as a component of realized investment gains and losses. Our portfolio of trading securities had a fair value of $9.5 million and $12.6 million at June 30, 2010 and December 31, 2009, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2010**	2009	**2010**	2009
Trading				
Realized gains	**$**	$ 541	**$**	$ 815
Realized losses	**609**		**896**	

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 June 30, 2010, our remaining potential contractual obligation was $12.2 million.

Unrealized Appreciation and Depreciation

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

	Six Months Ended June 30,	
(In Thousands)	**2010**	2009
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities and equity securities	**$ 24,526**	$ 71,398
Deferred policy acquisition costs	**(11,576)**	(40,670)
Income tax effect	**(4,533)**	(10,755)
Total change in net unrealized appreciation, net of tax	**$ 8,417**	$ 19,973

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 June 30, 2010 and December 31, 2009. It is possible that we could recognize OTTI charges in future periods on securities held at June 30, 2010, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We believe the unrealized depreciation in value of our fixed maturity portfolio is primarily attributable to changes in market interest rates and not the credit quality of the issuer. We have no intent to sell and it is more likely than not that we will not be required to sell the securities until such time that the fair value recovers or the securities mature.

We have evaluated the unrealized losses reported for all of our equity securities at June 30, 2010, and have concluded that the duration and severity of these losses do not warrant the recognition of an OTTI charge at June 30, 2010. Our largest unrealized loss greater than 12 months on an individual equity security at June 30, 2010 was $.2 million. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

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(Dollars in Thousands) June 30, 2010	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
HELD-TO-MATURITY								
Fixed maturities								
Bonds								
States, municipalities and political subdivisions								
Special revenue		$	$	**1**	**$ 700**	**$ 140**	**$ 700**	**$ 140**
Total Held-to-Maturity Fixed Maturities		$	$	**1**	**$ 700**	**$ 140**	**$ 700**	**$ 140**
AVAILABLE-FOR-SALE								
Fixed maturities								
Bonds								
United States government and government-sponsored enterprises								
Agency				**2**	**9,971**	**29**	**9,971**	**29**
States, municipalities and political subdivisions								
General obligations	**1**	**491**	**38**	**4**	**3,032**	**75**	**3,523**	**113**
Special revenue	**4**	**3,990**	**141**	**9**	**9,143**	**344**	**13,133**	**485**
Foreign bonds								
Other foreign	**1**	**3,199**	**11**	**1**	**1,394**	**34**	**4,593**	**45**
Public utilities								
Electric	**1**	**1,300**	**100**	**3**	**7,179**	**304**	**8,479**	**404**
Corporate bonds								
Bank, trust and insurance companies	**5**	**8,875**	**76**	**39**	**48,066**	**5,009**	**56,941**	**5,085**
Transportation				**1**	**2,001**	**5**	**2,001**	**5**
Energy	**6**	**12,097**	**383**	**1**	**2,119**	**53**	**14,216**	**436**
Technology	**1**	**999**	**1**	**1**	**3,035**	**21**	**4,034**	**22**
Basic industry	**1**	**1,047**	**1**	**3**	**5,591**	**195**	**6,638**	**196**
Other	**2**	**7,794**	**279**	**5**	**7,151**	**217**	**14,945**	**496**
Total Available-For-Sale Fixed Maturities	**22**	**$ 39,792**	**$ 1,030**	**69**	**$ 98,682**	**$ 6,286**	**$ 138,474**	**$ 7,316**
Equity securities								
Common stocks								
Public utilities								
Electric	**3**	**$ 299**	**$ 9**	**5**	**$ 412**	**$ 38**	**$ 711**	**$ 47**
Bank, trust and insurance companies								
Banks				**1**	**403**	**153**	**403**	**153**

Insurance	1		247		41	4		430		83	677	124
All other common stocks												
Energy	2		184		28						184	28
Technology	7		953		30	3		861		235	1,814	265
Basic industry	2		123		28						123	28
Other	8		2,442		126	3		264		15	2,706	141
Nonredeemable preferred stocks						7		1,182		280	1,182	280
Total Available-for-Sale Equity Securities	**23**	**$**	**4,248**	**$**	**262**	**23**	**$**	**3,552**	**$**	**804**	**$ 7,800**	**$ 1,066**
Total Available-for-Sale Securities	**45**	**$**	**44,040**	**$**	**1,292**	**92**	**$**	**102,234**	**$**	**7,090**	**$ 146,274**	**$ 8,382**
Total	**45**	**$**	**44,040**	**$**	**1,292**	**93**	**$**	**102,934**	**$**	**7,230**	**$ 146,974**	**$ 8,522**

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

Electric		$	$	12	$ 2,074	$ 262	$ 2,074	$ 262
Banks, trusts and insurance companies								
Banks				1	425	131	425	131
Insurance	2	299	46	3	391	65	690	111
All other common stock								
Energy				2	188	24	188	24
Technology				5	2,235	185	2,235	185
Basic industry				2	151	110	151	110
Other				3	258	20	258	20
Nonredeemable preferred stocks				5	1,030	432	1,030	432
Total Available-for-Sale Equity Securities	2	$ 299	$ 46	33	$ 6,752	$ 1,229	$ 7,051	$ 1,275
Total Available-for-Sale Securities	66	$ 123,542	$ 2,224	128	$ 183,950	$ 12,269	$ 307,492	$ 14,493
Total	67	$ 123,842	$ 2,229	129	$ 184,629	$ 12,427	$ 308,471	$ 14,656

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

	June 30, 2010		December 31, 2009	
(In Thousands)	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Assets				
Investments				
Held-to-maturity fixed maturities	**$ 8,103**	**$ 8,017**	$ 9,720	$ 9,605
Available-for-sale fixed maturities	**2,283,526**	**2,283,526**	2,158,391	2,158,391
Trading securities	**9,454**	**9,454**	12,613	12,613
Equity securities	**123,996**	**123,996**	132,718	132,718
M ortgage loans	**7,962**	**7,067**	8,229	7,328
Policy loans	**7,504**	**7,504**	7,947	7,947
Other long-term investments	**17,145**	**17,145**	15,880	15,880
Short-term investments	**1,100**	**1,100**	7,359	7,359
Cash and cash equivalents	**156,839**	**156,839**	190,852	190,852
Accrued investment income	**29,458**	**29,458**	28,697	28,697
Liabilities				
Policy reserves				
Annuity (accumulations)	**$ 996,028**	**$ 929,562**	$ 1,087,457	$ 914,003
Annuity (benefit payments)	**84,598**	**82,786**	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 June 30, 2010, was reasonable.

In order to determine the proper classification in the fair value hierarchy for each security where the price is obtained from an independent pricing service, we obtain and evaluate the vendors pricing procedures and inputs used to price the security, which include unadjusted quoted market prices for identical securities, such as a New York Stock Exchange closing price and quoted prices for identical securities in markets that are not active. For fixed maturity securities, an evaluation of interest rates and yield curves observable at commonly quoted intervals, volatility, prepayment speeds, 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 June 30, 2010 and December 31, 2009:

(In Thousands)		Fair Value Measurements		
Description	June 30, 2010	Level 1	Level 2	Level 3
AVAILABLE-FO R-SALE				
Fixed maturities				
Bonds				
United States government and government-sponsored enterprises				
Collateralized mortgage obligations	$ **19,765**	$	$ **19,765**	$
Mortgage-backed securities	**2**		**2**	
US Treasury	**43,720**		**43,720**	
Agency	**104,091**		**104,091**	
States, municipalities and political subdivisions				
General obligations	**395,276**		**395,276**	
Special revenue	**231,982**		**230,926**	**1,056**
Foreign bonds				
Canadian	**78,170**		**78,170**	
Other	**93,214**		**91,820**	**1,394**
Public utilities				
Electric	**226,153**		**226,118**	**35**
Natural gas	**64,416**		**64,416**	
Other	**3,727**		**3,727**	
Corporate bonds				
Banks, trusts and insurance companies	**275,588**		**263,437**	**12,151**
Transportation	**29,380**		**29,380**	
Energy	**139,364**		**139,364**	
Technology	**130,171**		**130,171**	
Basic industry	**127,834**		**123,028**	**4,806**
Credit cyclicals	**65,245**		**62,595**	**2,650**
Other	**255,428**		**249,314**	**6,114**
Total Available-For-Sale Fixed Maturities	$ **2,283,526**	$	$ **2,255,320**	$ **28,206**
Equity securities				
Common stocks				
Public utilities				
Electric	$ **9,785**	$ **9,785**	$	$
Natural gas	**1,620**	**1,620**		
Banks, trusts and insurance companies				
Banks	**35,077**	**35,077**		
Insurance	**12,053**	**12,053**		
Other	**2,133**	**2,133**		
All other common stocks				
Energy	**8,335**	**8,335**		
Technology	**13,206**	**13,178**	**28**	
Basic industry	**11,726**	**11,726**		
Credit cyclicals	**665**	**665**		

Other		28,214		27,950		264		
Nonredeemable preferred stocks		1,182		953		229		
Total Available-for-Sale Equity Securities	$	123,996	$	123,475	$	521	$	
Total Available-for-Sale Securities	$	2,407,522	$	123,475	$	2,255,841	$	28,206
TRADING								
Fixed maturities								
Bonds								
Foreign bonds	$	2,444	$		$	2,444	$	
Corporate bonds								
Energy		2,492				2,492		
Technology		2,822				2,822		
Other		320				320		
Redeemable Preferred Stock		1,376		1,376				
Total Trading Securities	$	9,454	$	1,376	$	8,078	$	
Short-Term Investments	$	1,100	$	1,100	$		$	
Money Market Accounts	$	36,773	$	36,773	$		$	
Total	$	2,454,849	$	162,724	$	2,263,919	$	28,206

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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 and government-sponsored enterprises				
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 six-month period ended June 30, 2010, the change in our securities categorized as Level 1 and Level 2, shown in the foregoing tables, is the result of investment purchases made during the period. This change is reflected in the amount of funds held in our money markets at June 30, 2010 as compared to December 31, 2009, as we primarily used these funds to purchase fixed maturity securities. Also contributing to the change was 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 that may be 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 and for which an active market does not currently exist.

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 June 30, 2010:

(In Thousands)	States, municipalities and political subdivisions	Foreign bonds	Public utilities	Corporate bonds	Total
Balance at March 31, 2010	$ 1,110	$ 1,394	$ 35	$ 25,813	$ 28,352
Realized gains (1)					
Unrealized gains (1)				47	47
Amortization					
Purchases					
Disposals	(54)			(139)	(193)
Transfers in					
Transfers out					
Balance at June 30, 2010	$ 1,056	$ 1,394	$ 35	$ 25,721	$ 28,206

(1) Realized gains are recorded as a component of

current
operations
whereas
unrealized gains
are recorded as
a component of
comprehensive
income.

The amount reported in the previous table as disposals, included $.2 million of corporate bonds where an unobservable price was not available at June 30, 2010.

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The following table provides a summary of the changes in fair value of our Level 3 securities for the six-month period ended June 30, 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 gains [(1)]						
Unrealized gains (losses) [(1)]			(2)	104		102
Amortization						
Purchases						
Disposals	(54)		(33)	(2,522)		(2,609)
Transfers in				254		254
Transfers out					(254)	(254)
Balance at June 30, 2010	$ 1,056	$ 1,394	$ 35	$ 25,721	$	$ 28,206

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

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.

NOTE 4. EMPLOYEE BENEFITS

Our pension and postretirement benefit expense for the three- and six-month periods ended June 30, 2010 and 2009 is as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In Thousands)	**2010**	2009	**2010**	2009
Pension expense	**$ 1,182**	$ 1,967	**$ 2,544**	$ 2,724
Other postretirement benefit expense	**628**	687	**1,257**	1,257

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 six-month period ended June 30, 2010, we contributed $1.8 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 820,805 authorized shares available for future issuance at June 30, 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.

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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	**Six Months Ended June 30, 2010**	Inception to Date
Beginning balance	**919,525**	1,900,000
Number of awards granted	**(114,070)**	(1,139,045)
Number of awards forfeited or expired	**15,350**	59,850
Ending balance	**820,805**	820,805
Number of option awards exercised	**250**	167,292
Number of restricted stock awards vested		

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 37,003 options available for future issuance at June 30, 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	**Six Months Ended June 30, 2010**	Inception to Date
Beginning balance	**70,003**	150,000
Number of awards granted	**(33,000)**	(119,000)
Number of awards forfeited or expired		6,003
Ending balance	**37,003**	37,003
Number of awards exercised		

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Stock-Based Compensation Expense

For each of the three-month periods ended June 30, 2010 and 2009, we recognized stock-based compensation expense of $.4 million. For the six-month periods ended June 30, 2010 and 2009, we recognized stock-based compensation expense of $.9 million, and $1.3 million respectively. As of June 30, 2010, we had $4.1 million in stock-based compensation expense that has yet to be recognized through our results of operations. We expect this compensation to be recognized over the remainder of 2010 and subsequent years according to the following table, except with respect to awards that are accelerated by the Board of Directors, in which case we will recognize any remaining compensation expense in the period in which the awards are accelerated.

(In Thousands)		
2010	**$**	**855**
2011		1,399
2012		990
2013		548
2014		314
2015		32
Total	$	4,138

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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 tables for the three-month periods ended June 30, 2010 and 2009 have been reconciled to the amounts reported in our unaudited Consolidated Financial Statements to adjust for intersegment eliminations.

(In Thousands)	Property and Casualty Insurance	Life Insurance	Total
Three Months Ended June 30, 2010			
Net premiums earned	**$ 105,396**	**$ 11,766**	**$ 117,162**
Investment income, net of investment expenses	**9,049**	**19,288**	**28,337**
Realized investment gains (losses)	**(721)**	**3,067**	**2,346**
Other income	**75**	**220**	**295**
Revenues	**$ 113,799**	**$ 34,341**	**$ 148,140**
Intersegment eliminations	**(46)**	**(80)**	**(126)**
Total revenues	**$ 113,753**	**$ 34,261**	**$ 148,014**
Net income	**$ 11,424**	**$ 3,970**	**$ 15,394**
Assets	**$ 1,344,024**	**$ 1,712,555**	**$ 3,056,579**
Invested assets	**$ 956,108**	**$ 1,501,701**	**$ 2,457,809**
Three Months Ended June 30, 2009			
Net premiums earned	$ 109,458	$ 10,290	$ 119,748
Investment income, net of investment expenses	9,125	18,277	27,402
Realized investment losses	(7,631)	(5,522)	(13,153)
Other income	17	152	169
Revenues	$ 110,969	$ 23,197	$ 134,166
Intersegment eliminations	(43)	(77)	(120)
Total revenues	$ 110,926	$ 23,120	$ 134,046
Net income	$ (3,783)	$ (1,551)	$ (5,334)

Assets	$ 1,319,141	$ 1,556,893	$ 2,876,034
Invested assets	$ 874,078	$ 1,328,842	$ 2,202,920

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The following tables for the six-month periods ended June 30, 2010 and 2009 have been reconciled to the amounts reported in our unaudited Consolidated Financial Statements to adjust for intersegment eliminations.

(In Thousands)	Property and Casualty Insurance	Life Insurance	Total
Six Months Ended June 30, 2010			
Net premiums earned	**$ 207,375**	**$ 24,174**	**$ 231,549**
Investment income, net of investment expenses	**17,731**	**38,619**	**56,350**
Realized investment gains	**1,455**	**3,617**	**5,072**
Other income	**17**	**401**	**418**
Revenues	**$ 226,578**	**$ 66,811**	**$ 293,389**
Intersegment eliminations	**(91)**	**(159)**	**(250)**
Total revenues	**$ 226,487**	**$ 66,652**	**$ 293,139**
Net income	**$ 27,500**	**$ 7,286**	**$ 34,786**
Assets	**$ 1,344,024**	**$ 1,712,555**	**$ 3,056,579**
Invested assets	**$ 956,108**	**$ 1,501,701**	**$ 2,457,809**
Six Months Ended June 30, 2009			
Net premiums earned	$ 218,672	$ 19,475	$ 238,147
Investment income, net of investment expenses	15,216	35,500	50,716
Realized investment losses	(8,348)	(8,293)	(16,641)
Other income	45	283	328
Revenues	$ 225,585	$ 46,965	$ 272,550
Intersegment eliminations	(86)	(155)	(241)
Total revenues	$ 225,499	$ 46,810	$ 272,309
Net loss	$ (1,919)	$ (145)	$ (2,064)
Assets	$ 1,319,141	$ 1,556,893	$ 2,876,034
Invested assets	$ 874,078	$ 1,328,842	$ 2,202,920

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 (loss) per share were as follows for the three-month periods ended June 30, 2010 and 2009:

	Three Months Ended June 30,			
	2010		2009	
(In Thousands Except Per Share Data)	Basic	Diluted	Basic	Diluted
Net income (loss)	**$ 15,394**	**$ 15,394**	$ (5,334)	$ (5,334)
Weighted-average common shares outstanding	**26,356**	**26,356**	26,592	26,592
Add dilutive effect of restricted stock awards		**19**		
Add dilutive effect of stock options		**25**		
Weighted-average common shares for EPS calculation	**26,356**	**26,400**	26,592	26,592
Earnings (loss) per common share	**$ 0.58**	**$ 0.58**	$ (0.20)	$ (0.20)
Awards excluded from diluted EPS calculation(1)		**814**		924

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

The components of basic and diluted earnings (loss) per share were as follows for the six-month periods ended June 30, 2010 and 2009:

	Six Months Ended June 30,			
	2010		2009	
(In Thousands Except Per Share Data)	Basic	Diluted	Basic	Diluted
Net income (loss)	**$ 34,786**	**$ 34,786**	$ (2,064)	$ (2,064)
Weighted-average common shares outstanding	**26,396**	**26,396**	26,603	26,603
Add dilutive effect of restricted stock awards		**19**		
Weighted-average common shares for EPS calculation	**26,396**	**26,415**	26,603	26,603
Earnings (loss) per common share	**$ 1.32**	**$ 1.32**	$ (0.08)	$ (0.08)
Awards excluded from diluted EPS calculation(1)		**814**		924

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

NOTE 8. COMPREHENSIVE INCOME

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

The following table sets forth the components of our comprehensive income and the related tax effects for the three-month periods ended June 30, 2010 and 2009.

	Three Months Ended June 30,	
(In Thousands)	**2010**	2009
Net income (loss)	**$ 15,394**	$ (5,334)
Other comprehensive income (loss)		
Change in net unrealized appreciation on investments	**(3,455)**	27,259
Adjustment for net realized (gains) losses included in income	**(2,346)**	13,153
Adjustment for costs included in employee benefit expense	**453**	899
Other comprehensive income (loss), before tax	**(5,348)**	41,311
Income tax effect	**1,858**	(14,458)
Other comprehensive income (loss), after tax	**(3,490)**	26,853
Comprehensive income	**$ 11,904**	$ 21,519

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The following table sets forth the components of our comprehensive income and the related tax effects for the six-month periods ended June 30, 2010 and 2009.

(In Thousands)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net income (loss)	**$ 34,786**	$ (2,064)
Other comprehensive income		
Change in net unrealized appreciation on investments	**18,022**	14,087
Adjustment for net realized (gains) losses included in income	**(5,072)**	16,641
Adjustment for costs included in employee benefit expense	**1,068**	1,215
Other comprehensive income, before tax	**14,018**	31,943
Income tax effect	**(4,907)**	(11,180)
Other comprehensive income, after tax	**9,111**	20,763
Comprehensive income	**$ 43,897**	$ 18,699

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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 June 30, 2010, and the related consolidated statements of income for the three-month and six-month periods ended June 30, 2010 and 2009, the consolidated statements of cash flows for the six-month periods ended June 30, 2010 and 2009, and the consolidated statement of stockholders equity for the six-month period ended June 30, 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
July 30, 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.

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.

INTRODUCTION

The purpose of the Management s Discussion and Analysis is to provide an understanding of our results of operations and consolidated financial position. Our Management s Discussion and Analysis should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2009. When we provide information on a statutory basis, we label it as such; otherwise all other data is presented in accordance with GAAP.

This discussion and analysis is presented in these sections:

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

OUR BUSINESS

Founded in 1946, United Fire & Casualty Company provides insurance protection for individuals and businesses through several regional companies. We are represented by over 800 independent property and casualty insurance agencies and more than 975 independent life insurance agencies throughout the country, predominantly in the Midwest, West and South.

We operate two business segments:

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

These business segments are managed separately, as they generally do not share the same customer base, and they each have different products, pricing and expense structures.

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For the six months ended June 30, 2010, property and casualty business accounted for nearly 90.0 percent of our net premiums earned, with approximately 91.0 percent from commercial lines. Life insurance business made up approximately 10.0 percent of our net premiums earned, with over 62.0 percent from traditional life insurance products.

We do not expect the current composition of property and casualty insurance and life insurance to change materially during 2010.

For the six months ended June 30, 2010, more than half of our property and casualty premiums were written in Iowa, Texas, Missouri, Louisiana and Illinois; and over three-fourths of our life insurance premiums were written in Iowa, Wisconsin, Illinois, Nebraska and Minnesota.

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 pretax basis.

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

The profitability of our company is influenced by many factors, including price competition, economic conditions, interest rates, weather-related events and other catastrophes, such as natural disasters (e.g., hurricanes and tornados) and manmade disasters, state regulations, court decisions and changes in the law. Management believes that climate change will not have a material impact on our profitability.

To manage these risks and uncertainties, we maintain a conservative approach to our business operations, focusing on writing good business at an adequate price and preferring quality to volume. Our goal is to achieve consistent profitability through disciplined underwriting, superior loss control services, fair and ethical claims handling, exceptional customer service, efficient and effective technology and strong agency relationships.

EXECUTIVE SUMMARY

United Fire Group had a profitable second quarter in 2010, posting a net income of $15.4 million, compared with a net loss of $5.3 million in the second quarter of 2009.

Contributing to our favorable results for the second quarter and first six months of 2010 were increased realized investment gains from a significant reduction in other-than-temporary impairment (OTTI) charges and decreased losses and loss settlement expenses from improved noncatastrophe claims experience.

Also, year-to-date losses related to Hurricane Katrina were significantly lower than last year, as we continued to aggressively work to resolve remaining lawsuits related to this catastrophe.

Our property and casualty and life insurance business segments performed well in the second quarter despite marketplace challenges.

In the property and casualty segment, net premiums written were down in both the three-month and six-month periods ended June 30, 2010, as the weak economy continued to restrict our growth. Pricing levels were flat in our commercial lines business, while personal lines pricing levels increased slightly.

Offsetting the decline in our net premiums earned were lower levels of losses and loss settlement expenses and underwriting expenses. Our combined ratio improved by 15.5 percentage points to 94.2 percent in the second quarter and by 14.8 percentage points to 93.0 percent in the first six months of 2010, indicating an underwriting gain.

With sustained downward pressure on pricing, our underwriters continue to focus on writing good business at an adequate price, preferring quality over volume. In the three-month and six-month periods ended June 30, 2010, we were able to retain approximately 80 percent of our personal and commercial lines book of business, which was in line with our retention goals.

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In the life insurance segment, net premiums earned increased in the second quarter and first six months of 2010, reflecting sales growth of our single premium whole life product. We are focusing on increasing sales of our traditional life insurance products, especially single premium whole life, to better balance our product mix. Annuity sales are down substantially in the second quarter and first six months of 2010, as consumers are choosing to surrender their annuities and reinvest the funds in products with greater risk and potentially greater returns.

The growth in annuity sales in 2009 contributed to the increase in our invested assets and as a result an improvement in our investment results. This occurred in spite of historically low interest rates and declining dividends from our equity portfolio. Net investment income, which is a primary source of revenue, increased 3.4 percent in the second quarter of 2010 and 11.1 percent in the first six months of 2010, as compared with the same periods of 2009.

We recorded realized investment gains of $2.3 million in the second quarter of 2010 and $5.1 million in the first six months of 2010, benefitting from significantly smaller OTTI charges in 2010 versus 2009.

Our stockholders equity rose by 4.9 percent to $705.9 million at June 30, 2010, from $672.7 million at December 31, 2009. Our book value increased by $1.47 per share to $26.82 per share as of June 30, 2010, from $25.35 per share at December 31, 2009.

After two difficult years for United Fire, our profits have finally begun to rebound.

CONSOLIDATED FINANCIAL HIGHLIGHTS

	Three Months Ended June 30,			**Six Months Ended June 30,**		
(In Thousands)	**2010**	2009	%	**2010**	2009	%
Revenues						
Net premiums earned	**$ 117,082**	$ 119,671	(2.2)%	**$ 231,390**	$ 237,992	(2.8)%
Investment income, net of investment expenses	**28,291**	27,359	3.4	**56,259**	50,630	11.1
Realized investment gains (losses)						
Other-than-temporary impairment charges	**(117)**	(13,583)	99.1	**(459)**	(18,139)	97.5
All other realized gains	**2,463**	430	472.8	**5,531**	1,498	269.2
Total realized investment gains (losses)	**2,346**	(13,153)	117.8	**5,072**	(16,641)	130.5
Other income	**295**	169	74.6	**418**	328	27.4
	$ 148,014	$ 134,046	10.4%	**$ 293,139**	$ 272,309	7.6%
Benefits, Losses and Expenses						
Losses and loss settlement expenses	**$ 72,757**	$ 90,558	(19.7)%	**$ 141,120**	$ 176,636	(20.1)%
Increase in liability for future policy benefits	**7,375**	5,874	25.6	**13,765**	9,262	48.6
Amortization of deferred policy acquisition costs	**28,057**	28,795	(2.6)	**54,573**	58,201	(6.2)
Other underwriting expenses	**8,587**	9,782	(12.2)	**17,371**	17,910	(3.0)
Interest on policyholders accounts	**10,647**	10,397	2.4	**21,448**	20,169	6.3

	$ 127,423	$ 145,406	(12.4)%	**$ 248,277**	$ 282,178	(12.0)%
Income (loss) before income taxes	**$ 20,591**	$ (11,360)	281.3%	**$ 44,862**	$ (9,869)	554.6
Federal income tax expense (benefit)	**5,197**	(6,026)	186.2	**10,076**	(7,805)	229.1
Net Income (Loss)	**$ 15,394**	$ (5,334)	388.6%	**$ 34,786**	$ (2,064)	NM%

NM = Not meaningful

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The following is a summary of our financial performance for the three-month and six-month periods ended June 30, 2010.

Consolidated Results of Operations

Net income was $15.4 million in the second quarter of 2010, compared with net loss of $5.3 million in the second quarter of 2009. The quarter-over-quarter improvement is largely attributable to a significant reduction in OTTI charges in 2010, as our investment portfolio began to recover from the financial crisis experienced by the economy. Also contributing to the improvement for the quarter was a lower level of losses and loss settlement expenses due to an improvement in severity and frequency in our noncatastrophe claims.

For the six months ended June 30, 2010, net income was $34.8 million versus a net loss of $2.1 million in the six months ended June 30, 2009. The year-over-year improvement is due to the significant reduction in OTTI charges in 2010 and the lower level of losses and loss settlement expenses as a result of our noncatastrophe claims experience and a reduction in Hurricane Katrina development.

Net premiums written for the property and casualty segment decreased 2.8 percent in the second quarter of 2010 and 4.6 percent in the first six months of 2010, as compared with the same periods of 2009, due primarily to the weak economy, as some of our current and prospective commercial policyholders are forced to reduce staff, cut vehicle fleets and, in some cases, go out of business.

Annuity deposits decreased 71.1 percent in the second quarter of 2010 and 72.0 percent in the first six months of 2010, as compared with the same periods of 2009. In the second quarter and first half of 2010, annuity sales have decreased, as consumers who perceive a recovering economy are choosing to surrender their annuities and reinvest the funds in products with greater risk and potentially greater returns. Annuity deposits are not recorded as a component of net premiums written or net premiums earned; however, we invest the funds to generate investment income.

Our combined ratio improved to 94.2 percent in the second quarter of 2010, from 109.7 percent in the second quarter of 2009. In the six months ended June 30, 2010, our combined ratio was 93.0 percent versus 107.8 percent for the six-month period ended June 30, 2009.

We experienced no adverse development from Hurricane Katrina claims litigation in the second quarter of 2010, compared with $.5 million in the second quarter of 2009. For the six months ended June 30, 2010, losses and loss settlement expenses related to Hurricane Katrina were $5.4 million, versus $12.4 million in the first six months of 2009.

Consolidated Financial Condition

Net cash outflow related to our annuity business was $.5 million in the second quarter of 2010 and $1.6 million in the first six months of 2010 versus a net cash inflow of $37.2 million in the second quarter of 2009 and $56.6 million in the first six months of 2009. The net cash outflow is attributable to the decline in annuity deposits and annuitant withdrawals as discussed previously.

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In the second quarter of 2010, United Fire repurchased 46,800 shares of our common stock for $.9 million at an average cost of $19.90 per share. In the first six months of 2010, we repurchased 213,076 shares of our common stock for $3.7 million at an average cost of $17.31 per share. As of June 30, 2010, the book value per share of our common stock was $26.82 and we were authorized to purchase an additional 303,078 shares of common stock under our share repurchase program, which expires in August 2011.

Net unrealized investment gains totaled $90.9 million as of June 30, 2010, an increase of $8.4 million or 10.2 percent since December 31, 2009. An increase in the value of our fixed maturity portfolio was the primary factor for the rise in net unrealized investment gains. However, this increase was somewhat offset by a decrease in the value of our equity portfolio, as the equity markets experienced a decline in the second quarter of 2010.

Our stockholders equity increased to $705.9 million at June 30, 2010, from $672.7 million at December 31, 2009.

Book value increased by $1.47 per share to $26.82 per share as of June 30, 2010, from $25.35 per share at December 31, 2009. The change in 2010 is attributable to a significant increase in our net income, as well as the rise in our net unrealized investment gains, net of tax.

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RESULTS OF OPERATIONS

Property and Casualty Insurance Segment Results

(In Thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net premiums written [1]	**$ 117,099**	$ 120,413	**$ 224,223**	$ 235,062
Net premiums earned	**$ 105,396**	$ 109,458	**$ 207,375**	$ 218,672
Losses and loss settlement expenses	**(68,253)**	(86,394)	**(131,881)**	(168,673)
Amortization of deferred policy acquisition costs	**(25,482)**	(26,244)	**(49,525)**	(53,142)
Other underwriting expenses	**(5,574)**	(7,287)	**(11,505)**	(13,380)
Underwriting gain (loss) [1]	**$ 6,087**	$ (10,467)	**$ 14,464**	$ (16,523)
Investment income, net of underwriting expenses	**9,003**	9,082	**17,640**	15,130
Realized investment gains (losses)				
Other-than-temporary impairment charges	**(117)**	(7,847)	**(153)**	(9,657)
All other realized gains (losses)	**(604)**	216	**1,608**	1,309
Total realized investment gains (losses)	**(721)**	(7,631)	**1,455**	(8,348)
Other income	**75**	17	**17**	45
Income (loss) before income taxes	**$ 14,444**	$ (8,999)	**$ 33,576**	$ (9,696)
GAAP Ratios:				
Net loss ratio (without catastrophes)	**57.6%**	71.9%	**55.8%**	66.8%
Hurricane Katrina litigation effect on net loss ratio		0.5	**2.6**	5.7
Other catastrophes effect on net loss ratio	**7.2**	6.5	**5.2%**	4.6%
Net loss ratio	**64.8%**	78.9%	**63.6%**	77.1%
Expense ratio [2] [3]	**29.4**	30.8	**29.4**	30.7
Combined ratio	**94.2%**	109.7%	**93.0%**	107.8%

(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) We have excluded disaster charges and other related expenses, net of recoveries, from the GAAP expense ratio. These charges resulted from flood damage at our home office and hurricane damage at our Gulf Coast regional office in 2008, totaling $7,051 in the second quarter of 2010 and $(16,376) in the first six months of 2010, compared with $(188,200) in the second quarter of 2009 and $(545,782) in the first six months of 2009.

Net premiums written declined in the three-month and six-month periods ended June 30, 2010, as compared with the same periods of the prior year. This is due primarily to the weak economy, as some of our current and prospective commercial policyholders are forced to reduce staff, cut vehicle fleets and, in some cases, go out of business. Also limiting our ability to grow are sustained soft-market conditions in the insurance industry, with continued downward pressure on pricing. Our pricing levels were flat in our commercial lines business, while our personal lines pricing levels increased slightly. To overcome these market challenges, our underwriters continue to focus on writing good business at an adequate price, preferring quality over volume. In the three-month and six-month periods ended June 30, 2010, we were able to retain approximately 80 percent of our personal and commercial lines book of business, which was in line with our retention goals.

Losses and loss settlement expenses decreased 21.0 percent in the second quarter of 2010 and 21.8 percent in the first six months of 2010, as compared with the same periods in 2009. This is due to an improvement in our noncatastrophe claims experience and a reduction in our Hurricane Katrina development:

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Noncatastrophe claims experience our claims frequency decreased slightly in the six months ended June 30, 2010, as compared with the same prior-year period, which is a trend in the industry that we expect to level off. We also experienced a decrease in claims severity in the first six months of 2010, as compared with the same period of 2009.

Hurricane Katrina we experienced no adverse development from Hurricane Katrina claims litigation in the second quarter of 2010, compared with $.5 million in the second quarter of 2009. For the six months ended June 30, 2010, losses and loss settlement expenses related to Hurricane Katrina were $5.4 million, versus $12.4 million in the first six months of 2009.

Amortization of deferred policy acquisition costs decreased 2.9 percent in the second quarter of 2010 and 6.8 percent in the first six months of 2010, as compared with the same periods in 2009. The decrease in net premiums written has resulted in a reduction of the deferred acquisition costs asset and related amortization.

GAAP combined ratio improved by 15.5 percentage points in the second quarter of 2010 and 14.8 percentage points in the first six months of 2010, as compared with the same prior-year periods. This is due primarily to the aforementioned decrease in our losses and loss settlement expenses.

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 June 30, 2010 and 2009.

Three Months Ended June 30,

	2010			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)	**$ 28,507**	**$ 13,104**	**46.0%**	$ 30,585	$ 29,116	95.2%
Fire and allied lines (2)	**24,460**	**19,482**	**79.6**	25,621	21,462	83.8
Automobile	**23,216**	**16,653**	**71.7**	24,387	17,426	71.5
Workers compensation	**11,628**	**7,505**	**64.5**	12,943	9,390	72.5
Fidelity and surety	**4,297**	**2,273**	**52.9**	4,729	898	19.0
Miscellaneous	**197**	**9**	**4.6**	215	67	31.2
Total commercial lines	**$ 92,305**	**$ 59,026**	**63.9%**	$ 98,480	$ 78,359	79.6%
Personal lines						
Fire and allied lines (3)	**$ 6,108**	**$ 5,758**	**94.3%**	$ 5,448	$ 4,671	85.7%
Automobile	**3,616**	**3,076**	**85.1**	3,183	2,571	80.8
Miscellaneous	**116**	**(49)**	**N/A**	89	(28)	N/A
Total personal lines	**$ 9,840**	**$ 8,785**	**89.3%**	$ 8,720	$ 7,214	82.7%
Reinsurance assumed	**$ 3,251**	**$ 442**	**13.6%**	$ 2,258	$ 821	36.4%
Total	**$ 105,396**	**$ 68,253**	**64.8%**	$ 109,458	$ 86,394	78.9%

(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.

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The following tables display our premiums earned, losses and loss settlement expenses and loss ratio by line of business for the six-month periods ended June 30, 2010 and 2009.
Six Months Ended June 30,

(In Thousands) Unaudited	**2010 Premiums Earned**	**2010 Losses and Loss Settlement Expenses Incurred**	**2010 Loss Ratio**	2009 Premiums Earned	2009 Losses and Loss Settlement Expenses Incurred	2009 Loss Ratio
Commercial lines						
Other liability	**$ 56,721**	**$ 31,945**	**56.3%**	$ 61,637	$ 49,221	79.9%
Fire and allied lines	**48,844**	**39,281**	**80.4**	51,021	48,535	95.1
Automobile	**46,226**	**30,483**	**65.9**	48,773	32,636	66.9
Workers compensation	**22,846**	**11,783**	**51.6**	26,154	21,166	80.9
Fidelity and surety	**8,976**	**2,482**	**27.7**	10,142	1,171	11.5
Miscellaneous	**399**	**45**	**11.3**	425	118	27.8
Total commercial lines	**$ 184,012**	**$ 116,019**	**63.0%**	$ 198,152	$ 152,847	77.1%
Personal lines						
Fire and allied lines	**$ 12,087**	**$ 7,825**	**64.7%**	$ 10,787	$ 8,479	78.6%
Automobile	**7,083**	**5,957**	**84.1**	6,269	4,922	78.5
Miscellaneous	**203**	**(76)**	**(37.4)**	173	266	153.8
Total personal lines	**$ 19,373**	**$ 13,706**	**70.7%**	$ 17,229	$ 13,667	79.3%
Reinsurance assumed	**$ 3,990**	**$ 2,156**	**54.0%**	$ 3,291	$ 2,159	65.6%
Total	**$ 207,375**	**$ 131,881**	**63.6%**	$ 218,672	$ 168,673	77.1%

Other liability The loss ratio improved 49.2 percentage points to 46.0 percent in the three months ended June 30, 2010, from 95.2 percent in the three months ended June 30, 2009. For the six months ended June 30, 2010, the loss ratio improved 23.6 percentage points to 56.3 percent, from 79.9 percent in the six months ended June 30, 2009. The decrease in our loss ratio in both periods is due to an improvement in the severity in our noncatastrophe claims experience.

Workers compensation The loss ratio improved 8.0 percentage points to 64.5 percent in the three months ended June 30, 2010, from 72.5 percent in the three months ended June 30, 2009. For the six months ended June 30, 2010, the loss ratio improved 29.3 percentage points to 51.6 percent, from 80.9 percent in the six months ended June 30, 2009. The improvement in this line is due to the normal fluctuations that generally occur in the workers compensation line of business.

Fidelity and surety The loss ratio increased 33.9 percentage points to 52.9 in the three months ended June 30, 2010, from 19.0 percent in the three months ended June 30, 2009. For the six months ended June 30, 2010, the loss ratio increased 16.2 percentage points to 27.7 percent, from 11.5 percent in the six months ended June 30, 2009. This is primarily the result of an increase in our losses and loss settlement expenses in the fidelity and surety line of business, primarily from a large claim of $1.7 million incurred in the second quarter of 2010. Also, contributing to the higher loss ratio was a decline in the premiums earned. Because the size of this line is relatively small in relation to our other lines of business, large fluctuations in the loss ratio may occur, which is indicative of the current state of the economy.

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Life Insurance Segment Results

(In Thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues				
Net premiums earned	**$ 11,686**	$ 10,213	**$ 24,015**	$ 19,320
Investment income, net	**19,288**	18,277	**38,619**	35,500
Realized investment gains (losses)				
Other-than-temporary impairment charges		(5,736)	**(306)**	(8,482)
All other realized gains	**3,067**	214	**3,923**	189
Total realized investment gains (losses)	**3,067**	(5,522)	**3,617**	(8,293)
Other income	**220**	152	**401**	283
Total Revenues	**$ 34,261**	$ 23,120	**$ 66,652**	$ 46,810
Benefits, Losses and Expenses				
Losses and loss settlement expenses	**$ 4,504**	$ 4,164	**$ 9,239**	$ 7,963
Increase in liability for future policy benefits	**7,375**	5,874	**13,765**	9,262
Amortization of deferred policy acquisition costs	**2,575**	2,551	**5,048**	5,059
Other underwriting expenses	**3,013**	2,495	**5,866**	4,530
Interest on policyholders accounts	**10,647**	10,397	**21,448**	20,169
Total Benefits, Losses and Expenses	**$ 28,114**	$ 25,481	**$ 55,366**	$ 46,983
Income (Loss) Before Income Taxes	**$ 6,147**	$ (2,361)	**$ 11,286**	$ (173)

(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.

As part of our long-term strategy for profitability, we are emphasizing the marketing of our traditional life insurance products, primarily single premium whole life, to our independent life insurance agents to achieve a more balanced product mix. Sales growth of our single premium whole life product is the primary reason for the following increases:

- **Net premiums earned** increased 14.4 percent in the second quarter of 2010 and 24.3 percent in the first six months of 2010, as compared with the same periods of 2009.
- **Increase in liability for future policy benefits** increased 25.6 percent in the second quarter of 2010 and 48.6 percent in the first six months of 2010, as compared with the same periods of 2009.

Our life insurance segment also experienced the following:

- **Losses and loss settlement expenses** increased 8.2 percent in the second quarter of 2010 and 16.0 percent in the first six months of 2010, as compared with the same prior-year periods, reflecting a rise in both annuity benefits and life insurance death benefits.
- **Other underwriting expenses** increased 20.8 percent in the second quarter of 2010 and 29.5 percent in the first six months of 2010, as compared with the same prior-year periods, due largely to an increase in agent commissions that resulted from the improvement in premiums written for our single premium whole life and universal life products.
- **Annuity deposits** decreased 71.1 percent in the second quarter of 2010 and 72.0 percent in the first six months of 2010, as compared with the same periods of 2009. In 2009, we experienced a significant increase in our annuity sales, as consumers in a troubled economy sought products with guaranteed rates of return. In the second quarter and first half of 2010, annuity sales have decreased, as consumers who perceived a recovering economy chose to surrender their annuities and reinvest the funds in products with greater risk and potentially greater returns. Annuity deposits are not recorded as a component of net premiums written or net premiums earned; however, we invest the funds to generate investment income.

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Net cash outflow related to our annuity business was $.5 million in the second quarter of 2010 and $1.6 million in the first six months of 2010, versus net cash inflow of $37.2 million in the second quarter of 2009 and $56.6 million in the first six months of 2009. The net cash outflow is attributable to the decline in annuity deposits and annuitant withdrawals.

Investment Portfolio

Our invested assets totaled $2,457.8 million at June 30, 2010, compared with $2,351.8 million at December 31, 2009. At June 30, 2010, 93.3 percent of the value of our investment portfolio was fixed maturity securities and 5.0 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 June 30, 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)	$ 819,227	85.7%	$ 1,472,316	98.0%	$ 2,291,543	93.3%
Equity securities	111,621	11.7	12,375	0.8	123,996	5.0
Trading securities	9,454	1.0			9,454	0.4
Mortgage loans			7,067	0.5	7,067	0.3
Policy loans			7,504	0.5	7,504	0.3
Other long-term investments	14,706	1.5	2,439	0.2	17,145	0.7
Short-term investments	1,100	0.1			1,100	
Total	$ 956,108	100.0%	$ 1,501,701	100.0%	$ 2,457,809	100.0%

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

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The composition of our investment portfolio at December 31, 2009 is presented at carrying value in the following table:

(Dollars in Thousands)	Property & Casualty Insurance Segment	Percent of Total	Life Insurance Segment	Percent of Total	Total	Percent of Total
Fixed maturities	$ 766,274	83.6%	$ 1,401,722	97.5%	$ 2,167,996	92.3%
Equity securities	117,741	12.9	14,977	1.0	132,718	5.6
Trading securities	12,613	1.4			12,613	0.5
Mortgage loans			7,328	0.5	7,328	0.3
Policy loans			7,947	0.6	7,947	0.3
Other long-term investments	13,344	1.5	2,536	0.2	15,880	0.7
Short-term investments	5,083	0.6	2,276	0.2	7,359	0.3
Total	$ 915,055	100.0%	$ 1,436,786	100.0%	$ 2,351,841	100.0%

At June 30, 2010, we classified $2,283.5 million, or 99.7 percent, of our fixed maturities portfolio as available-for-sale, compared with $2,158.4 million, or 99.6 percent, at December 31, 2009. We classified our remaining fixed maturity securities as held-to-maturity securities (which are reported at amortized cost) or trading securities. We recorded trading securities, primarily convertible redeemable preferred debt securities, at fair value, with any changes in fair value recognized in earnings. As of June 30, 2010 and December 31, 2009, we did not have direct exposure to investments in subprime mortgages, derivative securities or other credit enhancement vehicles.

Credit Quality

The following table displays a breakdown for all of our fixed maturity securities by credit rating at June 30, 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)	**June 30, 2010**		December 31, 2009	
Rating	**Carrying Value**	**% of Total**	Carrying Value	% of Total
AAA	**$ 293,569**	**12.8%**	$ 207,199	9.5%
AA	**441,367**	**19.2**	397,380	18.2
A	**495,773**	**21.5**	562,795	25.8
Baa/BBB	**945,516**	**41.1**	869,465	39.9
Other/Not Rated	**124,772**	**5.4**	143,770	6.6
	$ 2,300,997	**100.0%**	$ 2,180,609	100.0%

The credit ratings of our fixed maturity securities portfolio at June 30, 2010, have not changed significantly since December 31, 2009, however, the increase in our AAA fixed maturity securities is reflective of the investment purchases we have made during 2010.

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.

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Group

The maximum weighted average duration of our fixed maturity available-for-sale, held-to-maturity and trading security portfolios, including convertible bonds, was 5.4 years at June 30, 2010, compared with 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, was 6.8 years at June 30, 2010, compared with 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, was 3.7 years at June 30, 2010, compared with 4.3 years at December 31, 2009.

Investment Results

Our net investment income increased 3.4 percent in the second quarter of 2010 and 11.1 percent in the first six months of 2010, as compared with the same periods of 2009. The growth in annuity sales last year contributed to the increase in our invested assets and net investment income, in spite of historically low interest rates and declining dividends from our equity portfolio.

Realized investment gains were $2.3 million in the second quarter of 2010 and $5.1 million in the first six months of 2010, compared with realized investment losses of $13.2 million in the second quarter of 2009 and $16.6 million in the first six months of 2009. The recovery in our investment portfolio is attributable to a significant reduction in OTTI charges, which totaled $.1 million in the second quarter of 2010 and $.5 million in the first six months of 2010 versus $13.6 million in the second quarter of 2009 and $18.1 million in the first six months of 2009. We incurred substantial OTTI charges in 2009 as a result of the financial crisis experienced by the economy.

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 June 30, 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 June 30, 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.

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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	**Six Months Ended June 30,**	
(In Thousands)	**2010**	2009
Cash provided provided by (used in)		
Operating activities	**$ 43,467**	$ 36,751
Investing activities	**(156,150)**	(126,928)
Financing activities	**78,670**	133,568
Net (decrease) increase in cash and cash equivalents	**$ (34,013)**	$ 43,391

Net cash flows provided by operating activities totaled $43.5 million and $36.8 million for the six-month periods ended June 30, 2010 and 2009, respectively. Our operating cash flows increased in the six-month period ended June 30, 2010, as compared with the six-month period ended June 30, 2009, due to the lower level of claims payments in the first six months of 2010, as compared with the same period of 2009. A decrease in net premiums written during 2010 somewhat offset our positive operating cash flows, but also caused a corresponding lower level of commissions to be paid during this time.

Net cash flows used in investing activities totaled $156.2 million and $126.9 million for the six-month periods ended June 30, 2010 and 2009, respectively. In the six-month period ended June 30, 2010, we had cash inflows from sales of investments, scheduled and unscheduled investment maturities, redemptions and prepayments that totaled $201.1 million, compared with $206.6 million for the six-month period ended June 30, 2009. Our cash outflows for investment purchases totaled $281.3 million for the six-month period ended June 30, 2010, compared with $259.0 million for the six-month period ended June 30, 2009, as in 2010 we continued to purchase a higher level of fixed maturity securities rather than other investment vehicles such as short-term investments, which continue to be less profitable due to the lower market interest rates.

Net cash flows provided by financing activities totaled $78.7 million and $133.6 million for the six-month periods ended June 30, 2010 and 2009, respectively. In the six-month period ended June 30, 2010, net cash inflows from our life insurance segment s annuity and universal life deposits totaled $15.2 million, compared with $72.2 million for the same period of 2009. Additionally, in the six-month period ended June 30, 2010, our common stock repurchases totaled $3.7 million, compared with $.5 million in the six-month period ended June 30, 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 use our line of credit during the first six months of 2010.

Stockholders Equity

Stockholders equity increased 4.9 percent to $705.9 million at June 30, 2010, from $672.7 million at December 31, 2009. The increase in our stockholders equity was largely attributable to net income of $34.8 million and net unrealized investment appreciation of $8.4 million, net of tax. This was partially offset by stockholder dividends of $7.9 million and stock repurchases of $3.7 million. At June 30, 2010, book value per share was $26.82, compared with $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 June 30, 2010, our remaining potential contractual obligation was $12.2 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2010**	2009	**2010**	2009
Net premiums written	**$ 128,749**	$ 127,679	**$ 248,185**	$ 248,525
Net change in unearned premium	**(11,695)**	(8,079)	**(16,881)**	(10,369)
Net change in prepaid reinsurance premium	**28**	71	**86**	(164)
Net premiums earned	**$ 117,082**	$ 119,671	**$ 231,390**	$ 237,992

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.

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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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	**2010**	2009	**2010**	2009
ISO catastrophes	**$ 7,545**	$ 7,135	**$ 15,924**	$ 21,148
Less Hurricane Katrina loss development		(498)	**(5,351)**	(12,442)
ISO catastrophes without Hurricane Katrina	**$ 7,545**	$ 6,637	**$ 10,573**	$ 8,706
Non-ISO catastrophes	**25**	494	**153**	1,402
Total catastrophes	**$ 7,570**	$ 7,131	**$ 10,726**	$ 10,108

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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 June 30, 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.

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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.

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 June 30, 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
4/1/10 - 4/30/10		$		349,878
5/1/10 - 5/31/10				349,878
6/1/10 - 6/30/10	46,800	19.90	46,800	303,078

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit number	Exhibit description	Filed herewith
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
July 30, 2010	July 30, 2010
(Date)	(Date)