UNITED FIRE & CASUALTY CO
Form 10-K
March 02, 2009

Table of Contents

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

FORM 10-K

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008**

OR

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

Commission File Number 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 SE
PO Box 73909
Cedar Rapids, Iowa 52407-3909
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: (319) 399-5700
Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $3.33 1/3 par value	**The NASDAQ Stock Market LLC**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

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 February 25, 2009, 26,624,086 shares of common stock were outstanding. The aggregate market value of voting stock held by nonaffiliates of the registrant as of June 30, 2008, was approximately $541.8 million. For purposes of this calculation, all directors and executive officers of the registrant are considered affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for its annual stockholders meeting to be held on May 20, 2009.

FORM 10-K TABLE OF CONTENTS

	PAGE
PART I:	
Item 1. Business	1
Item 1A. Risk Factors	8
Item 1B. Unresolved Staff Comments	16
Item 2. Properties	16
Item 3. Legal Proceedings	17
Item 4. Submission of Matters to a Vote of Security Holders	17
PART II:	
Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6. Selected Financial Data	20
Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	59
Item 8. Financial Statements and Supplementary Data	61
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	102
Item 9A. Controls and Procedures	102
Item 9B. Other Information	102
PART III:	
Item 10. Directors, Executive Officers and Corporate Governance	103
Item 11. Executive Compensation	105
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	105
Item 13. Certain Relationships and Related Transactions, and Director Independence	105
Item 14. Principal Accounting Fees and Services	105

PART IV:

Item 15. Exhibits, Financial Statement Schedules	106
Signatures	112

Exhibit 12
Exhibit 21
Exhibit 23.1
Exhibit 23.2
Exhibit 23.3
Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

Table of Contents

PART I.

ITEM 1. BUSINESS

FORWARD-LOOKING INFORMATION

It is important to note that our actual results could differ materially from those projected in the 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 1A, Risk Factors, and Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL DESCRIPTION

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

We report our operations in two business segments: property and casualty insurance and life insurance. A table reflecting revenues, net income and assets attributable to our operating segments is included in Part II, Item 8, Note 11, Segment Information. All intercompany balances have been eliminated in consolidation.

Our property and casualty insurance segment includes United Fire & Casualty Company and the following companies, which United Fire & Casualty Company owns 100 percent, directly or indirectly: Addison Insurance Company, an Illinois property and casualty insurer; Lafayette Insurance Company, a Louisiana property and casualty insurer; United Fire & Indemnity Company, a Texas property and casualty insurer; American Indemnity Financial Corporation, a Delaware holding company; and Texas General Indemnity Company, a Colorado property and casualty insurer. United Fire Lloyds, a Texas property and casualty insurer, is an affiliate of and operationally and financially controlled by United Fire & Indemnity Company.

Most of our property and casualty insurance subsidiaries are members of an intercompany reinsurance pooling arrangement. Pooling arrangements permit the participating companies to rely on the capacity of the entire pool s capital and surplus, rather than being limited to policy exposures of a size commensurate with each participant s own surplus level. Under such arrangements, the members share substantially all of the insurance business that is written, and allocate the combined premiums, losses and expenses based on percentages defined in the arrangement.

Our life insurance segment consists of United Life Insurance Company, an Iowa life insurer and wholly owned subsidiary of United Fire & Casualty Company.

As of December 31, 2008, we employed 674 full-time employees.

Available Information

United Fire Group provides free and timely access to all company reports filed with the Securities and Exchange Commission (SEC) in the Investor Relations section of our Web site at www.unitedfiregroup.com. Select SEC Filings to view the list of filings, which includes:

- Annual reports (Form 10-K)
- Quarterly reports (Form 10-Q)
- Current reports (Form 8-K)
- Amendments to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

Our Code of Ethics is also available at www.unitedfiregroup.com in the Investor Relations section. To view it, select Corporate Governance and then Code of Ethics.

Free paper copies of any materials that we file with the SEC can also be obtained by writing to Investor Relations, United Fire Group, P.O. Box 73909, Cedar Rapids, Iowa 52407-3909 or by visiting the SEC Public Reference Room, 450 Fifth Street NW, Washington, DC 20549. For information about the Public Reference Room, call the SEC at 1-800-SEC-0330.

The SEC maintains a Web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

GEOGRAPHIC DISTRIBUTION

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

We are licensed as a property and casualty insurer in 43 states, primarily in the Midwest, West and South, plus the District of Columbia. We have 837 independent agencies representing us and our property and casualty insurance subsidiaries. The following table depicts the top five states for direct premiums written for our property and casualty insurance operations for 2008.

(Dollars in Thousands)	Direct Premium Written	% to Total Direct Premium Written
Texas	$ 70,301	14.5%
Iowa	66,926	13.8
Colorado	46,763	9.7
Louisiana	42,467	8.8
Missouri	42,242	8.7
Direct Premium Written (1)	$ 268,699	55.5%

(1) Please refer to the Non-GAAP financial measures section of this report for further explanation of this measure.

2

Our life insurance subsidiary is licensed in 28 states, primarily in the Midwest and West, and is represented by 952 independent agencies. The following table depicts the top five states for life insurance business for our life insurance operations for 2008.

(Dollars in Thousands)	Direct Statutory Premium Volume	% to Total Direct Statutory Premium Volume
Iowa	$ 83,148	41.9%
Wisconsin	21,026	10.6
Nebraska	15,813	8.0
Minnesota	15,675	7.9
Illinois	15,020	7.6
Direct Statutory Premium Volume	$ 150,682	76.0%

(1) Please refer to the Non-GAAP financial measures section of this report for further explanation of this measure.

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

COMPETITION

The property and casualty and life insurance industries are highly competitive. We compete with numerous property and casualty insurance companies in the regional and national market, many of which are substantially larger and have considerably greater financial and other resources. In addition, because our products are marketed exclusively through independent insurance agencies, most of which represent more than one company, we face competition within each agency. Our competitors include companies that market their products through agents, as well as companies that sell insurance directly to their customers. Our competitive advantages include our use of technology, knowledgeable and experienced underwriters, appropriate pricing, quality service to our policyholders and our agents, and a competitive commissions program.

Because we rely heavily on independent agencies, we utilize a profit-sharing plan as an incentive for agents to place high-quality property and casualty insurance business with us. We estimate property and casualty agencies will receive profit-sharing payments of $7.4 million in 2009, based on business produced by the agencies in 2008.

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

To enhance our ability to compete, we utilize technology in a variety of ways to assist our agents and improve the delivery of service to our policyholders. For example, our public Web site, which provides general company and product information, includes a section accessible exclusively to our agents where they can quote new business;

submit applications and change requests, report new claims and process payments electronically. Our agents can access detailed information about their policyholders accounts, including policy declarations, coverage forms, billing transactions and claims information. Our agents can also use our Web site to access their experience reports, review detailed information about our products, order sales literature and download our applications, questionnaires and other forms. Our surety bond agents can issue and upload contract, license and permit bonds online, submit new bid bond requests and view detailed bond information. Our life agents can quote new life policies, view the status of customers applications and access detailed information on our annuity, universal life, term life and whole life policies. We electronically scan and store the majority of our documents, allowing multiple users to simultaneously retrieve and view them. Additionally, we provide our policyholders secure online access to their account information. We offer a variety of online payment options for our policyholders, including payment via credit card, debit card and electronic check. We believe our investment in technology allows us to provide enhanced service to our agents, policyholders and investors.

United Fire Group was named a Top 10 Ease of Doing Business Performer for 2008 in Deep Customer Connections Inc. s (DCC) sixth annual Ease of Doing Business (EDB) survey. Over 7,400 independent agents and brokers assessed the performance of more than 250 property and casualty carriers as part of the survey. They rated the importance of 11 EDB factors, ranging from underwriting responsiveness and handling claims promptly to acting with the agency s needs in mind. DCC specializes in helping property and casualty carriers achieve profitable growth by making it easy for their agents to work with them. DCC s EDB Index® is an industry benchmark of carriers EDB performance.

OPERATING SEGMENTS

Incorporated by reference from Note 11. Segment Information contained in Part II, Item 8, Financial Statements and Supplementary Data.

REINSURANCE

Incorporated by reference from Note 5. Reinsurance contained in Part II, Item 8, Financial Statements and Supplementary Data.

RESERVES

Property and Casualty Insurance Segment

Reserves for losses and loss settlement expenses (loss reserves) are management s best estimates at a given point in time of what we expect to pay for claims, based on facts, circumstances and historical trends then known.

The determination of reserves, particularly those relating to liability lines of insurance, reflects significant judgment factors. If, during the course of our regular monitoring of reserves, we determine that coverages previously written are incurring higher than expected losses, we will take action that may include, among others, increasing the related reserves. Any adjustments we make to reserves are reflected in operating results in the year in which we make those adjustments. As required by state law, we engage an independent actuary, Regnier Consulting Group, to render an opinion as to the adequacy of the statutory reserves we establish. The actuarial opinion is filed in those states where we are licensed. We do not discount loss reserves based on the time value of money. However, we consider inflation in the reserving process by reviewing cost trends, loss settlement expenses, historical reserving results and likely future economic conditions. There is no material differences between our statutory reserves and those established under U.S. generally accepted accounting principles (GAAP). Refer to the Critical Accounting Estimates section in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, for a more detailed discussion of our loss reserves.

The table on the following page illustrates the change in our estimate of reserves for loss and loss settlement expenses for our property and casualty companies for the years 1999 through 2007. The first section shows the amount of the liability, as originally reported, at the end of each calendar year in our Consolidated Financial Statements. These reserves represent the estimated amount of losses and loss settlement expenses for losses arising in all prior years that are unpaid at the end of each year, including an estimate for our incurred but not reported (IBNR) losses, net of applicable ceded reinsurance. The second section displays the cumulative amount of net losses and loss settlement expenses paid for each year with respect to that liability. The third section shows the reestimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the losses for individual years. The last section compares the latest reestimated with the original estimate. Conditions and trends that have affected development of loss reserves in the past may not necessarily exist in the future. Accordingly, it would not be appropriate to extrapolate future redundancies or deficiencies based on this table.

lars in Thousands) rs Ended December 31,	1999	2000	2001	2002	2003	2004	2005	2006	2007	**200**
ss liability for loss and settlement expenses	$ 338,243	$ 358,032	$ 363,819	$ 392,649	$ 427,047	$ 464,889	$ 620,100	$ 518,886	$ 496,083	**$ 586,**
ed loss and loss ement expenses	27,606	37,526	36,909	35,760	27,307	28,609	60,137	40,560	38,800	**52,**
liability for loss and settlement expenses	$ 310,637	$ 320,506	$ 326,910	$ 356,889	$ 399,740	$ 436,280	$ 559,963	$ 478,326	$ 457,283	**$ 533,**
ulative net paid as of:										
year later	$ 97,021	$ 110,516	$ 112,546	$ 107,271	$ 100,895	$ 110,016	$ 230,455	$ 148,593	$ **140,149**	
years later	154,886	166,097	172,538	172,158	167,384	166,592	321,110	**235,975**		
e years later	189,730	204,792	215,002	214,307	203,861	213,144	**380,294**			
years later	213,190	230,889	240,973	237,150	231,278	**242,579**				
years later	231,838	245,677	252,969	253,026	**250,787**					
years later	241,540	252,153	264,311	**265,304**						
en years later	245,145	259,621	**273,153**							
t years later	249,302	**264,713**								
e years later	**253,274**									
liability reestimated as										
of year	$ 310,637	$ 320,506	$ 326,910	$ 356,889	$ 399,740	$ 436,280	$ 559,963	$ 478,326	$ 457,283	**$ 533,**
year later	273,706	273,469	315,854	344,590	361,153	358,796	534,998	433,125	**457,831**	
years later	261,217	290,872	323,354	340,502	331,693	330,137	508,774	**453,474**		
e years later	273,921	300,011	321,168	324,582	317,187	319,335	**538,451**			
years later	279,740	302,884	318,125	313,745	309,146	**326,340**				
years later	279,653	298,428	309,033	308,304	**316,227**					
years later	280,983	296,296	307,790	**312,188**						
en years later	279,892	293,579	**311,367**							
t years later	276,815	**297,844**								
e years later	**281,346**									
redundancy ciency)	$ 29,291	$ 22,662	$ 15,543	$ 44,701	$ 83,513	$ 109,940	$ 21,512	$ 24,852	$ (548)	
reestimated liability	$ 281,346	$ 297,844	$ 311,367	$ 312,188	$ 316,227	$ 326,340	$ 538,451	$ 453,474	$ 457,831	
stimated ceded loss and settlement expenses	26,737	34,147	42,816	43,501	38,919	38,708	86,691	56,210	49,324	
ss reestimated liability	$ 308,083	$ 331,991	$ 354,183	$ 355,689	$ 355,146	$ 365,048	$ 625,142	$ 509,684	$ 507,155	

ss redundancy (ciency)	$ 30,160	$ 26,041	$ 9,636	$ 36,960	$ 71,901	$ 99,841	$ (5,042)	$ 9,202	$ (11,072)

Life Insurance Segment

The policy reserves reported in our Consolidated Financial Statements are calculated in accordance with GAAP. We calculate our reserve for annuity and universal life policy deposits in accordance with Statement of Financial Accounting Standards (SFAS) No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses on the Sale of Investments. We establish a benefit reserve at the time of policy issuance in an amount equal to the deposits received. Subsequently, we adjust the benefit reserve for any additional deposits, interest credited and partial or complete withdrawals. We determine reserves for statutory purposes based upon mortality rates and interest rates specified by Iowa state law. Our life insurance subsidiary s reserves meet or exceed the minimum statutory requirements. Griffith, Ballard & Company, an independent actuary, assists us in developing and analyzing our reserves on both a GAAP and statutory basis.

For further discussion of our life insurance segment s reserves see Critical Accounting Estimates contained in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

INVESTMENTS

Incorporated by reference from Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the headings Investments and Critical Accounting Estimates; Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk; and Note 1. Significant Accounting Policies under the headings Investments and Securities Lending, Note 2. Summary of Investments, and Note 3. Fair Value of Financial Instruments, contained in Part II, Item 8, Financial Statements and Supplementary Data.

REGULATION

We are subject to regulation and supervision in each of the states where our insurance companies are domiciled and licensed to conduct business. State insurance department commissioners regulate such matters as licensing, standards of solvency, premium rates, policy forms, investments, security deposits, accounting policy, form and content of financial statements, reserves for unpaid loss and loss settlement expenses, reinsurance, minimum capital and surplus requirements, dividends to shareholders, periodic examinations, and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders.

The majority of our insurance operations are in states requiring prior approval by regulators before proposed rates for property and casualty insurance policies may be implemented. However, rates proposed for life insurance generally become effective immediately upon filing with a state, even though the same state may require prior rate approval for other types of insurance. Because of this regulatory constraint, it is sometimes difficult to receive an adequate premium rate for our products, which can result in unsatisfactory underwriting results. Insurance regulatory authorities also perform periodic examinations of an insurer s market conduct and other affairs.

Despite strict oversight by state insurance regulators, insurance companies occasionally become insolvent. Each of our insurance companies are required to participate in state guaranty fund associations, whose purpose is to protect the policyholders of insolvent insurance companies. Guaranty fund associations assess solvent insurers to pay the claims of insolvent insurers. The assessments are based proportionately upon each solvent insurance company s share of direct written premiums in the applicable state. Most state guaranty fund associations allow solvent insurers to recoup the assessments paid through future rate increases, surcharges or premium tax credits. However, there is no assurance that we will ultimately recover these assessments. At December 31, 2008, we had no liability for state guaranty fund assessments.

State insurance regulators also establish insurance funds to provide insurance coverage to those individuals unable to obtain insurance through the voluntary insurance market. Occasionally, these funds will issue assessments to insurance companies, including us, that write business within their states. The terms of some of these assessments allow for the amounts assessed to be recovered through surcharges to policyholders applied to insurance policies written in the state over a specific time period. Therefore, we may be entitled to recoup part or all of any assessments through future surcharges to policyholders.

Our insurance companies are subject to state laws and regulations that require investment portfolio diversification and that limit the amount of investment in certain categories. Noncompliance may cause nonconforming investments to be nonadmitted when measuring statutory capital and surplus and, in some instances, states may require us to sell the nonconforming securities. As of December 31, 2008, we were in compliance with the investment laws and regulations of all states in which our insurance companies are domiciled.

The National Association of Insurance Commissioners (NAIC) annually calculates 13 financial ratios to assist state insurance regulators in monitoring the financial condition of insurance companies. A usual range of results for each ratio is used as a benchmark. Departure from the usual range on four or more of the ratios could lead to inquiries from individual state insurance departments as to certain aspects of a company s business. None of our insurance companies had four or more ratios outside the usual range at December 31, 2008. In addition to the financial ratios, we are also required to calculate a minimum capital requirement for each of our insurance companies based on individual company insurance risk factors. These risk-based capital results are used to identify companies that require regulatory attention or the initiation of regulatory action. At December 31, 2008, all of our insurance companies had capital well in excess of the required levels.

In January 2009, the NAIC took under advisement increasing the recovery time (from one year) currently allowed in the computation of deferred tax assets, which would increase the total assets and total equity reported by insurers on a statutory basis. We are not aware of any other current recommendations by the NAIC, the federal government, or other regulatory authorities in the states in which we conduct business that, if or when implemented, would have a material effect on our liquidity, capital resources or operations.

FINANCIAL STRENGTH RATING

Our financial strength, as measured by statutory accounting principles, is regularly reviewed by an independent rating agency that assigns a rating based upon criteria such as results of operations, capital resources and minimum policyholders surplus requirements.

Our family of property and casualty insurers has received a group rating of A (Excellent) from A.M. Best Company (A.M. Best). Within the group, all of our property and casualty insurers have an A (Excellent) rating, except one insurance subsidiary that is in a runoff status, which A.M. Best has designated as NR-3 (Rating Procedure Inapplicable). Our life insurance subsidiary has received an A- (Excellent) rating from A.M. Best. According to A.M. Best, companies rated A and A- have an excellent ability to meet their ongoing obligations to policyholders.

An insurer s solvency rating is one of the primary factors evaluated by those in the market to purchase insurance. A poor rating indicates that there is an increased likelihood that the insurer could become insolvent and therefore not able to fulfill its obligations under the insurance policies it issues. The level of an insurer s solvency rating can affect its level of premium writings, the lines of business it can write and, for insurers that are also public registrants, the market value of its shares of stock.

ITEM 1A. RISK FACTORS

RISK FACTORS

We provide the following discussion of risks and uncertainties relevant to our business. These are factors that we believe could cause our actual results to differ materially from expected and historical results. We could also be adversely affected by other factors in addition to those listed here. We have set forth additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Risks Relating to Our Business

The occurrence and severity of catastrophe losses are unpredictable and may adversely affect the results of our operations, liquidity and financial condition.

Our property and casualty insurance operations expose us to claims arising from catastrophic events, which can be caused by various natural and man-made disasters, including, but not limited to, hurricanes, tornadoes, windstorms, hailstorms, fires, explosions, earthquakes, tropical storms and terrorist acts. Property damage resulting from catastrophes is the greatest risk of loss we face in the ordinary course of our business. We have exposure for catastrophe losses under both our commercial insurance policies and our personal insurance policies. In addition, our automobile and inland marine business exposes us to losses arising from floods and other perils.

Because the occurrence and severity of catastrophes are inherently unpredictable and may vary significantly from year to year, historical results of operations may not be indicative of future results of operations. Catastrophes may also negatively affect our ability to write new business. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from future catastrophic events.

Our reserves for property and casualty insurance losses and costs related to settlement of property and casualty losses and our life reserves for future policy benefits may be inadequate, which would have an unfavorable impact on our financial results.

Our reserves for claims and future policy benefits may prove to be inadequate, which may result in future charges to earnings and/or a downgrade of our financial strength rating or the financial strength ratings of our insurance company subsidiaries. We establish property and casualty loss reserves based on assumptions and estimates of damages and liabilities incurred. Regnier Consulting Group, our independent actuary, calculates reserves for our property and casualty insurance products based on many assumptions and estimates to validate the reasonableness of our claims reserves.

Our property and casualty loss reserves are only estimates; we determine the amount of these loss reserves based on our best estimate and judgment of the losses and costs we will incur on existing insurance policies. Because of the uncertainties that surround estimating loss reserves, we cannot precisely determine the ultimate amounts of benefits and claims that we will pay or the timing of payment of benefits and claims. The following factors may have a substantial impact on our future earnings:

- The length of time between the actual occurrence of a claim and the report date of the claim.
- The amounts of claims settlements and awards.
- Changes in the cost of medical care, including the effect of inflation.
- The cost of home/business repair, including the effect of inflation and the accessibility of labor and materials.
- State regulatory requirements.
- The judicial environment, including, but not limited to, changes in case law, the impact of jury awards and the interpretation of policy provisions.

Actual losses and loss settlement expenses paid might exceed our reserves. If our loss reserves are insufficient, or if we believe our loss reserves are insufficient to cover our actual loss and loss settlement expenses, we will have to increase our loss reserves and incur charges to our earnings. These charges may be material.
Griffith, Ballard & Company, our independent actuary, calculates reserves for our life insurance products based on many assumptions and estimates, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the insurance policy and the amount of benefits or claims to be paid. As such, deviations from one or more of these assumptions could result in a material adverse impact on our Consolidated Financial Statements.

The cyclical nature of the property and casualty insurance business may affect our financial performance.

The financial results of companies in the property and casualty insurance industry historically have been cyclical in nature, characterized by periods of severe price competition and excess underwriting capacity, or soft markets, followed by periods of high premium rates and shortages of underwriting capacity, or hard markets. We expect these cycles to continue. Premium rates for property and casualty insurance are influenced by factors that are outside of our control, including market and competitive conditions and regulatory issues. Soft market conditions could require us to reduce premiums, limit premium increases, or discontinue offering one or more of our insurance products in one or more states, resulting in a reduction in our premiums written and in our profit margins and revenues. The demand for property and casualty insurance can also vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases. Fluctuations in demand and competition could produce underwriting results that would have a negative impact on the results of our operations and financial condition.

We are subject to interest rate fluctuations and declines in the value of investments held in our investment portfolio due to various market factors that could negatively affect our profitability.

We are subject to the negative effects of interest rate fluctuations and other market changes, to declines in value due to market valuations and to declines in credit quality related to individual investments held in our investment portfolio. Some of our products, principally fixed annuities, expose us to the risk that changes in interest rates will reduce our spread, which is the difference between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on our investments intended to support our obligations under the contracts.
In periods of increasing interest rates, we may not be able to replace our invested assets with higher-yielding assets to the extent needed to fund the higher rates we must pay with respect to our interest-sensitive products to keep them competitive. Consequently, we may have to accept a lower spread and thus lower profitability, or face a decline in sales and loss of existing contracts and related assets. In periods of declining interest rates, we have to reinvest the cash we receive as interest or return of principal on our investments in lower-yielding instruments than previously available. Moreover, borrowers may prepay fixed income securities, commercial mortgages, and mortgage-backed securities in which we have invested in order to borrow at lower market rates, exacerbating this risk. Because we are entitled to reset the interest rates on our annuities only at limited, pre established intervals and because many of our policies have guaranteed interest rates, our spreads could decrease and potentially become negative.
Due to the reinvestment risk described above, a decline in market interest rates available on investments could also reduce our return from investments of capital that do not support particular policy obligations, which could also have a material adverse effect on our results of operations. The adverse effect on us from fluctuations in interest rates may be exacerbated because we currently maintain, and intend to continue to maintain, a large portion (91.3 percent at December 31, 2008) of our investment portfolio in fixed income securities, including our portfolio of trading securities. The fair value of these investments generally increases or decreases in an inverse relationship with changes in interest rates. We classify the majority (99.2 percent, at December 31, 2008) of our fixed income securities as available-for-sale. We report the value of those investments at their current fair value. Accordingly, fluctuations in interest rates may result in fluctuations in the valuation of our fixed income investments, which would affect our stockholders equity.
Fluctuations in interest rates may cause increased surrenders and withdrawals from our life insurance and annuity products. In periods of rising interest rates, policy loans, and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns. These withdrawals and terminations may also require us to accelerate the amortization of deferred policy acquisition costs,

which would increase our expenses in the current period.

The fair value of securities in our investment portfolio may fluctuate depending on general economic and market conditions or events relating to a particular issuer of securities. Changes in the fair value of securities in our investment portfolio could result in realized or unrealized investment losses, thereby affecting our stockholders equity. We are exposed to the chance that issuers of bonds that we hold will not be able to pay principal or interest when it is due. Credit defaults and impairments may cause write-downs in the value of the bonds we hold. Pervasive deterioration in the credit quality of issuers, changes in interest rate levels and changes in interest rate spreads between types of investments could significantly affect the value of our invested assets and our earnings.

Financial disruption or a prolonged economic downturn may materially and adversely affect our business.

Worldwide financial markets have recently experienced extraordinary disruption and volatility, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Moreover, many companies are experiencing reduced liquidity and uncertainty as to their ability to raise capital. In the event that these conditions persist or result in a prolonged economic downturn, our results of operations, financial position and/or liquidity could be materially and adversely affected. In addition, as a result of recent financial events, we may face increased regulation. Many of the other risk factors discussed in this section identify risks that result from, or are exacerbated by, financial economic downturn. These include risks related to our investment portfolio, reinsurance arrangements, other credit exposures, emerging claims and coverage issues, the competitive environment, regulatory developments and the impact of rating agency actions.

The effects of emerging claim and coverage issues and class actions on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number and/or size of claims. Examples of these issues include:

- Judicial expansion of policy coverage and the impact of new theories of liability.
- An increase of plaintiffs targeting property and casualty insurers, including us, in purported class action litigation regarding claim-handling and other practices.
- An increase in the variety, number and size of claims relating to liability losses, which often present complex coverage and damage valuation questions.
- Adverse changes in loss cost trends, including inflationary pressure in medical cost and auto and home repair costs.

In addition, we have been the target of a number of class action lawsuits arising from Hurricane Katrina relating to allegations of improper claims settlement practices, misrepresentations in the scope of coverage and other matters. It is difficult to predict both the ultimate outcome of these lawsuits, and the impact, if any, they will have on our business and financial condition. However, rulings adverse to us in pending litigation arising from Hurricane Katrina would likely have a material adverse effect on our financial position, as well as on our results of operations.

We are exposed to credit risk in certain areas of our operations.

In addition to exposure to credit risk related to our investment portfolio and reinsurance recoverables; we are exposed to credit risk in several other areas of our business operations, including credit risk relating to policyholders, independent agents and brokers.

In accordance with industry practice, when policyholders purchase insurance policies from us through independent agents and brokers, the premiums relating to those policies are often paid to the agents and brokers for payment to us. In most jurisdictions, the premiums will be deemed to have been paid to us whether or not actually received by us. Consequently, we assume a degree of credit risk associated with the amounts due from independent agents and brokers.

We are exposed to credit risk through our surety insurance operations, where we guarantee to a third party that our bonded principal will satisfy certain performance obligations (e.g. a construction contract) or certain financial obligations. If our policyholder defaults, we may suffer losses and be unable to be reimbursed by our policyholder. To a large degree, the credit risk we face is a function of the economy; accordingly, we face a greater risk during a period of economic downturn. While we attempt to manage these risks through underwriting and investment guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. For example, collateral obtained may subsequently have little or no value. As a result, our exposure to credit risk could materially and adversely affect our results of operation and financial condition.

We are subject to comprehensive laws and regulations that pose particular risks to our ability to earn profits.

We are subject to extensive supervision and regulation by the states in which we operate. Our ability to comply with these laws and regulations and obtain necessary and timely regulatory action is and will continue to be critical to our success and ability to earn profits.

Examples of state regulations that pose particular risks to our ability to earn profits include the following:

Required licensing. We, and our insurance company subsidiaries, operate under licenses issued by various state insurance agencies. If a regulatory authority were to revoke an existing license or deny or delay granting a new license, our ability to continue to sell insurance or to enter or offer new insurance products in that market would be substantially impaired.

Regulation of insurance rates and approval of policy forms. The insurance laws of most states in which we operate require insurance companies to file insurance premium rate schedules and policy forms for review and approval. When our loss ratio compares favorably to that of the industry, state regulatory authorities may resist or delay our efforts to raise premium rates in the future, even if the property and casualty industry generally is not experiencing regulatory resistance to premium rate increases. If premium rate increases we deem necessary are not approved, we may not be able to respond to market developments and increased costs in that state. State regulatory authorities may even impose premium rate rollbacks or require us to pay premium refunds to policyholders, affecting our profitability. If insurance policy forms we seek to use are not approved by a state insurance agency, our ability to offer new products and grow our business in that state will be substantially impaired.

Restrictions on cancellation, nonrenewal or withdrawal. Many states have laws and regulations restricting an insurance company s ability to cease or significantly reduce its sales of certain types of insurance in that state, except pursuant to a plan that is approved by the state insurance department. These laws and regulations could limit our ability to exit or reduce our business in unprofitable markets or discontinue unprofitable products. For example, the State of Louisiana has a law prohibiting the nonrenewal of homeowners policies written for longer than three years except under certain circumstances, such as for nonpayment of premium or fraud committed by the insured.

Risk-based capital and capital adequacy requirements. We and our insurance company subsidiaries and affiliate are subject to risk-based capital requirements (RBC requirements) that require us and our insurance company subsidiaries to report our results of risk-based capital calculations to state insurance departments and the NAIC. Any failure to meet applicable RBC requirements or minimum statutory capital requirements could subject us or our subsidiaries and affiliate to further examination or corrective action by state regulators, including limitations on our writing of additional business, state supervision or liquidation.

Transactions between insurance companies and their affiliates. Transactions between us, our subsidiary insurance companies and our affiliate generally must be disclosed to, and in some cases approved by, state insurance agencies. State insurance agencies may refuse to approve or delay their approval of a transaction, which may impact our ability to innovate or operate efficiently.

Required participation in guaranty funds and assigned risk pools. Certain states have enacted laws that require a property and casualty insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities, and joint underwriting associations; or the insurer is required to offer coverage to all consumers, often restricting an insurer s ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired premium rates, possibly leading to an unacceptable return on equity. While these facilities are generally designed so that the ultimate cost is borne by policyholders, the exposure to assessments and our ability to recoup these assessments through adequate premium rate increases may not offset each other in our financial statements. Moreover, even if they do offset each other, they may not offset each other in our financial statements for the same fiscal period, due to the ultimate timing of the assessments and recoupments or premium rate increases. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These state funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

Restrictions on the amount, type, nature, quality and concentration of investments. The various states in which we operate have certain restrictions on the amount, type, nature, quality and concentration of our investments. Generally speaking, these regulations require us to be conservative in the nature and quality of our investments and restrict our ability to invest in riskier, but often higher yield investments. These restrictions may make it more difficult for us to obtain our desired investment results.

Required methods of accounting. Statutory accounting principles imposed upon us by state insurance departments tend to be more conservative in nature than GAAP.

State and federal tax laws. Under current federal and state income tax law, our life insurance and annuity products receive favorable tax treatment. This favorable treatment may give these products a competitive advantage over other noninsurance products. Congress, from time to time, considers legislation that would reduce or eliminate the favorable policyholder tax treatment currently applicable to life insurance and annuities. Congress also considers proposals to reduce the taxation of certain products or investments that may compete with life insurance and annuities. Legislation that increases the taxation on insurance products or reduces the taxation on competing products could lessen the advantage or create a disadvantage for certain of our products, making them less competitive. Such proposals, if adopted, could have a material adverse effect on our financial position or ability to sell such products and could result in the surrender of some existing contracts and policies.

Periodic financial and market conduct examinations. We are subject to periodic financial and market conduct examinations by the insurance departments in the various states in which we operate. Generally speaking, it is only states in which we have a company incorporated. Occasionally, however, we are examined by states in which we do not have a company incorporated. The costs of these examinations are borne by us and in any given year may contribute to our administrative expenses.

Compliance with these state laws and regulations requires us to incur administrative costs that decrease our profits. These laws and regulations may also prevent or limit our ability to underwrite and price risks accurately, obtain timely premium rate increases necessary to cover increased costs, discontinue unprofitable relationships or exit unprofitable markets and otherwise continue to operate our business profitably. In addition, our failure to comply with these laws and regulations could result in actions by state or federal regulators, including the imposition of fines and penalties or, in an extreme case, revocation of our ability to do business in one or more states. Finally, we could face individual, group and class action lawsuits by our policyholders and others for alleged violations of certain state laws and regulations. Each of these regulatory risks could have a negative effect on our profitability.

Unauthorized data access and other security breaches could have an adverse impact on our business and reputation.

Security breaches and other improper accessing of data in our facilities, networks or databases of ours or our vendors could result in loss or theft of data and information or systems interruptions that may expose us to liability and have an adverse impact on our business. Moreover, any compromise of the security of our data could harm our reputation and

business. There can be no assurances that we will be able to implement security measures adequate to prevent every security breach.

A reduction in our financial strength ratings could adversely affect our business and financial condition.

Third-party rating agencies assess and rate the claims-paying ability of insurers and reinsurers based on criteria established by the agencies. Our property and casualty insurers have been assigned a financial strength rating of A (Excellent) from A.M. Best since 1994 (except for one insurance subsidiary that is in a runoff status, which A.M. Best has designated as NR-3 (Rating Procedure Inapplicable)). Our life insurance subsidiary has been assigned a financial strength rating of A- (Excellent) from A.M. Best since 1998. Our property and casualty companies are rated on a group basis. These financial strength ratings are used by policyholders, insurers, reinsurers and insurance and reinsurance intermediaries as an important means of assessing the financial strength and credit quality of insurers and reinsurers. These ratings are not evaluations directed to potential purchasers of our common stock and are not recommendations to buy, sell or hold our common stock. These ratings are subject to change at any time and could be revised downward or revoked at the sole discretion of the rating agency. Downgrades in our financial strength ratings could adversely affect our ability to access the capital markets or could lead to increased borrowing costs in the future. Perceptions of our company by investors, producers, other businesses and consumers could also be significantly impaired.

We believe that the ratings assigned by A.M. Best are an important factor in marketing our products. Our ability to retain our existing business and to attract new business in our insurance operations depends largely on our ratings by this agency. Our failure to maintain our ratings, or any other adverse development with respect to our ratings, could cause our current and future independent agents and insureds to choose to transact their business with more highly rated competitors. If A.M. Best downgrades our ratings or publicly indicates that our ratings are under review, it is likely that we will not be able to compete as effectively with our competitors and our ability to sell insurance policies could decline. If that happens, our sales and earnings would decrease. For example, many of our agencies and insureds have guidelines that require us to have an A.M. Best financial strength rating of A- or higher. A reduction of our A.M. Best ratings below A- would prevent us from issuing policies to a majority of our insureds or other potential insureds with similar ratings requirements. In addition, a ratings downgrade for our property and casualty insurers by A.M. Best below A would constitute an event of default under our credit facility.

Market conditions may affect our access to and the cost of reinsurance and our reinsurers may not pay losses in a timely manner, or at all.

As part of our overall risk and capacity management strategy, we purchase reinsurance for significant amounts of the risk that we and our insurance company subsidiaries and affiliate underwrite. The availability and cost of reinsurance is subject to market conditions that are beyond our control. The availability and cost of the reinsurance we purchase may affect the level of our business and profitability. Although we purposely work with several reinsurance intermediaries and reinsurers, we may be unable to maintain our current reinsurance facilities or obtain other reinsurance facilities in adequate amounts and at favorable premium rates. Moreover, there may be a situation in which we have more than two catastrophic events within one policy year. Because our current catastrophe reinsurance program only allows for one automatic reinstatement at an additional reinstatement premium, we would be required to obtain a new catastrophe reinsurance policy to maintain our current level of catastrophe reinsurance coverage. Such coverage may be difficult to obtain, particularly if it is necessary to do so during hurricane season following the second catastrophe. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposure to risk will increase or, if we are unwilling to bear an increase in net risk exposures, we will have to reduce the amount of risk we underwrite.

Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred, it does not relieve us of our liability to our policyholders. Our ability to collect reinsurance recoverables may be subject to uncertainty. Our losses must meet the qualifying conditions of the reinsurance contract. Reinsurers must also have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Particularly, following a major catastrophic event, our inability to collect a material recovery from a reinsurer on a timely basis, or at all, could have a material adverse effect on our liquidity, operating results and financial condition.

Our geographic concentration in both our property and casualty insurance and life insurance segments ties our performance to the business, economic and regulatory conditions of certain states.

The following states provided 55.5 percent of the direct premium volume for the property and casualty insurance segment in 2008: Texas (14.5 percent), Iowa (13.8 percent), Colorado (9.7 percent), Louisiana (8.8 percent) and Missouri (8.7 percent). The following states provided 76.0 percent of the direct statutory premium volume for the life insurance segment in 2008: Iowa (41.9 percent), Wisconsin (10.6 percent), Nebraska (8.0 percent), Minnesota (7.9 percent) and Illinois (7.6 percent). Our revenues and profitability are subject to the prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in the principal states in which we do business. Changes in any of these conditions could make it less attractive for us to do business in such states and would have a more pronounced effect on us compared to companies that are more geographically diversified. In addition, our exposure to severe losses from localized natural perils, such as hurricanes or hailstorms, is increased in those areas where we have written a significant amount of property insurance policies.

We face significant competitive pressures in our business that could cause demand for our products to fall and reduce our revenue and profitability.

The insurance industry is highly competitive. In our property and casualty insurance business and in our life insurance business, we compete, and will continue to compete, with many major U.S. and non-U.S. insurers and smaller regional companies, as well as mutual companies, specialty insurance companies, underwriting agencies, and diversified financial services companies. Some of our competitors have far greater financial and marketing resources than we do. Our premium revenue and our profitability could decline if we lose business to competitors offering similar or better products at or below our prices. We price our insurance products based on estimated profit margins, and we would not be able to significantly reduce our current estimated profit margins in the near future. Some of our competitors, however, are better capitalized than we are and may be able to withstand significant reductions in their profit margins. If our competitors decide to target our policyholder base by offering lower-priced insurance, we may not be able to respond competitively, which could reduce our revenue and our profitability.

Our business depends on the uninterrupted operations of our facilities, systems and business functions.

Our business depends on our employees ability to perform necessary business functions, such as processing new and renewal policies and claims. We increasingly rely on technology and systems to accomplish these business functions in an efficient and uninterrupted fashion. Our inability to access our facilities or a failure of technology, telecommunications or other systems could significantly impair our ability to perform such functions on a timely basis or affect the accuracy of transactions. If sustained or repeated, such a business interruption or system failure could result in a deterioration of our ability to write and process new and renewal business, serve our agents and policyholders, pay claims in a timely manner, collect receivables or perform other necessary business functions.

Risks Relating to Our Common Stock

As an insurance company, our ability to pay dividends is restricted by state law.

We are an insurance company domiciled in the State of Iowa and, as a result, we are subject to Iowa insurance laws restricting our ability to pay dividends to our stockholders, including laws establishing minimum solvency and liquidity standards and laws that prohibit us from paying dividends except from the earned profits arising from our business. Our ability to pay dividends also depends upon the statutory capital and surplus levels and earnings of our subsidiary insurance companies and the ability of our subsidiary insurance companies to pay dividends to us. Payments of dividends by our subsidiary insurance companies are restricted by state insurance laws similar to those laws that restrict our payment of dividends. As a result of these restrictions, at times we may not be able to pay dividends on our common stock, or we may be required to seek prior approval from the applicable regulatory authority before we can pay any such dividends. In addition, the payment of dividends by us is within the discretion of our Board of Directors and will depend on numerous factors, including our financial condition, our capital requirements and other factors that our Board of Directors considers relevant.

The price of our common stock may be volatile.

The trading price of our common stock may fluctuate substantially due to a variety of factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could be significant and could cause a loss in the amount invested in our shares of common stock. Factors that could cause fluctuations include, but are not limited to, the following:

- Variations in our actual or anticipated operating results or changes in the expectations of financial market analysts with respect to our results.
- Investor perceptions of the insurance industry in general and our company in particular.
- Market conditions in the insurance industry and any significant volatility in the market.
- Major catastrophic events.
- Departure of our key personnel.

Certain provisions of our organizational documents, as well as applicable insurance laws, could impede an attempt to replace or remove our management, prevent the sale of our company or prevent or frustrate any attempt by stockholders to change the direction of our company, each of which could diminish the value of our common stock.

Our articles of incorporation and bylaws, as well as applicable laws governing corporations and insurance companies, contain provisions that could impede an attempt to replace or remove our management or prevent the sale of our company that, in either case, stockholders might consider being in their best interests. For example:

Our Board of Directors is divided into three classes. At any annual meeting of our stockholders, our stockholders have the right to appoint approximately one-third of the directors on our Board of Directors. Consequently, it will take at least two annual stockholder meetings to effect a change in control of our Board of Directors.

Our articles of incorporation limit rights of stockholders to call special meetings of stockholders.

Our articles of incorporation set the minimum number of directors constituting the entire Board of Directors at nine and the maximum at 15, and they require approval of holders of two-thirds of all outstanding shares to amend these provisions.

Our articles of incorporation require the affirmative vote of two-thirds of all outstanding shares to approve any plan of merger, consolidation, or sale or exchange of all, or substantially all, of our assets.

Our Board of Directors may fill vacancies on the Board of Directors.

Our Board of Directors has the authority, without further approval of our stockholders, to issue blank check preferred shares having such rights, preferences and privileges as the Board of Directors may determine.

Section 490.1110 of the Iowa Business Corporation Act imposes restrictions on mergers and other business combinations between us and any holder of 10.0 percent or more of our common stock.

Section 490.624A of the Iowa Business Corporation Act authorizes the terms and conditions of stock rights or options issued by us to include restrictions or conditions that preclude or limit the exercise, transfer, or receipt of such rights or options by a person, or group of persons, owning or offering to acquire a specified number or percentage of the outstanding common shares or other securities of the corporation.

Further, the insurance laws of Iowa and the states in which our subsidiary insurance companies are domiciled prohibit any person from acquiring direct or indirect control of us or our insurance company subsidiaries, generally defined as owning or having the power to vote 10.0 percent or more of our outstanding voting stock, without the prior written approval of state regulators.

These provisions of our articles of incorporation and bylaws, and these state laws governing corporations and insurance companies, may discourage potential acquisition proposals. These provisions and state laws may also delay, deter or prevent a change of control of our company, in particular through unsolicited transactions that some or all of our stockholders might consider to be desirable. As a result, efforts by our stockholders to change the direction or our company s management may be unsuccessful, and the existence of such provisions may adversely affect market prices for our common stock if they are viewed as discouraging takeover attempts.

Our largest stockholder may take actions conflicting with other stockholders interests.

Based upon the number of shares of our common stock outstanding as of December 31, 2008, our largest stockholder will have a beneficial interest in, and the power to vote or control the disposition of, approximately 13.6 percent of our issued and outstanding common stock. He is in a position to strongly influence the outcome of substantially all corporate actions requiring stockholder approval, including mergers involving our company, sales of all, or substantially all, of our assets and the adoption of amendments to our articles of incorporation. Also, he may have interests different from, or adverse to, those of our other stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own three buildings: a five-story office building, a two-story office building and an eight-story office building in which a portion of the first floor (approximately 5.7 percent of the building s square footage) is leased to tenants, and related parking facilities in Cedar Rapids, Iowa, that we use as our corporate headquarters. All three buildings are connected by a skywalk system. We previously leased a portion of the building located at 109 Second Street SE in Cedar Rapids, Iowa as reported in our 2007 Form 10-K. Following the significant flooding of Cedar Rapids in June 2008 we took the opportunity to purchase and renovate the building. The first floors and basements of our three owned buildings in Cedar Rapids, Iowa have undergone extensive reconstruction due to the flood.

Our regional locations in Westminster, Colorado, and Galveston, Texas, and our claims office in Metairie, Louisiana, conduct operations in leased office space. Due to Hurricane Ike, our leased office space in Galveston, Texas was damaged and is currently undergoing renovation. We are temporarily leasing office space in a suburb of Houston, Texas for our Gulf Coast Regional Office to conduct business.

The following table shows a brief description of our owned and leased office space. We believe our current facilities are adequate to meet our needs with additional space available for future expansion, if necessary, at each of our leased and owned facilities.

Location	Utilized by	Owned or Leased	Lease Expiration Date
Corporate Headquarters			
Cedar Rapids, Iowa (118 Second Avenue SE)	Corporate Administration, Property and Casualty Segment	Owned	N/A
Cedar Rapids, Iowa (119 Second Avenue SE)	Corporate Administration, Life Insurance Segment	Owned	N/A
Cedar Rapids, Iowa (109 Second Street SE)	Corporate Administration	Owned	N/A
Denver Regional Office Westminster, Colorado	Property and Casualty Segment	Leased	June 30, 2015
Gulf Coast Regional Office Galveston, Texas	Property and Casualty Segment	Leased	November 30, 2014
Gulf Coast Regional Office Temporary office in a suburb of Houston, Texas	Property and Casualty Segment	Leased	Open Ended
New Orleans Claims Office Metairie, Louisiana	Property and Casualty Segment	Leased	September 30, 2009

ITEM 3. LEGAL PROCEEDINGS

Incorporated by reference from Note 1. Significant Accounting Policies under the heading Contingent Liabilities contained in Part II, Item 8, Financial Statements and Supplementary Data.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the shareholders during the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Holders

United Fire s common stock is traded on The NASDAQ Stock Market LLC under the symbol UFCS. On February 1, 2009, there were 904 holders of record of United Fire common stock. The number of record holders does not reflect shareholders who beneficially own common stock in nominee or street name.

The information required under this Item is included under the captions Security Ownership of Certain Beneficial Owners, Security Ownership of Management and Securities Authorized for Issuance under Equity Compensation Plans in our definitive Proxy Statement for our annual meeting of shareholders to be held on May 20, 2009, which will be filed with the SEC within 120 days after the end of our fiscal year (the 2009 Proxy Statement) and is incorporated herein by reference.

Dividends

Our policy has been to pay quarterly cash dividends, and we intend to continue that policy. We have paid dividends every quarter since March 1968. The table in the following section shows the quarterly cash dividends declared in 2008 and 2007. Payments of any future dividends and the amounts of such dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions.

State law permits the payment of dividends only from statutory accumulated earned profits arising from business operations. Furthermore, under Iowa law we may pay dividends only if after giving effect to the payment we are either able to pay our debts as they become due in the normal course of business or our total assets would be equal to or more than the sum of our total liabilities. Our subsidiaries are also subject to similar state law restrictions on dividends. Additional information about these restrictions is incorporated by reference from Note 7. Statutory Reporting, Capital Requirements and Dividends and Retained Earnings Restrictions contained in Part II, Item 8, Financial Statements and Supplementary Data.

Market Information

The following table sets forth the high and low bid quotations for our common stock for the calendar periods indicated. These quotations reflect interdealer prices without retail markups, markdowns, or commissions and may not necessarily represent actual transactions.

	Share Price High	Share Price Low	Cash Dividends Declared
2008			
Quarter Ended:			
March 31	**$ 39.27**	**$ 27.86**	**$ 0.15**
June 30	**39.19**	**26.93**	**0.15**
September 30	**36.07**	**25.25**	**0.15**
December 31	**31.60**	**13.09**	**0.15**
2007			
Quarter Ended:			
March 31	$ 36.65	$ 32.57	$ 0.135
June 30	40.18	34.27	0.135
September 30	43.31	33.19	0.135
December 31	42.99	28.41	0.15

Issuer Purchases of Equity Securities

Under our share repurchase program, announced in August 2007, we may purchase our common stock from time to time on the open market or through privately negotiated transactions. The amount and timing of any purchases are at our discretion and depend upon a number of factors, including the price, economic and general market conditions, and corporate and regulatory requirements. We will generally consider repurchasing company stock on the open market if (a) the trading price on The NASDAQ Stock Market LLC drops below 130.0 percent of its book value, (b) sufficient excess capital is available to purchase the stock, and (c) we are optimistic about future market trends. The following table shows the authorizations and stock repurchases made during the fourth quarter. For a more detailed discussion of our stock repurchase plan, refer to the Executive Summary in Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

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 Yet be Purchased Under the Plans or Programs
10/1/08 10/31/08	76,900	$ 20.39	76,900	688,775
11/1/08 11/30/08	79,900	16.41	79,900	608,875
12/1/08 12/31/08				608,875

Table of Contents

United Fire & Casualty Company Common Stock Performance Graph

The following graph compares the cumulative total stockholder return on our common stock for the last five fiscal years with the cumulative total return of the Russell 2000 Index, the SNL Insurance Company Index and the SNL Property & Casualty Insurance Index, assuming an investment of $100 in each of the above at their closing prices on December 31, 2003, and reinvestment of dividends.

The following table shows the data used in the Total Return Performance graph above.

	Period Ending					
Index	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	**12/31/08**
United Fire & Casualty Company	$ 100.00	$ 169.60	$ 206.03	$ 182.08	$ 152.87	**$ 166.61**
Russell 2000	100.00	118.33	123.72	146.44	144.15	**95.44**
SNL P&C Insurance	100.00	109.61	119.82	139.67	150.81	**116.73**
SNL Insurance	100.00	115.43	135.02	148.40	149.33	**79.72**

ITEM 6. SELECTED FINANCIAL DATA

(In Thousands, Except Per Share Data) Years Ended December 31	**2008**	2007	2006	2005	2004
Total assets	**$ 2,687,130**	$ 2,760,554	$ 2,776,067	$ 2,721,924	$ 2,570,387
Book value	**24.10**	27.63	24.62	21.20	22.46
Repurchase of United Fire common stock	**14,817**	16,078			
Redeemable preferred stock					65,789
Revenues					
Net premiums written [1]	**496,897**	501,849	509,669	487,627	491,099
Net premiums earned	**503,375**	505,763	503,122	495,516	492,291
Investment income, net of investment expenses	**107,577**	122,439	121,981	118,847	111,474
Realized investment gains (losses)	**(10,383)**	9,670	9,965	4,540	4,060
Other income	**880**	654	532	702	300
Future policy benefits and losses, claims and loss settlement expenses:					
Property and casualty insurance	**586,109**	496,083	518,886	620,100	464,889
Life insurance	**1,167,665**	1,184,977	1,233,342	1,285,635	1,255,708
Net income (loss)	**(13,064)**	111,392	88,085	9,044	78,817
Preferred stock dividends and accretions				4,106	4,742
Basic earnings (loss) per common share	**(0.48)**	4.04	3.37	0.22	3.68
Diluted earnings (loss) per common share	**(0.48)**	4.03	3.36	0.22	3.34
Combined ratio	**113.9%**	81.3%	87.9%	111.3%	85.3%
Cash dividends declared per common share	**0.60**	0.555	0.495	0.48	0.42

(1) Please refer to the Non-GAAP financial measures section of this report for further explanation of this measure.

The selected financial data herein has been derived from the consolidated financial statements of United Fire and its subsidiaries and affiliate. The data should be read in conjunction with Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 8 Financial Statements and Supplementary Data. The 2004 amounts reflect the retroactive effects of our December 15, 2004, one-for-one stock dividend.

ITEM 7. 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 expects, anticipates, intends, plans, believes, continues, seeks, estimates, should, could, may, will continue, might, hope, can and variations of such words and similar expressions a to identify such 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. Among the factors that could cause our actual outcomes and results to differ are:

- The adequacy of our loss reserves established for Hurricane Katrina, which are based on management estimates.
- Developments in domestic and global financial markets that could affect our investment portfolio and financing plans.
- Additional government and NASDAQ policies relating to corporate governance, and the cost to comply.
- Changing rates of inflation.
- The valuation of invested assets.
- The valuation of pension and other postretirement benefit obligations.
- The calculation and recovery of deferred policy acquisition costs.
- The ability to maintain and safeguard the security of our data.
- The resolution of regulatory issues and litigation pertaining to and arising out of Hurricane Katrina.
- Our relationship with our reinsurers.
- Our relationship with our agents.
- The pricing of our products.
- The adequacy of the reinsurance coverage that we purchase.

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 SEC, 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.

Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in Part I, Item 1A Risk Factors of this document.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

Consolidated Results of Operations	(Dollars in Thousands)			% Change	
Years ended December 31	**2008**	2007	2006	**2008 vs. 2007**	2007 vs. 2006
Revenues					
Net premiums earned	**$ 503,375**	$ 505,763	$ 503,122	**-0.5%**	0.5%
Investment income, net	**107,577**	122,439	121,981	**-12.1**	0.4
Realized investment gains (losses)	**(10,383)**	9,670	9,965	**-207.4**	-3.0
Other income	**880**	654	532	**34.6**	22.9
Total Revenues	**$ 601,449**	$ 638,526	$ 635,600	**-5.8%**	0.5%
Benefits, Losses and Expenses					
Loss and loss settlement expenses	**$ 406,640**	$ 260,714	$ 292,789	**56.0%**	-11.0%
Increase in liability for future policy benefits	**23,156**	15,666	19,737	**47.8**	-20.6
Amortization of deferred policy acquisition costs	**129,158**	136,805	126,898	**-5.6**	7.8
Other underwriting expenses	**28,252**	22,918	21,525	**23.3**	6.5
Disaster charges and other related expenses	**7,202**			**N/A**	N/A
Interest on policyholders accounts	**40,177**	43,089	49,159	**-6.8**	-12.3
Total Benefits, Losses and Expenses	**$ 634,585**	$ 479,192	$ 510,108	**32.4%**	-6.1%
Income (loss) before income taxes	**$ (33,136)**	$ 159,334	$ 125,492	**-120.8%**	27.0%
Federal income tax expense (benefit)	**(20,072)**	47,942	37,407	**-141.9**	28.2
Net Income (Loss)	**$ (13,064)**	$ 111,392	$ 88,085	**-111.7%**	26.5%
Basic earnings (loss) per share	**$ (0.48)**	$ 4.04	$ 3.37	**-111.9%**	19.9%
Diluted earnings (loss) per share	**(0.48)**	4.03	3.36	**-111.9**	19.9

Executive Summary

We operate property and casualty and life insurance businesses, marketing our products through independent agents. Although we maintain a broad geographic presence that includes most of the United States, more than half of our property and casualty business is generated in Iowa, Texas, Colorado, Louisiana and Missouri. Approximately three-fourths of our life insurance business is generated in Iowa, Minnesota, Wisconsin, Nebraska and Illinois.

We conduct our operations through two distinct segments: property and casualty insurance and life insurance. We manage these segments separately because they generally do not share the same customer base, and they each have different pricing and expense structures. We evaluate each of our segment s profits based upon operating and investment results. Segment profit or loss described in the following sections of Management s Discussion and Analysis is reported on a pre-tax basis. Additional segment information is presented in Part II, Item 8, Note 11 Segment Information to the Consolidated Financial Statements.

Our revenue is primarily comprised of premiums and investment income. Major categories of expenses include losses and loss settlement expenses, changes in reserves for future policy benefits, operating expenses and interest on policyholders accounts. Through disciplined underwriting and strong agency relationships, we have traditionally emphasized writing good business at an adequate price, preferring quality to volume. Our goal of consistent profitability is supported by these business strategies.

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

Over the past three years, our commercial lines of business have accounted for over 90 percent of premium revenue. We anticipate that our current composition of commercial lines and personal lines business will not change materially during the coming year.

In 2008, we had a net loss of $13.1 million, compared to net income of $111.4 million in 2007 and $88.1 million in 2006. The substantial deterioration of our underwriting and overall financial results in 2008 can be attributed to a significant increase in catastrophe losses and the deterioration of the performance of our core book of business. In 2008, we experienced catastrophe losses from 34 events totaling $76.1 million, or $1.83 per share, compared to 18 catastrophic loss events in 2007 totaling $14.1 million, or $.33 per share and 16 catastrophic loss events in 2006 totaling $59.8 million or $1.49 per share. In our core book of business we experienced an increase in loss ratios due to both an increase in severity and continued premium pressure. The combination of these factors had a significant impact on our overall performance. In addition, net investment income declined by $14.9 million to $107.6 million in 2008. This is attributable to lower market interest rates, primarily in short-term investments. Also contributing to this decline was a loss in investment income of $4.5 million due to the performance of our investment in certain limited liability partnership holdings. Further impacting our net income was the other-than-temporary impairment of investment securities totaling $9.9 million in 2008, compared to $.1 in 2007 and $.4 million in 2006.

On June 6, 2008, we received notice of an adverse decision by a Federal Court jury in New Orleans, Louisiana in a lawsuit related to Hurricane Katrina. We are appealing the jury s decision, which according to Louisiana law required us to place $29.0 million on deposit with the State of Louisiana. We recorded a net loss after reinsurance of $10.8 million ($7.0 million after-tax) related to this decision. We continue to settle lawsuits related to Hurricane Katrina and, as of December 31, 2008, we have in excess of 420 individual policyholder cases as well as 11 class-action lawsuits pending. Refer to Note 1. Significant Accounting Policies under the heading Contingent Liabilities contained in Part II, Item 8, Financial Statements and Supplementary Data. for a further discussion of the current status of our ongoing Hurricane Katrina litigation and its potential impact to our operations.

The performance of our underlying book of property and casualty business deteriorated some in 2008, driven by an escalation in loss severity and a continuation of flat or falling premium rates. Excluding catastrophes our average incurred claim size was $8,444 in 2008, $6,452 in 2007 and $5,503 in 2006. Although we feel well positioned to withstand the current market conditions, as we have always competed on our products and services rather than on price, we are making some modifications to our underwriting guidelines in 2009 and expanding the use of our loss control unit, eliminating certain unprofitable classes of business and enhancing our predictive analysis tools.

On June 11, 2008, our corporate headquarters was forced to close temporarily due to historic flooding in Cedar Rapids, Iowa, that caused extensive damage to the first and lower levels of our buildings. Our disaster recovery plan was effective in allowing us to access and restore all of our major automated processing systems within 24 hours of the flood. We were also able to have a temporary office for more than 200 employees up and running within one week. Other employees were able to remotely access our systems and work from home. Despite a few minor technical issues, we were able to maintain our book of business and actively process new business during the 11 weeks that employees were displaced from our corporate headquarters. Reconstruction of those areas of our corporate headquarters affected by the flood continues on schedule and we expect these efforts to be completed during the first quarter of 2009.

We recorded $6.8 million of flood-related expenses, net of insurance, in 2008, which primarily relates to costs incurred to clean up and restore our buildings and their contents, and we anticipate incurring additional expenses for reconstruction and other related costs in 2009. We believe that any additional costs to be incurred would be minimal and immaterial to our results of operations. A portion of these costs may be subject to recovery. We have received insurance reimbursements totaling $3.1 million, which have offset the expenses incurred through December 31, 2008. Since December 31, 2008 we have received an additional $1.0 million in insurance recoveries.

On September 1, 2008, Hurricane Gustav made landfall along the Louisiana coast near Cocodrie, Louisiana. On September 13, 2008, Hurricane Ike made landfall in Galveston, Texas. Hurricanes Gustav and Ike together were considerable financial events for us, resulting in more than $36.0 million in incurred losses and loss settlement expenses during 2008. These hurricanes made fairly direct hits on two of our three largest Gulf Coast exposures that

we monitor the southeastern Louisiana and Galveston-Houston areas. We do not expect that further development on our losses from Hurricane Gustav will require us to utilize our catastrophe reinsurance coverage, which has a loss retention limit of $20.0 million. We are encouraged that the losses for Hurricane Ike, which have exceeded our catastrophe reinsurance loss retention, will not have a material impact on our future results of operations as any further development will be ceded under our catastrophe reinsurance coverage.

We were directly affected by Hurricanes Gustav and Ike. Due to Hurricane Gustav, our New Orleans claims office in Metairie, Louisiana was closed for three days. Due to Hurricane Ike, our Gulf Coast regional office in Galveston, Texas closed for three weeks before reopening in a temporary facility in a suburb of Houston, Texas. As with the flooding in Cedar Rapids, our disaster recovery plan for these offices performed as expected, allowing our employees to access our major automated processing systems quickly and efficiently. We recorded $.4 million of hurricane-related expenses in 2008, which primarily relates to costs incurred to remove damaged contents from the affected areas and establish a temporary facility for our Gulf Coast regional office. We anticipate incurring additional expenses for the clean-up and restoration of the affected areas and other related costs in 2009. A portion of these costs will be subject to recovery under our insurance. As of December 31, 2008, no such recovery has been recorded against the expenses incurred.

This has been a difficult year for our company, but with the support of our employees and customers, we have been able to meet the challenges created by these natural disasters with almost no disruption in service to our agents and policyholders. Our overall disaster preparedness allowed us to continue to settle claims, process new business and service existing accounts despite the temporary office closings. For the most part it was business as usual for our customers despite these natural disasters.

The stable results and steady income produced by our life insurance segment has historically helped offset the volatility of our property and casualty insurance earnings that occurs due to the cyclical nature and weather patterns of the property and casualty insurance business. In order to maintain profitability within our life insurance segment we continue to diversify our product offerings in response to industry needs. Our new universal life product, introduced in 2007, has been well received by those agents accustomed to marketing universal life policies. Small- to mid-size employer groups have been our target market to date. In 2009 we plan to expand our target market with the goal of enrolling 100 new small- to mid-size employer groups. During 2008 we continued to see annuity withdrawals exceed new annuity deposits although at a slower pace than experienced during 2007 and 2006. We will continue to monitor annuity withdrawals closely to determine if future interest rate adjustments are necessary. The current interest rate environment presents a challenge to maintaining a profitable interest rate spread for our annuity business. Although our life insurance segment had a good year operationally, nearly all of its income was lost to realized investment losses of $12.3 million in 2008 (primarily due to write-downs of Kaupthing Bank and Lehman Brothers fixed maturity securities), compared to realized investment gains of $2.6 million in 2007 and $3.0 million in 2006.

The global investment markets have experienced extraordinary volatility in 2008, especially in the last six months of the year. We have been impacted by this volatility, with our available-for-sale fixed maturity securities and our equity securities generating an unrealized loss of $128.6 million for 2008 compared to an unrealized loss of $8.4 million for 2007 and an unrealized gain of $1.7 million for 2006. We are committed to a general buy-and- hold philosophy in relationship to our investment portfolio, with the ability and intention of holding our investments to maturity or until a recovery in value occurs. Despite the calamities of the past year, we remain in a strong capital position, with less than a 15 percent decline in our stockholders equity from 2007 to 2008.

In August 2007, our Board of Directors authorized a share repurchase program with an initial authorization of 600,000 shares. This was added to our existing blanket repurchase authorization of 87,167 shares that remained from a previous authorization to repurchase shares. Following the program s adoption in 2007, the Board of Directors increased the repurchase authorization by 500,000 shares in both February 2008 and August 2008, respectively. Under this share repurchase program, management may purchase our common stock from time to time through open market or privately negotiated transactions. In determining the amount and timing of stock repurchases, management considers many factors including the price of our common stock, general market and economic conditions, other corporate uses for capital and regulatory requirements. The share repurchase program expires on August 17, 2009 unless further extended by the Board of Directors, but the Board of Directors may modify or discontinue the program at any time. Since inception, we have repurchased a total of 1,078,292 shares of our common stock at an average stock price of $28.65 per share. During 2008, we repurchased 580,792 shares of our common stock at an average stock price of $25.51 and returned them to the status of authorized but unissued shares. As of December 31, 2008, our remaining repurchase authorization is 608,875 shares. We are faced with the challenge of balancing the capital adequacy

requirements established by A.M. Best with market expectations regarding returns on equity investment. For a more detailed accounting of the shares repurchased under this program in the fourth quarter of 2008, refer to Part II, Item 5 Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our policy has been to pay quarterly cash dividends, and we intend to continue that policy. We have paid dividends every quarter since March 1968. Payment of any future dividends, however, will depend upon factors such as net income, financial condition, capital requirements, and general business conditions. For a more detailed accounting of dividends paid during 2008 and 2007, refer to Part II, Item 5 Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Enterprise Risk Management

Enterprise risk management (ERM) is a methodology that helps an organization assess and manage its overall exposure to risk. ERM begins as a capital preservation process that helps insurers identify, quantify and manage risks from all sources that exist throughout the corporation, including risks arising from investments, underwriting, and operations. ERM considers the accumulation and diversification of risk and utilizes a company s past experience to help evaluate future business plans and manage risk.

We employ a multi-disciplinary approach to risk identification and evaluation from claims to underwriting to financial to investments. Members of our ERM committee include our Chief Executive Officer, Chief Financial Officer, Executive Vice President, Vice President of Claims, Vice President of Corporate Underwriting, Chief Investment Officer and Vice President/Chief Operating Officer of our life insurance subsidiary (United Life Insurance Company), as well as United Life Insurance Company s independent actuary. This committee meets on a quarterly basis with two members of our Board of Directors to oversee our risk management process and to implement risk management strategies.

During its meetings, the ERM committee discusses the risks that our company faces, as well as the controls that are in place to mitigate those risks. These are not new ideas management has actively and successfully managed risks throughout our company s history. Collectively, the committee has identified two broad categories of risk faced by our company insurance risk and operational risk. Types of insurance risks generally include, but are not limited to, those risks associated with catastrophes, geographical concentrations of property insured, business mix, underwriting practices, loss reserving practices, policy pricing, and the actions of our competitors. Types of operational risks we face generally include, but are not limited to, those risks associated with business continuity planning, information technology, executive succession planning, regulatory and legal compliance, diversification and quality of investments and the application of accounting policies and procedures.

ERM issues are discussed both during our quarterly Board of Directors meetings and at our semi-annual managers meetings. At these meetings, directors and managers are updated on ERM issues and the ongoing efforts of the ERM committee. The work of our ERM committee has led to the development of new tools designed to aid in the evaluation and mitigation of underwriting risks.

One of the most significant risks in our business is our exposure to catastrophic events. We use various analyses and methods, including computer modeling techniques, to analyze catastrophic events and the risks associated with them. We use these analyses and methods as tools to make underwriting and reinsurance decisions designed to manage our exposure to catastrophic events.

As part of our risk management process, we use third-party proprietary computer modeling of windstorm/hail, hurricane and earthquake events, to aid in estimating the likelihood that the loss from a single event occurring in a one-year timeframe will equal or exceed a particular amount.

Catastrophe modeling requires a significant amount of judgment and a number of assumptions and relies upon inputs based on experience, science, engineering and history. As a result, such models may fail to account for risks that are outside of the range of normal probability or that are otherwise unforeseeable. Consequently, catastrophe modeling estimates are subject to significant uncertainty. In addition, more than one such event could occur in any period. There are no industry-standard methodologies or assumptions for projecting catastrophe exposure. Accordingly, catastrophe estimates provided by different insurers may not be comparable.

Property and Casualty Insurance Segment

Property & Casualty Segment Results of Operations

(Dollars in Thousands)

				% Change	
Years ended December 31	**2008**	2007	2006	**2008 vs. 2007**	2007 vs. 2006
Net premiums written [1]	**$ 459,571**	$ 470,402	$ 476,402	**-2.3%**	-1.3%
Net premiums earned	**$ 465,581**	$ 473,134	$ 467,031	**-1.6%**	1.3%
Loss and loss settlement expenses	**393,349**	245,845	278,504	**60.0**	-11.7
Amortization of deferred policy acquisition costs	**117,590**	123,420	118,756	**-4.7**	3.9
Other underwriting expenses	**19,146**	15,378	13,269	**24.5**	15.9
Underwriting income (loss)	**$ (64,504)**	$ 88,491	$ 56,502	**-172.9%**	56.6%
Investment income, net	**$ 33,452**	$ 43,363	$ 40,225	**-22.9%**	7.8%
Realized investment gains	**1,879**	7,099	6,986	**-73.5**	1.6
Other income (loss)	**(55)**	59	(108)	**N/A**	N/A
Disaster charges and other related expenses	**7,202**			**N/A**	N/A
Income (loss) before income taxes	**$ (36,430)**	$ 139,012	$ 103,605	**-126.2%**	34.2%

(1) Please refer to the Non-GAAP financial measures section of this report for further explanation of this measure.

Combined Ratio (GAAP Basis)				Increase (Decrease) in Ratios	
				2008 vs.	2007 vs.
Years ended December 31	**2008**	2007	2006	**2007**	2006
Loss ratio	**84.5%**	52.0%	59.6%	**32.5%**	-7.6%
Expense ratio [1]	**29.4**	29.3	28.3	**0.1**	1.0
Combined ratio [2]	**113.9%**	81.3%	87.9%	**32.6%**	-6.6%
Combined ratio (without catastrophes) [2]	**97.6**	78.3	75.1	**19.3**	3.2

Combined Ratio (Statutory Basis)				Increase (Decrease) in Ratios	
				2008 vs.	2007 vs.
Years ended December 31	**2008**	2007	2006	**2007**	2006
Loss ratio	**84.6%**	52.4%	60.2%	**32.2%**	-7.8%
Expense ratio [1]	**28.8**	29.7	29.5	**-0.9**	0.2
Combined ratio [2]	**113.4%**	82.1%	89.7%	**31.3%**	-7.6%
Combined ratio (without catastrophes) [2]	**97.1**	79.1	76.9	**18.0**	2.2

Combined Ratio Industry (Statutory Basis) [3]				Increase (Decrease) in Ratios	
				2008 vs.	2007 vs.
Years ended December 31	**2008** [3]	2007	2006	**2007**	2006
Loss ratio	**64.9%**	55.8%	53.4%	**9.1%**	2.4%
Expense ratio [1]	**39.8**	39.8	39.0	**0.0**	0.8
Combined ratio [2]	**104.7%**	95.6%	92.4%	**9.1%**	3.2%
Combined ratio (without catastrophes) [2]	**99.7**	94.1	90.3	**5.6**	3.8

(1) Includes policyholder dividends.

(2) Please refer to the Non-GAAP financial measures section of this report for further explanation of this measure.

(3)

A.M. Best.
Company estimate.

Our property and casualty insurance segment reported a pre-tax loss of $36.4 million in 2008, compared to pre-tax income of $139.0 million in 2007 and $103.6 million in 2006. The deterioration in our 2008 results, compared to 2007 and 2006, was primarily due to the significant number of catastrophe losses we experienced in 2008. The financial impact from these catastrophes was realized largely on our commercial property line of business. Also contributing to the decline was an increase in the severity of non-catastrophe losses and the impact of competitive market conditions on pricing.

Premiums

The following table shows our premiums written and earned for 2008, 2007 and 2006.

(Dollars in Thousands)				% Change	
Years ended December 31	**2008**	2007	2006	**2008 vs. 2007**	2007 vs. 2006
Direct premiums written	**$ 484,038**	$ 494,541	$ 504,420	**-2.1%**	-2.0%
Assumed premiums written	**12,660**	16,907	19,000	**-25.1**	-11.0
Ceded premiums written	**(37,127)**	(41,046)	(47,018)	**-9.5**	-12.7
Net premiums written [(1)]	**$ 459,571**	$ 470,402	$ 476,402	**-2.3%**	-1.3%
Net premiums earned	**465,581**	473,134	467,031	**-1.6**	1.3

(1) Please refer to the Non-GAAP financial measures section of this report for further explanation of this measure.

Direct premiums written is the total policy premiums, net of cancellations, associated with policies issued and underwritten by our property and casualty insurance segment. Assumed premiums written is the total premiums associated with the insurance risk transferred to us by other insurance and reinsurance companies pursuant to reinsurance contracts. Ceded premiums written is the portion of direct premiums written that we cede to our reinsurers under our reinsurance contracts. Net premiums earned are recognized over the life of a policy and differ from net premiums written, which are recognized on the effective date of the policy.

The decline in our net premiums written between years is attributable to reduced premium rates from increased competition in the insurance marketplace as well as the nonrenewal of business that does not meet our underwriting standards. According to industry estimates provided by A.M. Best, the property and casualty industry as a whole is expecting to see net premiums written decline by 0.8 percent in 2008 as compared to 2007.

In 2008, the property and casualty insurance industry experienced the fourth year of soft market conditions, characterized by increased competition and pricing pressure, particularly on mid-size and large commercial accounts. During 2007 and 2008, despite the soft market conditions, our retention rates have remained high. We attribute this success to our relationships with our agents, a superior level of customer service, automation and our products. We feel the property and casualty insurance market is at or near the bottom of the current market cycle and we anticipate that prices will begin to firm sometime in 2009. With the approval of recent low single-digit percentage rate level increases in the fourth quarter of 2008, we believe we are well positioned to take advantage of and benefit from hardening in the market, when it occurs. However, if soft market conditions continue through 2009, we may see a decline in policy retention and further reductions in net premiums written.

In 2008, we implemented a program of new underwriting tools that we anticipate will contribute to the profitability of the workers compensation line of business. Also in 2008, as part of a continued commitment to grow our book of business, we appointed 24 new independent agents to promote and sell our products, bringing our total number of property and casualty agents to 837. On December 1, 2008, we began marketing our commercial insurance in the state of Montana, and we will begin offering our personal insurance in that state in mid-2009. To date, we have appointed one new Montana agency with five locations in the state, with plans to appoint additional agents in the near future. Also in 2009, we are working to revamp our business owner s coverage program and enhance our commercial property underwriting through enhanced geocoding, loss modeling and address-specific hazard data.

As of December 31, 2008 we have only five active contracts in our assumed reinsurance business and a number of assumed reinsurance contracts that are in run-off. Late in 2006, we made the decision to cancel one of our largest remaining assumed contracts. This decision was made in response to the loss of available reinsurance protection, leaving us with a larger percentage of the total exposure than we were comfortable with. As a result of this decision, through 2008 our assumed premium writings were down 33.4 percent as compared to 2006 levels.

Net premiums earned are decreased by ceded premiums that we pay to reinsurers. In 2006, premium rates for our catastrophe and excess of loss reinsurance increased substantially from premium rates previously charged because of the significant losses incurred by reinsurers as a result of Hurricane Katrina and other catastrophes. Pricing of ceded reinsurance did not increase materially in 2007 or 2008. The reduction in ceded premiums written in 2007 and 2008 was due to the lower level of direct premiums written in each of those years. We anticipate that if the higher than normal catastrophe activity experienced by many insurers in 2008 continues into 2009, reinsurance pricing will increase in 2010.

Catastrophe Losses

In the five years prior to 2006, our net catastrophe losses incurred each year (excluding losses from Hurricane Katrina) averaged approximately $20.1 million. In 2006, our catastrophe losses totaled $59.8 million, with $31.7 million related to Hurricane Katrina development. In 2007, we incurred $14.1 million in catastrophe losses, with $6.3 million from Hurricane Katrina. In 2008, we incurred $76.1 million in catastrophe losses, with $15.8 million from Hurricane Katrina (not including a $10.8 million judgment, currently under appeal, net of reinsurance, which was entered into and incurred in 2008). In 2008, we experienced our second highest year for catastrophe losses in the past decade, with losses from 34 catastrophe events. Our largest losses during 2008 were related to Hurricane Ike ($20.2 million) and Hurricane Gustav ($15.8 million). During the fourth quarter of 2008, our losses from Hurricane Ike surpassed our catastrophe reinsurance loss retention limits. As a result, we recorded a reinsurance recoverable of $2.4 million related to Hurricane Ike through December 31, 2008.

In the months following Hurricane Katrina, we made the decision to reduce our property exposures along the Gulf Coast. Due to regulatory constraints, we were required to wait until 2007 to initiate our plan. Through 2008, we have exceeded our goal of reducing our property exposures in Louisiana, reducing the exposure by over one-third. Our planned reduction has also reduced our estimated 100-year maximum probable loss by over 50 percent. To maintain profitability of our remaining Gulf Coast business, we have employed portfolio optimizing techniques (i.e., proximity to the coast, type of construction, the reduction of geographic risk concentration and higher deductibles) to reduce the impact of any one future catastrophe. As an example of the effectiveness of our risk-reduction efforts, we estimate that we incurred $12.8 million less in losses related to Hurricane Gustav than we would have if we had not undertaken these measures. In an effort to reduce our exposure to future catastrophes, over the last several years we have also increased our reinsurance limit from $125.0 million in 2005 to $200.0 million in 2008.

Non-Catastrophe Losses

As discussed in more detail elsewhere in this Management s Discussion and Analysis section, we continue to experience the effects of soft market conditions within the insurance industry. These conditions have led to downward pressure on premium rates, particularly for mid-size to large commercial accounts. At the same time, during 2008 we experienced an unexpected increase in loss severity compared to prior years, while frequency of reported losses remained relatively stable between years, particularly in accounts under $100,000.

Late in 2008, we began a corporate-wide audit of our reported large claim losses to analyze the increase in severity that we experienced in 2008. While we were satisfied with the results of the audit, our review did result in the modification of certain underwriting guidelines. Examples of such modifications include an increase in the number of commercial accounts serviced by our loss control unit, the development of a new safety class for insureds, a decline in certain classes of commercial business that are no longer profitable and the introduction of pricing increases.

Reserve Development

Certain of our lines of business, particularly workers compensation and other liability, are considered by us to be long-tail lines of business due to the length of time that may elapse before claims are finally settled. Therefore, we may not know our final development on individual claims for many years. Our estimates for losses, particularly in these long-tail lines, are dependent upon many factors, such as the legal environment, inflation and medical costs. We consider all of these factors, as well as others, in estimating our loss reserves. As conditions or trends with respect to these factors change, we change our estimate for loss reserves accordingly.

In 2008, we increased our reserves for losses that occurred in prior years, which resulted in a net deficiency of $.5 million. The primary cause of the deficiency is related to Hurricane Katrina, which occurred in 2005. We recorded $26.6 million in Hurricane Katrina losses and loss settlement expenses in 2008, which included $10.8 million in net losses incurred on a claim that resulted from the adverse jury verdict in a lawsuit related to Hurricane Katrina. These Hurricane Katrina-related losses contributed to a deficiency in the fire and allied lines business of $12.2 million.

Also contributing to our overall deficiency was an increase in general liability losses, which includes both other and products liability lines. Claims for construction defect losses are included in the products liability line of business. Incurred losses from construction defect claims for prior years were $7.7 million in 2008. These losses contributed to a deficiency in the other liability and products liability lines of business totaling $5.8 million.

Other changes in loss development included loss redundancies in the following lines of business: commercial auto liability ($3.2 million), workers compensation ($7.2 million) and assumed reinsurance ($5.2 million).

In 2007, we incurred losses and loss settlement expenses of $245.8 million, of which $291.0 million were from claims that occurred in 2007. We had favorable development from prior years claims of $45.2 million. The redundancy was realized in each of our lines of business, with the exception of homeowners, which was attributable to adverse development from Hurricane Katrina.

In 2006, loss and loss settlement expenses incurred were $278.5 million, with $303.5 million of loss and loss settlement expenses that occurred in 2006 and a redundancy of $25.0 million ($62.2 million without the adverse development on Hurricane Katrina claims) on losses that occurred prior to 2006, which resulted from settling or reestimating claims for less than reserved at December 31, 2005. Due to Hurricane Katrina, our homeowners, allied lines and commercial multiple peril lines of business experienced a reserve deficiency, while our remaining lines of business experienced reserve redundancies for the year.

The following table illustrates the primary components of the net loss redundancy (deficiency) we experienced in our reserves for 2008, 2007 and 2006.

(Dollars in Thousands) Years ended December 31	**2008**	2007	2006
Savings from:			
Salvage and subrogation	**$** 7,099	$ 11,637	$ 13,516
Alternative dispute resolution	7,352	8,847	8,360
Workers compensation medical bill review	3,477	4,113	2,071
Other	8,152	29,322	38,269
	$ 26,080	$ 53,919	$ 62,216
Adverse development from Hurricane Katrina [1]	(26,628)	(8,718)	(37,251)
Net redundancy (deficiency)	**$** (548)	$ 45,201	$ 24,965

(1) The 2008 number includes a $10.8 million judgment, net of reinsurance, which was entered and incurred in 2008 in a lawsuit related to Hurricane Katrina, which is currently pending the results of an appeal.

Salvage is the sale of damaged goods, for which the insured has been indemnified for and for which the insured has transferred title to the insurance company. Salvage reduces the cost incurred for property losses. Subrogation also reduces the costs incurred for a loss by seeking payment from other parties involved in the loss and/or from the other parties insurance company. Alternative dispute resolution facilitates settlements and reduces defense and legal costs through processes such as mediation and arbitration. Workers compensation medical bill review is a system designed to detect duplicate billings, unrelated and unauthorized charges and coding discrepancies. It also ensures that we are billed for medical services according to the fee schedule designated by each state in which we have claims.

Our other redundancy is attributable to both the payment of claims in amounts other than the amounts reserved and changes in reserves due to additional information on individual claims that we received after the reserves for those

claims had been established. The additional information we consider is unique to each claim. Such information may include facts that reveal we have no coverage obligation for a particular claim, changes in applicable laws that reduce our liability or coverage exposure on a particular claim, facts that implicate other parties as being liable on a particular claim and favorable court rulings that decrease the likelihood that we would be liable for a particular claim. Also, additional information relating to severity is unique to each claim. For example, we may learn during the course of a claim that bodily injuries are less severe than originally believed or that damage to a structure is merely cosmetic instead of structural.

Net Loss Ratios by Line

The table on the following page depicts our net loss ratio for 2008, 2007 and 2006.

Years ended December 31 (Dollars in Thousands)	**2008** Net Premiums Earned	Net Losses & Loss Settlement Expenses Incurred	Net Loss Ratio	2007 Net Premiums Earned	Net Losses & Loss Settlement Expenses Incurred	Net Loss Ratio	2006 Net Premiums Earned	Net Losses & Loss Settlement Expenses Incurred	Net Loss Ratio
Commercial lines:									
Other liability [(1)]	**$ 134,429**	**$ 93,000**	**69.2%**	$ 136,704	$ 55,354	40.5%	$ 130,358	$ 38,754	29.7%
Fire and allied lines [(2)]	**109,217**	**134,060**	**122.7**	117,494	65,773	56.0	124,862	106,889	85.6
Automobile	**101,229**	**72,384**	**71.5**	99,004	63,509	64.1	95,443	55,422	58.1
Workers compensation	**52,792**	**41,434**	**78.5**	48,359	32,408	67.0	42,079	31,160	74.1
Fidelity and surety	**22,244**	**4,105**	**18.5**	21,848	2,121	9.7	22,021	7,741	35.2
Miscellaneous	**858**	**438**	**51.0**	851	413	48.5	867	134	15.5
Total commercial lines	**$ 420,769**	**$ 345,421**	**82.1%**	$ 424,260	$ 219,578	51.8%	$ 415,630	$ 240,100	57.8%
Personal lines:									
Fire and allied lines [(3)]	**$ 21,353**	**$ 34,195**	**160.1%**	$ 21,117	$ 12,434	58.9%	$ 20,511	$ 22,005	107.3%
Automobile	**12,603**	**11,701**	**92.8**	13,764	8,561	62.2	16,427	7,771	47.3
Miscellaneous	**326**	**472**	**N/A**	311	353	N/A	332	502	N/A
Total personal lines	**$ 34,282**	**$ 46,368**	**135.3%**	$ 35,192	$ 21,348	60.7%	$ 37,270	$ 30,278	81.2%
Reinsurance assumed	**$ 10,530**	**$ 1,560**	**14.8%**	$ 13,682	$ 4,919	36.0%	$ 14,131	$ 8,126	57.5%
Total	**$ 465,581**	**$ 393,349**	**84.5%**	$ 473,134	$ 245,845	52.0%	$ 467,031	$ 278,504	59.6%

(1) Other liability is business insurance covering bodily injury and property damage arising from general business operations, accidents on the insured s premises and

products manufactured or sold.

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

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

Commercial Lines

The net loss ratio in our commercial lines of business was 82.1 percent in 2008, 51.8 percent in 2007 and 57.8 percent in 2006. Several factors contributed to the deterioration in 2008. Our other liability losses and loss settlement expenses incurred grew to $93.0 million in 2008, compared to $55.4 million in 2007. A portion of the increase in other liability losses was due to an increase in construction defect claims. In 2008, we experienced an increase in construction defect claims, with incurred losses of $11.0 million in 2008, compared to $5.4 million in 2007. Further discussion of these factors follows in subsequent subsections of this report.

In 2008, commercial lines catastrophe losses totaled $54.5 million, compared to $12.7 million in 2007. In 2007, our results in commercial lines had improved over 2006, due primarily to the lower catastrophe losses experienced in 2007 than in 2006. The 2006 results in these lines were impacted by further development from Hurricane Katrina losses. In each of the three years, 2006 through 2008, our profitability in commercial lines was negatively impacted by soft market conditions, as characterized by reductions in premium pricing.

Commercial Fire and Allied Lines

Commercial fire and allied lines insurance covers losses to an insured s property, including its contents, from weather, fire, theft or other causes. We provide this coverage through a variety of business policies. The net loss ratio for our commercial fire and allied lines was 122.7 percent in 2008, 56.0 percent in 2007 and 85.6 percent in 2006. The deterioration in these lines was driven by catastrophe losses, which increased by nearly $50.6 million in 2008 over 2007. Losses from Hurricanes Gustav and Ike contributed $3.6 million and $19.0 million respectively, to the commercial lines property losses in 2008. We also had an increase in commercial fire losses, with incurred losses from these claims increasing from $20.3 million in 2007 to $27.3 million in 2008. The number of claims reported decreased slightly, but the severity of commercial fire losses increased. The improvement in our 2007 results, as compared to 2006, was due to a lower frequency of fires and few catastrophe losses.

Without considering catastrophe losses, frequency has not changed significantly over the past three years, but severity has grown, and we are taking measures to address our increase in incurred losses in the commercial fire and allied lines of business. We have implemented a number of underwriting initiatives that we anticipate will improve our loss experience. We have a loss control unit that we intend to utilize more frequently in 2009 and we may augment the number of employees who perform loss control services for our customers. In a comprehensive review of our larger 2008 calendar year losses, our senior underwriters identified a number of building characteristics that we will scrutinize more closely when underwriting new and renewal business. We continue to utilize technology to evaluate and improve our spread of risk in hurricane-prone areas along the Gulf Coast. In addition, we are analyzing our policy and loss experience data so that we can enhance our use of predictive modeling in each of our commercial lines of business.

While losses incurred have increased, a decrease in premiums earned in the commercial property lines of business has also contributed to the 2006-2008 declining profitability. Premiums earned in these lines have decreased from $124.9 million in 2006 to $109.2 million in 2008. This decrease in premiums resulted from the competitive insurance market and the continued reduction in pricing, which has impacted our commercial property lines more than our other insurance business. In addition, beginning in 2006, we reduced the number of policies that we write in catastrophe-prone areas along the Gulf Coast, primarily in Louisiana, and this has lead to a decline in premiums earned over the past three years.

Other Liability

Our other liability line of insurance covers businesses for bodily injury liability and property damage arising from general business operations, accidents on their premises and products manufactured or sold. We reported a net loss ratio in this line of 69.2 percent in 2008, 40.5 percent in 2007 and 29.7 percent in 2006.

Construction Defect Losses

Losses from construction defect claims have increased from $4.2 million in 2006 to $5.4 million in 2007 to $11.0 million in 2008. We currently have $16.0 million in loss and loss settlement expense reserves for open construction defect claims. Construction defect claims generally relate to allegedly defective work performed in the construction of structures such as apartments, condominiums, single family dwellings or other housing, as well as the sale of defective building materials. Such claims seek recovery due to damage caused by alleged deficient construction techniques or workmanship. Much of the recent claims activity has been generated by plaintiffs lawyers who approach new homeowners, and in many cases homeowner associations with large numbers of homeowners in multi-residential complexes, about defects or other flaws in their homes. The reporting of such claims can be quite delayed as the statute of limitations is an extended period of time sometimes up to ten years. Court decisions have expanded insurers exposure to construction defect claims as well. A majority of our exposure to construction defect claims has been in Colorado and surrounding states. We historically have insured small-to-medium sized contractors in this geographic area. In an effort to limit the number of future claims from multi-unit buildings, we are implementing new policy exclusions limiting sub-contractor coverage on any building project with more than 12 units or on single family homes in any subdivision where the contractor is working on more than 15 homes. We are also implementing policy language excluding coverage for architects and engineers who do not carry their own professional liability insurance coverage. Finally, we are adding a limiting endorsement making our policy coverage in excess of any other insurance coverage.

General Liability Losses Other Than Construction Defect

Within our other liability lines of business (other than construction defect), frequency remained virtually unchanged, with losses incurred on 4,493 claims in 2008, and 4,426 in 2007. Severity, however, has increased in other liability losses. Due to the increase in severity, our average pure loss incurred per general liability claim more than doubled in 2008, increasing to $9,551 from $4,590. Because of the long-tail nature of liability claims, significant periods of time, ranging up to several years, may elapse between the occurrence of the loss, the reporting of the loss to us and the settlement of the claim. Over 30 percent of our other liability losses incurred in 2008 resulted from losses that occurred prior to 2008. The prior years that were most significantly impacted were 2001, 2003, 2004 and 2005. During 2009, we will be implementing revised underwriting guidelines and utilizing our loss control unit more frequently, working to bring this line of business back to a higher level of profitability.

The deterioration in the net loss ratio in 2007 compared with 2006 was primarily related to increased severity. We had several large liability losses in 2007, but had not detected trends as to cause of loss or geographic location.

Like a majority of our business, the competitive market has limited our growth in premiums in other liability insurance, though to a lesser extent than in our property lines of business.

Commercial Automobile

Our commercial automobile insurance covers physical damage to an insured s vehicle, as well as liabilities to third parties. Automobile physical damage insurance covers loss or damage to vehicles from collision, vandalism, fire, theft, flood or other causes. Automobile liability insurance covers bodily injury, damage to property resulting from automobile accidents caused by the insured, uninsured or underinsured motorists and the legal costs of defending the insured against lawsuits. Generally, our company policy is to write standard automobile insurance. Our net loss ratio in commercial automobile was 71.5 percent in 2008, 64.1 percent in 2007 and 58.1 percent in 2006. Our policy count increased by approximately 4.0 percent, which resulted in an increase in premiums earned of $2.2 million between 2007 and 2008. Losses and loss settlement expenses increased in each of