

UNITED FIRE GROUP INC
Form 10-Q
May 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended March 31, 2013

Commission File Number 001-34257

UNITED FIRE GROUP, INC.
(Exact name of registrant as specified in its charter)

Iowa
(State of Incorporation)

45-2302834
(IRS Employer Identification No.)

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

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

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

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

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

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

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

As of May 6, 2013, 25,281,042 shares of common stock were outstanding.

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Exhibit 31.1

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FORWARD-LOOKING INFORMATION

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

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.

Consolidated Balance Sheets

(In Thousands, Except Share Data)	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value \$1,668 in 2013 and \$1,681 in 2012)	\$1,638	\$1,655
Available-for-sale, at fair value (amortized cost \$2,666,902 in 2013 and \$2,657,800 in 2012)	2,807,582	2,808,078
Trading securities, at fair value (amortized cost \$12,470 in 2013 and \$12,645 in 2012)	13,738	13,353
Equity securities		
Available-for-sale, at fair value (cost \$67,464 in 2013 and \$66,892 in 2012)	195,677	177,127
Trading securities, at fair value (cost \$1,772 in 2013 and \$1,772 in 2012)	2,131	2,018
Mortgage loans	4,581	4,633
Policy loans	6,566	6,671
Other long-term investments	30,646	30,028
Short-term investments	800	800
	3,063,359	3,044,363
Cash and cash equivalents	101,948	107,466
Accrued investment income	30,079	30,375
Premiums receivable (net of allowance for doubtful accounts of \$888 in 2013 and \$866 in 2012)	207,920	188,289
Deferred policy acquisition costs	113,088	105,300
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of \$34,060 in 2013 and \$34,093 in 2012)	42,328	43,090
Reinsurance receivables and recoverables	120,140	114,399
Prepaid reinsurance premiums	3,218	2,963
Income taxes receivable	2,386	16,536
Goodwill and intangible assets	27,624	28,259
Other assets	12,600	13,613
TOTAL ASSETS	\$3,724,690	\$3,694,653
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	\$971,239	\$971,911
Life insurance	1,484,362	1,498,176
Unearned premiums	326,320	311,650
Accrued expenses and other liabilities	157,801	164,111
Deferred income taxes	26,826	19,628
TOTAL LIABILITIES	\$2,966,548	\$2,965,476
Stockholders' Equity	\$25	\$25

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Common stock, \$0.001 par value; authorized 75,000,000 shares; 25,266,295 and 25,227,463 shares issued and outstanding in 2013 and 2012, respectively

Additional paid-in capital	209,472	208,536
Retained earnings	444,035	425,428
Accumulated other comprehensive income, net of tax	104,610	95,188
TOTAL STOCKHOLDERS' EQUITY	\$758,142	\$729,177
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,724,690	\$3,694,653

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

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United Fire Group, Inc.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

(In Thousands, Except Share Data)	Three Months Ended March 31,	
	2013	2012
Revenues		
Net premiums earned	\$176,817	\$161,503
Investment income, net of investment expenses	26,464	29,146
Net realized investment gains		
Other-than-temporary impairment charges	—	—
All other net realized gains (includes reclassifications for net unrealized gains on available-for-sale securities of \$1,909 in 2013; and \$2,794 in 2012; previously included in accumulated other comprehensive income)	1,909	2,794
Total net realized investment gains	1,909	2,794
Other income	115	256
Total revenues	\$205,305	\$193,699
Benefits, Losses and Expenses		
Losses and loss settlement expenses	\$97,470	\$91,484
Future policy benefits	8,236	10,138
Amortization of deferred policy acquisition costs	38,081	34,551
Other underwriting expenses (includes reclassifications for employee benefit costs of \$1,242 in 2013; and \$643 in 2012; previously included in accumulated other comprehensive income)	22,348	21,994
Interest on policyholders' accounts	9,320	10,656
Total benefits, losses and expenses	\$175,455	\$168,823
Income before income taxes	\$29,850	\$24,876
Federal income tax expense (includes reclassifications of \$234 in 2013; and \$752 in 2012; previously included in accumulated other comprehensive income)	7,457	5,692
Net income	\$22,393	\$19,184
Other comprehensive income		
Change in net unrealized appreciation on investments	\$15,161	\$13,603
Change in liability for underfunded employee benefit plans	—	—
Other comprehensive income, before tax and reclassification adjustments	\$15,161	\$13,603
Income tax effect	(5,306)	(4,761)
Other comprehensive income, after tax, before reclassification adjustments	\$9,855	\$8,842
Reclassification adjustment for net realized gains included in income	\$(1,909)	\$(2,794)
Reclassification adjustment for employee benefit costs included in expense	1,242	643
Total reclassification adjustments, before tax	\$(667)	\$(2,151)
Income tax effect	234	752
Total reclassification adjustments, after tax	\$(433)	\$(1,399)
Comprehensive income	\$31,815	\$26,627
Weighted average common shares outstanding	25,245,497	25,505,962
Basic earnings per common share	\$0.89	\$0.75
Diluted earnings per common share	0.88	0.75
Cash dividends declared per common share	0.15	0.15
The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.		

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Consolidated Statement of Stockholders' Equity (Unaudited)

(In Thousands, Except Per Share Data)	Three Months Ended March 31, 2013
Common stock	
Balance, beginning of year	\$25
Shares issued for stock-based awards (38,832 shares)	—
Balance, end of period	\$25
Additional paid-in capital	
Balance, beginning of year	\$208,536
Compensation expense and related tax benefit for stock-based award grants	333
Shares issued for stock-based awards	603
Balance, end of period	\$209,472
Retained earnings	
Balance, beginning of year	\$425,428
Net income	22,393
Dividends on common stock (\$0.15 per share)	(3,786)
Balance, end of period	\$444,035
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	\$95,188
Change in net unrealized investment appreciation ⁽¹⁾	8,614
Change in liability for underfunded employee benefit plans ⁽²⁾	808
Balance, end of period	\$104,610
Summary of changes	
Balance, beginning of year	\$729,177
Net income	22,393
All other changes in stockholders' equity accounts	6,572
Balance, end of period	\$758,142

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

(2) The change in liability for underfunded employee benefit plans is net of income taxes.

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

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United Fire Group, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(In Thousands)	Three Months Ended March 31,	
	2013	2012
Cash Flows From Operating Activities		
Net income	\$22,393	\$19,184
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	3,981	3,520
Depreciation and amortization	1,785	2,285
Stock-based compensation expense	411	396
Net realized investment gains	(1,909)	(2,794)
Net cash flows from trading investments	46	(1,343)
Deferred income tax expense	460	5,011
Changes in:		
Accrued investment income	296	(344)
Premiums receivable	(19,631)	(14,560)
Deferred policy acquisition costs	(2,917)	1,526
Reinsurance receivables	(5,741)	(23,199)
Prepaid reinsurance premiums	(255)	2,650
Income taxes receivable	14,150	3,926
Other assets	1,013	2,691
Future policy benefits and losses, claims and loss settlement expenses	6,364	20,596
Unearned premiums	14,670	15,228
Accrued expenses and other liabilities	(5,068)	5,721
Deferred income taxes	1,665	(3,409)
Other, net	31	(1,200)
Total adjustments	\$9,351	\$16,701
Net cash provided by operating activities	\$31,744	\$35,885
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	\$2,810	\$3,000
Proceeds from call and maturity of held-to-maturity investments	19	75
Proceeds from call and maturity of available-for-sale investments	127,514	149,285
Proceeds from short-term and other investments	407	2,590
Purchase of available-for-sale investments	(142,615)	(252,345)
Purchase of short-term and other investments	(900)	(2,950)
Net purchases and sales of property and equipment	(386)	(893)
Net cash used in investing activities	\$(13,151)	\$(101,238)
Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	\$25,369	\$40,390
Withdrawals from investment and universal life contracts	(46,219)	(33,743)
Repayment of trust preferred securities	—	(8,047)
Payment of cash dividends	(3,786)	(3,826)
Issuance of common stock	603	43