

UNITED FIRE & CASUALTY CO
Form 11-K
June 28, 2011

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

FORM 11-K

☐ ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended December 31, 2010

OR

○ TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

Commission File No. 001-34257

UNITED FIRE GROUP 401(k) PLAN
(Full title of the plan)

United Fire & Casualty Company
(Name of issuer of the securities held pursuant to the plan)
118 Second Avenue SE
Cedar Rapids, IA 52407
(Address of principal executive office)

United Fire Group 401(k) Plan

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Report of Independent Registered Public Accounting Firm

Trustees and Participants

United Fire Group 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of the United Fire Group 401(k) Plan (the Plan) as of December 31, 2010 and 2009, and the related statement of changes in net assets available for benefits for the year ended December 31, 2010. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the United Fire Group 401(k) Plan at December 31, 2010 and 2009, and the changes in its net assets available for benefits for the year ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2010, is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP
Ernst & Young LLP

Chicago, Illinois
June 28, 2011

United Fire Group 401(k) Plan
 Statements of Net Assets Available for Benefits
 December 31, 2010 and 2009

| | 2010 | 2009 |
|--|--------------|--------------|
| Assets | | |
| Investments: | | |
| Participant-directed investments, at fair value | \$37,113,248 | \$32,911,227 |
| Receivables: | | |
| Notes receivable from participants | 315,671 | 247,527 |
| Contribution receivable from plan sponsor | — | 100,842 |
| Dividend and interest receivable | 13,863 | 13,346 |
| Total receivables | \$329,534 | \$361,715 |
| Net Assets Available for Benefits at Fair Value | \$37,442,782 | \$33,272,942 |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | (132,804) | (35,549) |
| Net Assets Available for Benefits | \$37,309,978 | \$33,237,393 |
| See accompanying notes to financial statements. | | |

United Fire Group 401(k) Plan

Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2010
2010

| | |
|---|--------------|
| Additions | |
| Contributions: | |
| Participant | \$2,756,294 |
| Employer | — |
| Rollover | 303,790 |
| Total contributions | 3,060,084 |
| Investment income | 718,394 |
| Net realized and unrealized appreciation in fair value of investments | 3,437,397 |
| Total additions | \$7,215,876 |
| Deductions | |
| Benefit payments and withdrawals | \$3,139,401 |
| Administrative expenses | 3,890 |
| Total deductions | \$3,143,291 |
| Increase in Net Assets Available for Benefits | \$4,072,585 |
| Net Assets Available for Benefits: | |
| At Beginning of Year | 33,237,393 |
| At End of Year | \$37,309,978 |
| See accompanying notes to financial statements. | |

United Fire Group 401(k) Plan

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 1. PLAN DESCRIPTION

The following description of the United Fire Group 401(k) Plan (the "Plan") provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions. General - The Plan is a defined contribution plan covering regular employees of the United Fire Group who have at least one hour of service and have attained the age of 21. Temporary employees who have at least 1,000 hours of service and have attained the age of 21 may also participate. The United Fire Group is comprised of United Fire & Casualty Company and its wholly owned subsidiaries: United Life Insurance Company, Lafayette Insurance Company, Addison Insurance Company, American Indemnity Financial Corporation, United Fire & Indemnity Company and Texas General Indemnity Company; and its affiliate United Fire Lloyds (collectively, the "Companies"). United Fire & Casualty Company serves as the Plan Sponsor. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Contributions - Each year, participants may elect to contribute up to an annual dollar limitation of their eligible compensation to the Plan through salary deferral. Participants have the option to contribute either through pre-tax 401(k) contributions, Roth 401(k) contributions or a combination of the two. The Plan also provides for discretionary contributions by the participating employers to the Plan in such amounts as the Board of Directors of the respective Companies shall direct.

Participant Accounts - Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contribution and allocations of (a) discretionary contributions, if any, and (b) Plan earnings, and charged with an allocation of Plan losses. Allocations are based on participant earnings, losses or account balances, as defined in the Plan agreement. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Participants direct the investment of employer and participant contributions into various investment options offered by the Plan. Participants may change their investment options daily. The Plan currently offers nineteen mutual funds, seven common collective trusts, and a self-directed retirement account in which participants have access to a money market fund.

Vesting - Participants are immediately vested in their contributions plus actual earnings or losses thereon. Vesting in the remainder of the participant account balances is based on years of continuous service with full vesting after two years. A participant with less than two years of credited service is not vested except in the event of the participant's death or disability while employed by one of the Companies, at which time the participant becomes 100 percent vested. There have been no unvested account balances since the inception of the Plan.

Forfeitures - Upon termination, the nonvested portion of a participant's account balance is forfeited. Forfeitures are to be used to first reduce the Plan's ordinary and necessary administrative expenses for the Plan year and then reduce the employer contributions for the Plan year. Because there have been no unvested account balances since the inception of the Plan, there were no forfeited account balances included in the Plan's net assets available for benefits at December 31, 2010 or 2009.

Notes receivable from participants - Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. Loan terms range from one to five years, except for the purpose of acquiring the participant's personal residence for which the term is commensurate with local prevailing terms, as determined by the Companies. The loans are secured by the balance in the participant's account and bear interest at a rate determined at the time of each loan by Charles Schwab Trust Company, who serves as the Plan Custodian. Principal and interest is paid ratably through semi-monthly payroll

deductions.

Payment of Benefits - Upon termination of service, a participant may elect to receive either a direct rollover, a lump-sum amount equal to the value of their vested account or installment payments over a fixed period of time not to exceed the participant's life expectancy or the joint life expectancy of the participant and the participant's designated beneficiary. Prior to separation from service, participants may elect a hardship distribution in accordance with the Plan agreement. Additionally, prior to separation from service, participants are eligible for an in-service withdrawal after they have reached the age of 59 1/2.

If a benefit payment is distributed to the participant by check and remains unsettled after 180 days, the participant must contact the Plan Administrator to have the check reissued. If the participant cannot be located and the amount is over \$5,000, the check is cancelled and an account is reestablished for the participant. If the participant cannot be located and the amount is less than \$5,000, the check is cancelled and the funds are forfeited back to the Plan.

Administrative Expenses - The Plan's administrative expenses are paid by either the Plan or the Companies, as provided by the Plan agreement. The Companies paid substantially all administrative expenses for the Plan in 2010.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Plan are prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and changes therein during the reporting period. Actual results could differ from those estimates. The Plan offers various investment instruments to its participants. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the accompanying financial statements.

Valuation of Participant-Directed Investments and Participant Loans - Investment contracts held by a defined contribution plan are reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan.

The Plan invests in fully benefit-responsive investment contracts through the Schwab Stable Value Fund, which is a common collective trust with an investment mix that seeks to maintain principal value, protect against market price volatility, obtain consistent income return and provide liquidity for the benefit payments and withdrawals of its investors. Accordingly, the accompanying statements of net assets available for benefits presents the fair value and the corresponding adjustment from fair value to contract value for this investment. The fair value of the Plan's interest in the Schwab Stable Value Fund is based on audited information reported for the fund at December 31, 2010 and 2009. The contract value of the Schwab Stable Value Fund represents contributions plus earnings, less participant withdrawals and administrative expenses.

Investments in other common collective trusts are stated at fair value based on the audited net asset values of the respective funds, which have an investment mix that is diversified across several asset classes and designed to provide its investors with a single investment portfolio that adjusts over time to meet the changing risk and return objectives of investors to a target retirement date.

Investments in mutual funds are stated at fair value based on quoted market prices reported on recognized securities exchanges on the last business day of the year, which represent the net asset values of shares held by the Plan in the respective funds at the reporting date.

The money market fund in the self-directed retirement account is stated at cost, which approximates fair value. Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance plus any accrued but unpaid interest. Interest income on notes receivable from participants is recorded when it is earned. Related fees are recorded as administrative expenses and are expensed when they are incurred.

Recognition of Investments - Purchases and sales of investments are recorded as of the trade date.

Contributions - Participant contributions are made through payroll deductions and recorded in the period in which the deductions are made.

Withdrawals - Participant withdrawals are recorded upon distribution.

Subsequent Events - In the preparation of the accompanying financial statements, the Plan Sponsor has evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure in the Plan's financial statements.

On March 28, 2011, United Fire Group acquired 100 percent of the outstanding common stock of Mercer Insurance Group. In connection with this acquisition, the Board of Directors of United Fire & Casualty Company approved on May 9, 2011, the merger of Mercer Insurance Group's BICUS Services Corp Retirement Savings Plan into the United Fire Group 401(k) Plan.

Adopted Accounting Standards - In January 2010, the FASB issued revised accounting guidance that clarifies and provides additional disclosure requirements related to recurring and non-recurring fair value measurements. The guidance requires separate disclosures for the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with an explanation for the transfers and for the presentation of purchases, sales, issuances and settlements on a gross basis for Level 3 fair value measurements. The guidance also provides additional clarification for both the level of disaggregation reported for each class of assets or liabilities and disclosures of inputs and valuation techniques used to measure fair value for both recurring and non-recurring fair value measurements categorized as Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. The Plan's adoption of the guidance effective January 1, 2010, did not impact the Plan's financial statements.

In September 2010, the FASB issued accounting guidance that requires participant loans to be measured at their unpaid principal balance plus any accrued but unpaid interest and classified as notes receivable from participants. Previously loans were measured at fair value and classified as investments. The guidance is effective for fiscal years ending after December 15, 2010 and is required to be applied retrospectively. The Plan's adoption of the guidance did not change the value of participant loans from the amount previously reported as of December 31, 2009. Participant loans have been reclassified to notes receivable from participants as of December 31, 2009.

NOTE 3. FAIR VALUE MEASUREMENT

Current accounting guidance on fair value measurements includes the application of a fair value hierarchy that requires management to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Plan's financial instruments are categorized into a three-level hierarchy, which is based upon the priority of the inputs to the valuation technique. If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the financial instrument.

Financial instruments recorded at fair value are categorized in the fair value hierarchy as follows:

Level 1: Valuations are based on unadjusted quoted prices in active markets for identical financial instruments.

Level 2: Valuations are based on quoted prices, other than quoted prices included in Level 1, in markets that are not active or on inputs that are observable either directly or indirectly for the full term of the financial instrument.

Level 3: Valuations are based on pricing or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement of the financial instrument. Such inputs may reflect management's own assumptions about the assumptions a market participant would use in pricing the financial instrument.

The fair value of the majority of the Plan's investments is determined based on prices obtained for individual securities from the Plan Custodian. One price is obtained for each security, which is evaluated for reasonableness prior to its use for reporting purposes. The Plan Sponsor has determined that the pricing obtained at December 31, 2010 and 2009, was reasonable.

In order to determine the proper classification of each security in the fair value hierarchy, the vendors' pricing procedures and inputs used to price the security, which include unadjusted quoted market prices for identical securities and other inputs that are observable for the security, are obtained and evaluated by the Plan Sponsor throughout the reporting period. The Plan Sponsor has determined that these processes and inputs result in fair values and classifications consistent with the applicable accounting guidance on fair value measurements. The Plan's fair value hierarchy categorizations are reviewed on an annual basis, at which time the classification of certain investments may change if the input observations have changed.

The following tables present the categorization of the Plan's investments measured at fair value on a recurring basis in the accompanying statements of net assets available for benefits at December 31, 2010 and 2009:

| Description | December 31, 2010 | Fair Value Measurements | | |
|---------------|-------------------|-------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Mutual funds: | | | | |
| U.S. | 21,634,138 | 21,634,138 | — | — |
| International | 7,302,182 | 7,302,182 | — | — |