UNITED FIRE & CASUALTY CO
Form 424B5
May 12, 2006
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In connection with the securities offered from the registration statement (File No. 133169) by means of this prospectus supplement, a filing fee of $12,058.90,

calculated in accordance with Rule 457(c), has been transmitted to the SEC.

PROSPECTUS SUPPLEMENT

(To Prospectus Dated April 10, 2006)

3,500,000 Shares

UNITED FIRE & CASUALTY COMPANY

Common Stock

We are offering 3,500,000 shares of our common stock. Our common stock trades on the Nasdaq National Market under the symbol UFCS. The last reported sale price of our common stock on the Nasdaq National Market on May 11, 2006 was $28.93 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-9 of this prospectus supplement.

	Per Share	Total
Public offering price	$ 28.00	$ 98,000,000
Underwriting discount	$ 1.30	$ 4,550,000
Proceeds, before expenses, to us	$ 26.70	$ 93,450,000

The underwriters may also purchase up to an additional 525,000 shares from us at the public offering price, less the underwriting discount, to cover over-allotments.

Neither the Securities and Exchange Commission nor any state insurance or securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about May 17, 2006, subject to customary closing conditions.

A.G. EDWARDS KEYBANC CAPITAL MARKETS

The date of this prospectus supplement is May 12, 2006.

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UNITED FIRE & CASUALTY COMPANY

The map below illustrates the locations of our offices and the states in which

our insurance company subsidiaries are licensed to write insurance.

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Prospectus Supplement

Prospectus

You should rely only on the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the respective dates as of which the information is given.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering of common stock. To the extent the information contained in this prospectus supplement or any document incorporated by reference conflicts with any of the information contained in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement shall control.

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SUMMARY

This summary highlights selected information about us and the offering. Because it is a summary, it may not contain all the information that may be important to you. To understand the terms of the securities being offered by this prospectus supplement, you should read this entire prospectus supplement and the accompanying prospectus carefully, including the section entitled Risk Factors, the documents identified in the accompanying prospectus under the captions Where You Can Find More Information and Incorporation of Information We File With The SEC, which information includes our Consolidated Financial Statements and the notes to those statements. In this prospectus supplement the terms we, our and the Company refer to United Fire & Casualty Company or to United Fire & Casualty Company and its consolidated subsidiaries and insurance company affiliate, as the context requires.

Unless otherwise indicated, all information presented in this prospectus supplement or the accompanying prospectus has been prepared based on U.S. generally accepted accounting principles (GAAP) and assumes that the underwriters over-allotment option is not exercised.

Overview

United Fire & Casualty Company is an Iowa insurance company incorporated in January 1946. We and our related insurance companies are engaged in the business of writing property and casualty insurance, life insurance and annuities. We and our property and casualty insurers are licensed in 41 states, primarily in the Midwest, West and South, and are represented by approximately 917 independent agencies. Our life insurance subsidiary is licensed in 27 states, primarily in the Midwest and West, and is represented by approximately 944 independent agencies.

At March 31, 2006, we had $502.3 million in total equity and $2.65 billion in total assets. For the year ended December 31, 2005, our total revenue was $619.6 million and net income was $9.0 million, or $0.22 per share. In 2005, our after-tax earnings per share were negatively impacted by Hurricane Katrina and Hurricane Rita by $5.39 and $0.32, respectively.

Our property and casualty insurers have been assigned a financial strength rating of A (Excellent) from A.M. Best Company since 1994 (except two insurance subsidiaries that are 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. In addition, Standard & Poor s has assigned a financial strength rating of A to United Fire & Casualty Company and each of its active subsidiaries, with a negative outlook. A.M. Best historically has rated our property and casualty companies on a pooled basis. However, we recently were notified by A.M. Best that our companies will be rated on a group basis in the future, consistent with rating guideline changes A.M. Best recently adopted.

Our Property and Casualty Business

We write both commercial and personal lines of property and casualty insurance through our five active property and casualty insurance companies (United Fire & Casualty Company; its subsidiaries Addison Insurance Company, Lafayette Insurance Company and United Fire & Indemnity Company; and its affiliate, United Fire Lloyds). We focus primarily on our commercial lines, which represented 91.1 percent of our direct property and casualty premiums written for the year ended December 31, 2005. Our primary commercial lines are tailored business packages that generally include two or more of the following coverages: fire and allied lines, other liability, automobile, workers compensation and surety. Our personal lines, which represented 8.9 percent of our direct property and casualty premiums written for the year ended December 31, 2005, primarily consist of automobile and fire and allied lines coverage. Our property and casualty insurance business is primarily focused

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in the Midwest, West and South. The following states provided 55.6 percent of the direct premium volume in the property and casualty insurance segment in 2005: Iowa (13.4 percent), Texas (12.9 percent), Colorado (10.5 percent), Louisiana (10.4 percent) and Missouri (8.4 percent).

Our Life Insurance Business

Our life insurance subsidiary is United Life Insurance Company, a wholly owned Iowa life insurance company headquartered in Cedar Rapids, Iowa, which underwrites all of our life insurance and annuity business. Our principal products are single premium annuities, universal life and traditional life (primarily single premium whole life) insurance. Universal and traditional life products have become a larger portion of our life insurance business in recent years. Our 2005 life insurance premium revenues, as determined on the basis of statutory accounting principles (the accounting principles prescribed by the National Association of Insurance Commissioners *Accounting Practices and Procedures Manual* as applied in the State of Iowa), were allocated as follows: single premium annuities (approximately 64.4 percent); traditional life products (approximately 21.1 percent); and universal life products (approximately 13.1 percent). We also underwrite and market other traditional products, including various term life insurance products and whole life insurance. Additionally, we offer an individual disability income rider that may be attached to our life insurance products. We do not write variable annuities, equity-indexed annuities or variable insurance products.

Business Focus

Throughout the Company s 60 years in business, we have sought to write good business at an adequate price, preferring quality to volume. In both our property and casualty and life insurance businesses, we have relied on networks of independent agencies and maintained disciplined control over our mix of products offered and local markets served. Our goal of consistent profitability is served by these business strategies:

Disciplined, experienced underwriting. We are selective about the new policies we underwrite, seeking new and renewal business that enables us to maintain our profitability standards. We employ experienced underwriters, and we focus on markets where our underwriting expertise provides us a competitive advantage. Our disciplined approach to writing policies enables us to grow by writing quality business instead of simply focusing on increasing our premium revenue.

Increased emphasis on core property and casualty commercial lines. In 2001, we increased our focus on commercial lines of insurance and reduced our personal lines business. Our commercial lines of business represented approximately 91.1 percent of our direct property and casualty premiums written in 2005, up from approximately 82.1 percent in 2001. Our strategy is to maximize long-term profitability by focusing on the property and casualty commercial lines today and in the future.

Disciplined and focused management. We manage our business based on three core performance indicators: return on equity, loss ratios and expense levels. We focus our performance on these indicators by aligning our employee incentive compensation programs with performance targets for each of the three key indicators. We maintain detailed systems, records and databases that enable us to continuously monitor our book of business to identify and react swiftly to positive or negative trends. We are able to track our performance, including loss ratios, by reporting segment, product, region, state, producer and policyholder. We produce and review detailed profitability reports on a routine basis, primarily monthly, as part of our policy of continuously analyzing and reviewing our book of business.

Longstanding knowledge of markets. We underwrite property and casualty insurance in 41 states. Our largest property and casualty markets are Iowa, Texas, Colorado, Louisiana and Missouri, which collectively accounted for approximately 55.6 percent of our direct property and casualty premiums written in 2005. We underwrite life insurance in 27 states, with Iowa, Wisconsin, Minnesota, Nebraska and Illinois accounting for approximately 76.5 percent of our direct life insurance premiums written on a statutory basis in 2005. We believe our regional presence in our largest markets provides us with a competitive advantage over large, national competitors with centralized operations.

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Continued focus on small- to mid-sized commercial accounts. Through our experienced independent agencies, we target small- to mid-sized commercial accounts. We believe that this market affords us the best opportunity to compete successfully. Small- to mid-sized commercial accounts are less price-sensitive in the selection of their insurance and are more apt to focus their insurance carrier decision on quality customer service, an area where we excel. We have historically been able to develop relationships with these accounts that can last for many years.

Strong relationships with agencies. We distribute our products through a network of approximately 917 independent property and casualty agencies and approximately 944 independent life agencies. We have developed strong agency relationships due to our local presence and our performance-based compensation programs. Because we rely exclusively on independent agencies, we utilize a profit-sharing plan as an incentive for agents to place high-quality property and casualty business with us. We offer competitive commission rates and other sales inducements to maintain and enhance relationships with existing independent agencies as well as to attract new independent agencies. We continually monitor our agencies for compatibility with us, taking into account factors such as loss ratio, premium volume and relationship history. We seek relationships with agencies where we will be one of their top three insurers, measured on the basis of direct premiums written. To encourage our life agents to market our products, we provide a variety of sales inducements.

Diversified earnings streams. We understand that the property and casualty business can result in earnings volatility because of the market and weather. Our life insurance business and our surety activities complement the core property and casualty business by providing a more stable, predictable income. In 2005, our life insurance segment generated $126.7 million in revenues, or approximately 20.4 percent of our total revenues. Total life insurance in force, before ceded reinsurance, was $4.3 billion as of March 31, 2006.

Talented, resourceful and well-trained employees who offer superior customer service. Our senior management team has extensive experience, with an average of over 30 years of experience in the insurance industry and over 21 years directly with us. Our team has led us through several market cycles, and our seasoned and knowledgeable employee base supports our senior management team. Most of our 648 personnel employed as of March 31, 2006, have completed internal insurance-related training courses within the last 12 months. Further, 404 employees hold a total of 1,025 insurance industry professional designations, and 163 employees are enrolled in insurance industry courses.

Commitment to technology. We utilize technology in a variety of ways to assist our agents and improve the delivery of service to our policyholders. For example, in addition to providing general company and product information, our web site also has a section accessible exclusively by our agents where they can receive quotes, report claims online, make online applications and receive policy approval. Our life agents can view the status of clients applications and access detailed information on our annuity, universal life, term life and whole life policies. In addition, we provide secure online access to account information for our policyholders.

Recent Catastrophe Experience

In 2005, the property and casualty insurance industry endured the most severe hurricane season in history. On August 26, 2005, Hurricane Katrina struck the southern coast of Florida as a Category 1 storm. On August 29, 2005, Hurricane Katrina devastated the Gulf Coast region as a Category 4 storm, with the states of Louisiana, Mississippi and Alabama the hardest hit. High velocity winds, storm surge, heavy rain and flooding resulted in loss of human life, extensive property damage and extended periods of business interruption. Insurance industry experts estimate the total insured losses arising from Hurricane Katrina to be in the range of $40.0 billion to $60.0 billion. This makes Hurricane Katrina the most costly insured loss from a single event in U.S. history, exceeding Hurricane Andrew and the terrorist attacks of September 11, 2001. Industry experts expect the total economic impact, including insured and uninsured property and flood damages, to exceed $200.0 billion.

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Hurricanes Wilma (total industry estimated loss $10.0 billion), Rita (total industry estimated loss $7.0 billion), Dennis (total industry estimated loss $3.0 billion) and Ophelia (total industry estimated loss $800.0 million) also resulted in significant insured losses during the year. Industry experts estimate Hurricanes Wilma and Rita to rank as the fourth and seventh costliest hurricanes in history, respectively. The year 2004 was also marked by unusually heavy hurricane activity, specifically Hurricanes Charley, Ivan, Frances and Jeanne. Seven of the ten costliest hurricanes in history occurred between August 2004 and October 2005.

Hurricanes Katrina and Rita were the two most costly catastrophes in our Company s history. We believe that the ability to show a profit for the year, despite the tremendous catastrophe losses incurred, reflects the underlying strength of our operations. Losses and loss settlement expenses, net of reinsurance, for Hurricane Katrina of $178.2 million, together with reinstatement premiums of $8.0 million, negatively affected our after-tax earnings per share by $5.39 and our combined ratio by 41.0 percent in 2005. Losses and loss settlement expenses, net of reinsurance, for Hurricane Rita of $10.9 million negatively affected our after-tax earnings per share by $0.32 and our combined ratio by 2.4 percent in 2005. For the three months ended March 31, 2006, these two hurricanes affected our after-tax earnings per share by $0.86 and $0.01, respectively, and our combined ratio by 28.1 percent and 0.3 percent, respectively. The following table details our reported financial results for 2005 and the three months ended March 31, 2006, including the impact of Hurricane Katrina.

	2005	Three Months Ended March 31, 2006
	(In thousands, except per share data and ratios)	
Net income	$ 9,004	$ 13,451
Basic earnings per common share	$ 0.22	$ 0.57
Diluted earnings per common share	$ 0.22	$ 0.57
Losses and loss settlement expenses	$ 392,228	$ 81,882
Hurricane Katrina losses and loss settlement expenses, net of reinsurance (1)	$ 178,193	$ 31,264
Reinsurance reinstatement premiums	$ 8,005	
Combined ratio (GAAP basis) (2)	111.3%	99.2%
Effect of Hurricane Katrina on combined ratio (2)(3)	41.0%	28.1%
Combined ratio (statutory basis) (2)	112.5%	98.5%
Effect of Hurricane Katrina on combined ratio (statutory basis) (2)(4)	39.8%	28.1%
Industry combined ratio (5)	102.0%	N/A

(1) Amounts reflected for Hurricane Katrina losses and loss settlement expenses, net of reinsurance are included in Losses and loss settlement expenses, but are also separately listed for comparative purposes.
(2) Includes effect of reinsurance reinstatement premiums.
(3) Amounts reflected for Effect of Hurricane Katrina on combined ratio are included in Combined ratio (GAAP basis), but are also separately listed for comparative purposes.
(4) Amounts reflected for Effect of Hurricane Katrina on combined ratio (statutory basis) are included in Combined ratio (statutory basis), but are also separately listed for comparative purposes.
(5) 2005 statutory combined ratio for the property and casualty insurance industry, as estimated by A.M. Best. Information for the three months ended March 31, 2006 is not available.

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Risk Factors

An investment in our common stock involves various risks, including the following:

- Catastrophe losses are unpredictable and may adversely affect our results of operations, liquidity and financial conditions.

- Our success depends on our ability to price accurately the risks we underwrite. If we fail to assess accurately the risks we assume, we may fail to establish adequate premium rates, which could reduce our income or result in operating losses.

- 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 in our financial strength ratings or the financial strength ratings of our subsidiaries. If actual losses and loss settlement expenses exceed our reserves, our net income and capital would decrease.

- Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded reinsurance. In addition, if market conditions cause reinsurance to be more costly or unavailable, we may be required to bear increased risks or reduce the level of our underwriting commitments.

- Our revenues and profitability are subject to prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in the principal states in which we do business. Changes in any of those conditions or the occurrence of localized perils, such as hurricanes or hailstorms, would have a more pronounced effect on us compared to companies that are more geographically diversified.

Any reduction or other adverse development in our financial strength ratings or the financial strength ratings of our subsidiaries could cause our current and future agents and insureds to choose to transact their business with more highly rated competitors, which would adversely affect our business and financial condition.

For a discussion of these and other risks relating to our business and an investment in our common stock, see Risk Factors beginning on page S-9.

Company Information

Our principal executive office is located at 118 Second Avenue, Cedar Rapids, Iowa 52407-3909, and our telephone number is (319) 399-5700. Our web site address is www.unitedfiregroup.com. The information found on our website is not, however, a part of this prospectus supplement and any reference to our website is intended to be an inactive textual reference only and is not intended to create any hypertext link.

The Offering

Common stock offered by United Fire & Casualty Company	3,500,000 shares (or 4,025,000 shares if the underwriters exercise their over-allotment option in full).
Common stock to be outstanding after the offering (1)	27,103,553 shares (or 27,628,553 shares if the underwriters exercise their over-allotment option in full).
Use of proceeds	

We estimate that the net proceeds we will receive from the offering of our common stock, after reduction for estimated underwriting discounts and offering expenses payable by us, will be approximately

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		$92,967,105, or approximately $106,984,605 if the over-allotment option is exercised in full. We intend to use the net proceeds from this offering for general corporate purposes and to enhance our capital position. See Use of Proceeds.
Nasdaq National Market symbol	UFCS	
Dividend history	We paid a quarterly cash dividend on our common stock of $0.12 per share on March 15, 2006, January 3, 2006, September 15, 2005 and June 15, 2005. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend on many factors, including our financial condition, earnings, legal requirements and other factors our board of directors deem relevant.	

(1) Based on shares outstanding on May 1, 2006. The number of shares outstanding excludes 470,100 shares of common stock reserved and available for issuance pursuant to stock options and other awards outstanding under our Nonqualified Employee Stock Option Plan as of March 31, 2006, which had as of such date a weighted average exercise price of $27.94 per share.

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SUMMARY FINANCIAL DATA

The following table sets forth summary financial data on a historical basis as of and for the five years ended December 31, 2001 through 2005 along with the three months ended March 31, 2005 and 2006. This information should be read in conjunction with our Consolidated Financial Statements (including the related notes thereto) and Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page S-26 of this prospectus supplement.

	Year Ended or as of December 31,					Three Months Ended or as of March 31,	
	2001	2002	2003	2004	2005	2005	2006
						(unaudited)	
	(In thousands, except per share data, number of shares and ratios)						
Income Statement Data:							
Revenues:							
Net premiums earned	$ 372,019	$ 417,286	$ 464,595	$ 492,291	$ 495,516	$ 122,696	$ 120,623
Net investment income, net of investment expenses	98,909	105,553	108,540	111,474	118,847	28,761	29,176
Realized investment gains (losses)	(186)	(13,801)	(1,691)	4,060	4,540	1,828	4,124
Other income	2,210	1,839	1,841	300	702	92	219
Total Revenue	$ 472,952	$ 510,877	$ 573,285	$ 608,125	$ 619,605	$ 153,377	$ 154,142
Benefits, losses and expenses:							
Losses and loss settlement expenses	$ 270,329	$ 295,980	$ 288,718	$ 272,882	$ 392,228	$ 49,828	$ 81,882
Increase in liability for future policy benefits	5,236	5,708	7,318	12,125	17,666	3,919	4,934
Amortization of deferred policy acquisition costs	67,502	79,669	95,773	110,963	115,473	27,507	30,280
Other underwriting expenses	53,042	51,732	45,119	40,960	32,955	10,679	7,428
Interest on policyholders accounts	48,213	51,735	56,459	56,386	54,727	14,085	12,881
Total benefits, losses and expenses	$ 444,322	$ 484,824	$ 493,387	$ 493,316	$ 613,049	$ 106,018	$ 137,405
Income before income tax	$ 28,630	$ 26,053	$ 79,898	$ 114,809	$ 6,556	$ 47,359	$ 16,737
Federal income tax expense (benefit)	4,537	5,267	24,324	35,992	(2,488)	14,759	3,286
Net income	$ 24,093	$ 20,786	$ 55,574	$ 78,817	$ 9,044	$ 32,600	$ 13,451
Less preferred stock dividends and accretions	0	3,100	4,742	4,742	4,106	1,357	0
Earnings available to common stockholders	$ 24,093	$ 17,686	$ 50,832	$ 74,075	$ 4,938	$ 31,243	$ 13,451
Basic earnings per common share (1)	$ 1.20	$ 0.88	$ 2.53	$ 3.68	$ 0.22	$ 1.55	$ 0.57
Diluted earnings per common share (1)	$ 1.20	$ 0.88	$ 2.36	$ 3.34	$ 0.22	$ 1.38	$ 0.57
Cash dividends declared per common share (1)	$ 0.36	$ 0.37	$ 0.39	$ 0.42	$ 0.48	$ 0.12	$ 0.12
Weighted average common shares outstanding (1)	20,071,638	20,074,104	20,076,624	20,115,085	22,444,793	20,156,708	23,598,841
Operating Data:							
Statutory combined ratio (2)	104.8%	101.9%	93.1%	86.4%	112.5%	70.2%	98.5%
GAAP combined ratio (3)	104.6%						