UNITED FIRE GROUP INC
Form 10-Q
August 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-34257

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

Iowa	45-2302834
(State of Incorporation)	(IRS Employer Identification No.)

118 Second Avenue, S.E., Cedar Rapids, Iowa 52401
(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 NO

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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES
NO
As of August 6, 2018, 25,050,267 shares of common stock were outstanding.

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United Fire Group, Inc.
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June 30, 2018

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FORWARD-LOOKING INFORMATION

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 (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our"), the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. See Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 and Part II, Item 1A "Risk Factors" of this report for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

Risks and uncertainties that may affect the actual financial condition and results of the Company include, but are not limited to, the following:

- The frequency and severity of claims, including those related to catastrophe losses and the impact those claims have on our loss reserve adequacy; the occurrence of catastrophic events, including international events, significant severe weather conditions, climate change, acts of terrorism, acts of war and pandemics;
- The adequacy of our reserves for property and casualty insurance losses and loss settlement expenses;
- Geographic concentration risk in the property and casualty insurance business;
- The potential disruption of our operations and reputation due to unauthorized data access, cyber-attacks or cyber-terrorism and other security breaches;
- Developments in general economic conditions, domestic and global financial markets, interest rates and other-than-temporary impairment losses that could affect the performance of our investment portfolio;
- Our ability to effectively underwrite and adequately price insured risks;
- Changes in industry trends, an increase in competition and significant industry developments;
- Litigation or regulatory actions that could require us to pay significant damages, fines or penalties or change the way we do business;
- Lowering of one or more of the financial strength ratings of our operating subsidiaries or our issuer credit ratings and the adverse impact such action may have on our premium writings, policy retention, profitability and liquidity;
- Governmental actions, policies and regulations, including, but not limited to, domestic health care reform, financial services regulatory reform, corporate governance, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions; changes in laws, regulations and stock exchange requirements relating to corporate governance and the cost of compliance;
- Our relationship with and the financial strength of our reinsurers; and
- Competitive, legal, regulatory or tax changes that affect the distribution cost or demand for our products through our independent agent/agency distribution network.

These are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("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.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.
Consolidated Balance Sheets

(In Thousands, Except Share Data)	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value $150 in 2018 and $150 in 2017)	$150	$ 150
Available-for-sale, at fair value (amortized cost $1,811,473 in 2018 and $1,516,610 in 2017)	1,792,019	1,535,070
Trading securities, at fair value (amortized cost $12,704 in 2018 and $14,582 in 2017)	14,705	16,842
Equity securities at fair value (cost $64,092 in 2018 and $63,275 in 2017)	260,979	287,344
Mortgage loans	9,896	—
Other long-term investments	43,949	49,352
Short-term investments	175	175
	2,121,873	1,888,933
Cash and cash equivalents	100,840	95,562
Accrued investment income	15,716	13,841
Premiums receivable (net of allowance for doubtful accounts of $988 in 2018 and $1,255 in 2017)	380,242	328,513
Deferred policy acquisition costs	95,065	88,102
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $53,603 in 2018 and $51,603 in 2017)	80,128	68,992
Reinsurance receivables and recoverables	58,810	63,194
Prepaid reinsurance premiums	4,902	3,749
Deferred tax asset	4,482	—
Income taxes receivable	—	6,031
Goodwill and intangible assets	23,606	23,971
Other assets	16,512	16,409
Assets held for sale	—	1,586,134
TOTAL ASSETS	$2,902,176	$ 4,183,431
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Losses and loss settlement expenses	$1,240,847	$ 1,224,183
Unearned premiums	517,732	465,391
Accrued expenses and other liabilities	173,458	167,396
Income taxes payable	5,539	—
Deferred income taxes	—	5,953
Liabilities held for sale	—	1,347,135
TOTAL LIABILITIES	$1,937,576	$ 3,210,058
Stockholders' Equity		
Common stock, $0.001 par value; authorized 75,000,000 shares; 25,043,967 and 24,916,806 shares issued and outstanding in 2018 and 2017, respectively	$25	$ 25

Additional paid-in capital	199,442	196,334
Retained earnings	824,431	608,700
Accumulated other comprehensive income (loss), net of tax	(59,298)	168,314
TOTAL STOCKHOLDERS' EQUITY	$964,600	$ 973,373
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,902,176	$ 4,183,431

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, Except Share Data)	2018	2017	2018	2017
Revenues				
Net premiums earned	$256,853	$245,222	$502,020	$481,666
Investment income, net of investment expenses	17,249	12,184	30,741	24,769
Net realized investment gains (losses) (includes reclassifications for net unrealized investment gains/(losses) on available-for-sale securities of ($196) and ($159) in 2018 and $1,975 and $5,380 in 2017; previously included in accumulated other comprehensive income)	1,297	1,081	(6,567)	3,330
Total revenues	$275,399	$258,487	$526,194	$509,765
Benefits, Losses and Expenses				
Losses and loss settlement expenses	$189,146	$188,596	$333,874	$345,148
Amortization of deferred policy acquisition costs	50,810	51,398	100,449	101,859
Other underwriting expenses (includes reclassifications for employee benefit costs of $1,661 and $3,321 in 2018 and $1,352 and $2,704 in 2017; previously included in accumulated other comprehensive income)	37,252	22,824	72,107	44,083
Total benefits, losses and expenses	$277,208	$262,818	$506,430	$491,090
Income (loss) from continuing operations before income taxes	$(1,809)	$(4,331)	$19,764	$18,675
Federal income tax benefit (includes reclassifications of $390 and $731 in 2018 and ($219) and ($937) in 2017; previously included in accumulated other comprehensive income)	(1,966)	(4,440)	(757)	(18)
Income from continuing operations	$157	$109	$20,521	$18,693
Income (loss) from discontinued operations, net of taxes	—	2,849	(1,912)	4,201
Gain on sale of discontinued operations, net of taxes	—	—	27,307	—
Net income	$157	$2,958	$45,916	$22,894
Other comprehensive income				
Change in net unrealized appreciation on investments	$(6,199)	$30,653	$(58,013)	$45,619
Change in liability for underfunded employee benefit plans	—	—	—	—
Other comprehensive income (loss), before tax and reclassification adjustments	$(6,199)	$30,653	$(58,013)	$45,619
Income tax effect	1,301	(10,729)	12,182	(15,967)
Other comprehensive income (loss), after tax, before reclassification adjustments	$(4,898)	$19,924	$(45,831)	$29,652
Reclassification adjustment for net realized investment (gains) losses included in income	$196	$(1,975)	$159	$(5,380)
Reclassification adjustment for employee benefit costs included in expense	1,661	1,352	3,321	2,704
Total reclassification adjustments, before tax	$1,857	$(623)	$3,480	$(2,676)
Income tax effect	(390)	219	(731)	937
Total reclassification adjustments, after tax	$1,467	$(404)	$2,749	$(1,739)
Comprehensive income (loss)	$(3,274)	$22,478	$2,834	$50,807
Diluted weighted average common shares outstanding	25,611,773	25,624,686	25,582,708	25,752,525
Earnings per common share from continuing operations:				
Basic	$0.01	$0.01	$0.82	$0.74
Diluted	0.01	0.01	0.80	0.73

Earnings per common share:				
Basic	$0.01	$0.12	$1.84	$0.91
Diluted	0.01	0.12	1.80	0.89

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

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United Fire Group, Inc.
Consolidated Statement of Stockholders' Equity (Unaudited)

(In Thousands, Except Share Data)	Six Months Ended June 30, 2018
Common stock	
Balance, beginning of year	$25
Shares repurchased (120,372 shares)	—
Shares issued for stock-based awards (246,633 shares)	—
Balance, end of period	$25
Additional paid-in capital	
Balance, beginning of year	$196,334
Compensation expense and related tax benefit for stock-based award grants	2,718
Shares repurchased	(5,404)
Shares issued for stock-based awards	5,794
Balance, end of period	$199,442
Retained earnings	
Balance, beginning of year	$608,700
Cumulative effect of change in accounting principle	191,244
Net unrealized investment depreciation of discontinued operations, sold	(6,714)
Net income	45,916
Dividends on common stock ($0.59 per share)	(14,715)
Balance, end of period	$824,431
Accumulated other comprehensive income (loss), net of tax	
Balance, beginning of year	$168,314
Cumulative effect of change in accounting principle	(191,244)
Change in net unrealized investment appreciation(1)	(38,991)
Change in liability for underfunded employee benefit plans(2)	2,623
Balance, end of period	$(59,298)
Summary of changes	
Balance, beginning of year	$973,373
Net income	45,916
All other changes in stockholders' equity accounts	(54,689)
Balance, end of period	$964,600

(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 reclassification adjustments and 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)

	Six Months Ended June 30,	
(In Thousands)	2018	2017
Cash Flows From Operating Activities		
Net income	$45,916	$22,894
Less net income (loss) from discontinued operations, net of taxes	(1,912)	4,201
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	4,324	4,517
Depreciation and amortization	2,316	2,333
Stock-based compensation expense	2,718	2,254
Net realized investment (gains) losses	6,567	(3,330)
Net cash flows from equity and trading investments	21,839	(1,524)
Deferred income tax benefit	(8,836)	(2,833)
Changes in:		
Accrued investment income	(1,875)	(643)
Premiums receivable	(51,729)	(55,664)
Deferred policy acquisition costs	(6,963)	(8,041)
Reinsurance receivables	4,384	(4,431)
Prepaid reinsurance premiums	(1,153)	(184)
Income taxes receivable	6,031	6,300
Other assets	(102)	(484)
Losses and loss settlement expenses	16,664	56,582
Unearned premiums	52,341	58,542
Accrued expenses and other liabilities	9,383	14,460
Income taxes payable	5,539	—
Deferred income taxes	(14,054)	(2,308)
Other, net	1,253	2,927
Cash from operating activities - continuing operations	48,647	68,473
Cash from operating activities - discontinued operations	4,023	24,968
Cash from operating activities - gain on sale of discontinued operations	(34,851)	—
Total adjustments	$17,819	$93,441
Net cash provided by operating activities	$65,647	$112,134
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	$23,994	$1,096
Proceeds from call and maturity of available-for-sale investments	60,651	76,183
Proceeds from short-term and other investments	5,816	3,185
Proceeds from the sale of discontinued operations	276,055	—
Purchase of available-for-sale investments	(383,633)	(112,472)
Purchase of mortgage loans	(9,896)	—
Purchase of short-term and other investments	(1,995)	(2,852)
Net purchases and sales of property and equipment	(13,012)	(3,861)
Cash from investing activities - continuing operations	(42,020)	(38,721)
Cash from investing activities - discontinued operations	14,343	13,956
Net cash used in investing activities	$(27,677)	$(24,765)
Cash Flows From Financing Activities		
Payment of cash dividends	$(14,716)	$(13,380)
Repurchase of common stock	(5,404)	(21,184)

Issuance of common stock	5,794	2,207
Cash from financing activities - continuing operations	(14,326)	(32,357)
Cash from financing activities - discontinued operations	(11,547)	(35,444)
Net cash used in financing activities	$(25,873)	$(67,801)
Net Change in Cash and Cash Equivalents	$12,097	$19,568
Less: increase in cash and cash equivalents - discontinued operations	(6,819)	(3,480)
Net increase in cash and cash equivalents - continuing operations	5,278	16,088
Cash and Cash Equivalents at Beginning of Period - Continuing Operations	95,562	89,194
Cash and Cash Equivalents at End of Period - Continuing Operations	$100,840	$105,282

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

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UNITED FIRE GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share amounts or as otherwise noted)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance through a network of independent agencies. Our insurance company subsidiaries are licensed as a property and casualty insurer in 46 states and the District of Columbia.

Discontinued Operations

We have historically reported our operations in two business segments: property and casualty insurance and life insurance. On September 18, 2017, the Company signed a definitive agreement to sell its subsidiary, United Life Insurance Company ("United Life"), to Kuvare US Holdings, Inc. ("Kuvare") and on March 30, 2018, the sale closed. As a result, the life insurance business, previously a separate segment, was considered held for sale and reported as discontinued operations in the Consolidated Balance Sheets, Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Cash Flows for all periods presented in this Form 10-Q (collectively, the "Consolidated Financial Statements"). Subsequent to the announcement of this sale, our continuing operations were reported as one business segment. All current and prior periods reflected in this Form 10-Q have been presented as continuing and discontinued operations, as applicable, unless otherwise noted. For more information, refer to Note 11. Discontinued Operations.

Basis of Presentation

The unaudited consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X promulgated by the SEC. Certain financial information that is included in our Annual Report on Form 10-K for the year ended December 31, 2017, including certain financial statement footnote disclosures, is not required by the rules and regulations of the SEC for interim financial reporting and have been condensed or omitted.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The financial statement categories that are most dependent on management estimates and assumptions include: investments; deferred policy acquisition costs; reinsurance receivables and recoverables; future policy benefits and losses, and loss settlement expenses; and pension and postretirement benefit obligations.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Management of UFG believes the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017. The review report of Ernst & Young LLP as of June 30, 2018 and for the three- and six-month periods ended June 30, 2018 and 2017 accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."

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Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash, money market accounts, and non-negotiable certificates of deposit with original maturities of three months or less.
For the six-month periods ended June 30, 2018 and 2017, we made payments for income taxes for continuing operations totaling $15,037 and $7,628, respectively. We received a tax refund of $1,503 and $10,000 for the six-month periods ended June 30, 2018 and 2017, respectively.
For the six-month periods ended June 30, 2018 and 2017, we made no interest payments (excluding interest credited to policyholders' accounts).
Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the six-month period ended June 30, 2018.

	Continuing Operations	Discontinued Operations	
	Property & Casualty Insurance	Life Insurance	Total
Recorded asset at beginning of period	$88,102	$ 71,151	$159,253
Underwriting costs deferred	107,412	1,376	108,788
Amortization of deferred policy acquisition costs	(100,449)	(1,895)	(102,344)
Ending unamortized deferred policy acquisition costs	$95,065	$ 70,632	$165,697
Impact of unrealized gains and losses on available-for-sale securities	—	7,274	7,274
Sale of discontinued operations	—	(77,906)	(77,906)
Recorded asset at June 30, 2018	$95,065	$ —	$95,065

Property and casualty insurance policy acquisition costs deferred are amortized as premium revenue is recognized. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value. This takes into account the premium to be earned, losses and loss settlement expenses expected to be incurred and certain other costs expected to be incurred as the premium is earned.

For traditional life insurance policies, DAC is amortized to income over the premium-paying period in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue. Expected premium revenue and gross profits are based on the same mortality and withdrawal assumptions used in determining future policy benefits. These assumptions are not revised after policy issuance unless the recorded DAC asset is deemed to be unrecoverable from future expected profits.

For non-traditional life insurance policies, DAC is amortized over the anticipated terms in proportion to the ratio of the expected annual gross profits to the total expected gross profits. Changes in the amount or timing of expected gross profits result in adjustments to the cumulative amortization of these costs. The effect on amortization of DAC for revisions to estimated gross profits is reported in earnings in the period the estimated gross profits are revised.

The effect on DAC that results from the assumed realization of unrealized gains (losses) on investments allocated to non-traditional life insurance business is recognized with an offset to net unrealized investment appreciation as of the balance sheet date. The impact of unrealized gains and losses on available-for-sale securities decreased the DAC asset by $6,294 at December 31, 2017. There was no impact of unrealized gains and losses on available-for-sale

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securities on the DAC asset at June 30, 2018 because the non-traditional life insurance business is part of discontinued operations, which was sold on March 30, 2018.

Income Taxes

The Tax Cuts and Jobs Act of 2017 (the "Tax Act") was enacted on December 22, 2017. The Tax Act significantly revised the U.S. corporate income tax laws including lowering the U.S. federal corporate tax rate from 35 percent to 21 percent, effective January 1, 2018.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, which addresses how a company recognizes provisional amounts when a company does not have the necessary information available, prepared or analyzed in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. The measurement period ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. As of June 30, 2018 we had not completed accounting for the tax effects of enactment of the Tax Act, however for certain items, we have made a reasonable estimate of the effects on our deferred tax balances. For other items where we could not make a reasonable estimate, we are still using existing accounting guidance and the provisions of the tax laws that were in place prior to the enactment. The Company will continue to refine this estimated provisional adjustment as we gain a more thorough understanding of the effects of enactment of the Tax Act on the Company, and the Company will take future guidance into consideration when it becomes available.

Deferred tax assets and liabilities are established based on differences between the financial statement bases of assets and liabilities and the tax bases of those same assets and liabilities, using the currently enacted statutory tax rates. Deferred income tax expense is measured by the year-to-year change in the net deferred tax asset or liability, except for certain changes in deferred tax amounts that affect stockholders' equity and do not impact federal income tax expense.

We reported consolidated federal income tax expense from continuing and discontinued operations of $7,350 and $2,250 for the six-month periods ended June 30, 2018 and 2017, respectively. Our effective tax rate is different than the federal statutory rate of 21 percent, due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

The Company performs a quarterly review of its tax positions and makes a determination of whether it is more likely than not that the tax position will be sustained upon examination. If, based on review, it appears not more likely than not that the positions will be sustained, the Company will calculate any unrecognized tax benefits and, if necessary, calculate and accrue any related interest and penalties. We did not recognize any liability for unrecognized tax benefits at June 30, 2018 or December 31, 2017. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

With regard to the sale of the life insurance subsidiary, federal income taxes were allocated to continuing and discontinued operations in accordance with the Company’s tax allocation agreement and the terms of the definitive agreement related to the sale.

We file a consolidated federal income tax return. We also file income tax returns in various state jurisdictions. We are no longer subject to federal or state income tax examination for years before 2014.

Subsequent Events

In the preparation of the accompanying financial statements, the Company 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 Company's financial statements. On July 24, 2018, the Company's Board of Directors declared a special cash dividend of $3.00 per share or a total of approximately $75,000 payable August 20, 2018 to shareholders of record as of August 3, 2018. This dividend will be recorded in

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the Company's financial statements in the three months ended September 30, 2018. The Company concluded there are no other material subsequent events or transactions that have occurred after the balance sheet date through the date on which the financial statements were issued.

Recently Issued Accounting Standards

Accounting Standards Adopted in 2018

Revenue Recognition

In May 2014, the FASB issued comprehensive new guidance on revenue recognition which supersedes nearly all existing revenue recognition guidance under GAAP. The new guidance requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) and all relevant facts and circumstances. Insurance contracts are not within the scope of this new guidance. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company adopted the guidance as of January 1, 2018. The adoption of the new guidance had no impact on the Company's reporting and disclosure of net premiums earned from insurance contracts, net investment income or net realized gains and losses, as these revenue streams are not within the scope of this new guidance. The remaining revenue streams are immaterial and not impacted by the new standard.

Financial Instruments

In January 2016, the FASB issued guidance updating certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (for example, trading or available-for-sale) and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The new guidance also simplifies the impairment process for equity investments without readily determinable fair values. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company adopted the new guidance as of January 1, 2018. The adoption of the new guidance resulted in a reclassification from accumulated other comprehensive income to retained earnings of $191,244 after tax, which is equal to the amount of net unrealized gains and losses on available-for-sale equity securities on January 1, 2018. Also, in the three- and six-month periods ended June 30, 2018, the Company recognized an after-tax net realized investment gain of $241 and an after-tax net realized investment loss of $7,879, respectively, in net income from the change in value of equity securities due to the adoption of this new accounting guidance.

Statement of Cash Flows - Classification of Certain Cash Receipts and Payments

In August 2016, the FASB issued an update that clarifies the classification of certain cash receipts and payments in the Statement of Cash Flows. The update addresses eight existing cash flow issues by clarifying the correct classification to establish uniformity in practice. The updated guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company adopted the new guidance as of January 1, 2018. The adoption had no impact on the Company's financial position and results of operations.

Defined Benefit Retirement Plan Cost

In March 2017, the FASB issued guidance on the presentation of net periodic benefit costs of defined benefit retirement benefit plans in the Statements of Income. The new guidance requires the service cost component of net periodic benefit cost of defined benefit plans to be presented in the same line in the Statements of Income as other employee compensation expenses. Also, under the new guidance, the service cost component of the net periodic benefit costs will be the only portion of costs subject to be capitalized in assets. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company adopted the new guidance as of January 1, 2018. The adoption of the new guidance resulted in a change in the capitalization

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of deferred acquisition costs to only include the pension and post retirement service costs in place of the total net periodic benefit costs. The adoption had an immaterial impact on the Company's financial position and results of operations. Additionally, the adoption did not impact the Company's presentation in the Statements of Income as all net periodic benefit costs and employee compensation expenses are included within the same category in the Statements of Income.

Share-Based Payments

In May 2017, the FASB issued new guidance which clarifies and addresses the diversity in practice when there is a change in the terms of a share-based payment award. The updated guidance clarifies when to use modification accounting when there is a change in the terms of a share-based payment and provides three conditions where modification accounting should not be applied. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company adopted the new guidance as of January 1, 2018. The adoption had no impact on the Company's financial position and results of operations.

Pending Adoption of Accounting Standards

Leases

In February 2016, the FASB issued guidance on the accounting for leases. The new guidance requires lessees to place a right-of-use asset and a lease liability, for all leases with terms greater than 12 months, on their balance sheets. The lease liability will be based on the present value of the future lease payments and the asset will be based on the liability. Expenses will be recognized on the income statement in a similar manner as previous methods. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those years. The Company will adopt the new guidance using the package of practical expedients as of January 1, 2019. The Company has created an inventory of its operating leases and has calculated the undiscounted future minimum lease payments, which are disclosed in Note 13. Lease Commitments of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The undiscounted future minimum lease payments at December 31, 2017 is $22.5 million, which represents less than 1.0 percent of the Company's total assets at December 31, 2017. The Company plans to use their incremental borrowing rate of their credit facility described in Note 9. Credit Facility of this Form 10-Q, as the discount rate for calculating the minimum lease payments. The Company is reviewing and updating its processes and controls under the new guidance. Management currently believes that the adoption will not have a significant impact on the Company's financial position and results of operations.

Financial Instruments - Credit Losses

In June 2016, the FASB issued new guidance on the measurement of credit losses for most financial instruments. The new guidance replaces the current incurred loss model for recognizing credit losses with an expected loss model for instruments measured at amortized cost and requires allowances to be recorded for available-for-sale debt securities rather than reduce the carrying amount. These allowances will be remeasured each reporting period. The new guidance is effective for annual periods beginning after December 15, 2020 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2021 and is currently evaluating the impact on the Company's financial position, results of operations and key processes.

Income Taxes - Intra-entity Transfers

In October 2016, the FASB issued new guidance on the income tax treatment of intra-entity transfers. The new guidance replaces the current guidance which prohibits the recognition of current and deferred income taxes of intra-entity transfers until the asset is sold externally. Under the new guidance, the exemption is eliminated and income taxes will be recognized on transfers of intra-entity assets. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2019 and is currently evaluating the impact on the Company's financial position and results of operations.

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Goodwill

In January 2017, the FASB issued new guidance which simplifies the test for goodwill impairment. The new guidance eliminates the implied fair value calculation when measuring a goodwill impairment charge. Under the new guidance, impairment charges will be based on the excess of the carrying value over fair value of goodwill. The new guidance is effective for annual and interim periods beginning after December 15, 2019. The Company will adopt the new guidance as of January 1, 2020 and it currently believes the adoption will have no impact on the Company's financial position and results of operations.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities, presented on a consolidated basis, including both continuing and discontinued operations as of June 30, 2018 and December 31, 2017, is as follows:

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June 30, 2018

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds - financial services	$150	$ —	$ —	$150
Total Held-to-Maturity Fixed Maturities	$150	$ —	$ —	$150
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$120,272	$ 23	$ 341	$119,954
U.S. government agency	196,348	633	2,712	194,269
States, municipalities and political subdivisions				
General obligations:				
Midwest	99,821	893	1,053	99,661
Northeast	40,913	385	187	41,111
South	119,745	612	2,040	118,317
West	110,147	916	1,492	109,571
Special revenue:				
Midwest	143,606	1,368	1,208	143,766
Northeast	63,889	426	1,431	62,884
South	247,056	1,414	4,457	244,013
West	147,388	1,251	2,469	146,170
Foreign bonds	7,751	72	—	7,823
Public utilities	49,629	196	1,141	48,684
Corporate bonds				
Energy	22,477	111	316	22,272
Industrials	42,286	143	486	41,943
Consumer goods and services	44,100	106	680	43,526
Health care	13,071	65	159	12,977
Technology, media and telecommunications	26,632	43	790	25,885
Financial services	73,501	182	1,746	71,937
Mortgage-backed securities	8,382	28	223	8,187
Collateralized mortgage obligations				
Government national mortgage association	73,482	181	2,650	71,013
Federal home loan mortgage corporation	111,082	136	2,044	109,174
Federal national mortgage association	46,657	46	1,305	45,398
Asset-backed securities	3,238	325	79	3,484
Total Available-for-Sale Fixed Maturities	$1,811,473	$ 9,555	$ 29,009	$1,792,019

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December 31, 2017

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds - financial services	$150	$ —	$ —	$150
Mortgage-backed securities	34	—	—	34
Total Held-to-Maturity Fixed Maturities	$184	$ —	$ —	$184
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$17,073	$ 4	$ 186	$16,891
U.S. government agency	121,574	1,311	717	122,168
States, municipalities and political subdivisions				
General obligations:				
Midwest	107,689	2,446	439	109,696
Northeast	47,477	1,174	10	48,641
South	139,870	2,462	813	141,519
West	111,123	2,351	463	113,011
Special revenue:				
Midwest	155,475	3,620	351	158,744
Northeast	79,028	1,351	619	79,760
South	260,145	5,218	1,851	263,512
West	156,576	2,929	1,198	158,307
Foreign bonds	51,361	1,441	49	52,753
Public utilities	206,028	3,386	270	209,144
Corporate bonds				
Energy	93,191	1,972	110	95,053
Industrials	218,067	3,881	241	221,707
Consumer goods and services	183,253	3,498	494	186,257
Health care	74,125	1,312	29	75,408
Technology, media and telecommunications	146,853	2,376	250	148,979
Financial services	277,824	5,769	442	283,151
Mortgage-backed securities	13,828	101	238	13,691
Collateralized mortgage obligations				
Government national mortgage association	157,836	1,921	2,274	157,483
Federal home loan mortgage corporation	201,320	1,879	4,047	199,152
Federal national mortgage association	104,903	1,703	1,174	105,432
Asset-backed securities	4,282	362	8	4,636
Total Available-for-Sale Fixed Maturities	$2,928,901	$ 52,467	$ 16,273	$2,965,095
Equity securities:				
Common stocks				

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Public utilities	$6,394	$16,075	$30	$22,439
Energy	6,514	8,171	120	14,565
Industrials	13,117	53,522	120	66,519
Consumer goods and services	10,110	15,742	164	25,688
Health care	7,763	32,340	—	40,103
Technology, media and telecommunications	6,067	11,556	115	17,508
Financial services	11,529	104,985	67	116,447
Nonredeemable preferred stocks	992	305	—	1,297
Total Available-for-Sale Equity Securities	$62,486	$242,696	$616	$304,566
Total Available-for-Sale Securities	$2,991,387	$295,163	$16,889	$3,269,661

The following table is a reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities for continuing and discontinued operations by investment type at June 30, 2018 and December 31, 2017:

June 30, 2018

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Continuing operations	$150	$ —	$ —	$150
Discontinued operations	—	—	—	—
Total Held-to-Maturity Fixed Maturities	$150	$ —	$ —	150
AVAILABLE-FOR-SALE				
Fixed maturities:				
Continuing operations	$1,811,473	$ 9,555	$ 29,009	$1,792,019
Discontinued operations	—	—	—	—
Total Available-for-Sale Fixed Maturities	$1,811,473	$ 9,555	$ 29,009	$1,792,019

Note: The sale of the life insurance business was completed on March 30, 2018.

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December 31, 2017				
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Continuing operations	$150	$ —	$ —	$150
Discontinued operations	34	—	—	34
Total Held-to-Maturity Fixed Maturities	$184	$ —	$ —	$184
AVAILABLE-FOR-SALE				
Fixed maturities:				
Continuing operations	$1,516,610	$ 27,412	$ 8,952	$1,535,070
Discontinued operations	1,412,291	25,055	7,321	1,430,025
Total Available-for-Sale Fixed Maturities	2,928,901	52,467	16,273	2,965,095
Equity securities:				
Continuing operations	$57,387	$ 224,065	$ 539	$280,913
Discontinued operations	5,099	18,631	77	23,653
Total Available-for-Sale Equity Securities	62,486	242,696	616	304,566
Total Available-for-Sale Securities	$2,991,387	$ 295,163	$ 16,889	$3,269,661

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at June 30, 2018, by contractual maturity, are shown in the following tables. The table below includes investments from continuing operations. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

Maturities

	Held-To-Maturity		Available-For-Sale		Trading	
June 30, 2018	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —	$80,163	$80,314	$1,807	$1,871
Due after one year through five years	150	150	276,772	277,322	8,530	10,268
Due after five years through 10 years	—	—	481,651	479,036	1,100	1,020
Due after 10 years	—	—	730,046	718,091	1,267	1,546
Asset-backed securities	—	—	3,238	3,484	—	—
Mortgage-backed securities	—	—	8,382	8,187	—	—
Collateralized mortgage obligations	—	—	231,221	225,585	—	—
	$ 150	$ 150	$1,811,473	$1,792,019	$12,704	$14,705

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Net Realized Investment Gains and Losses

Net realized gains on disposition of investments are computed using the specific identification method and are included in the computation of net income. A summary of the components of net realized investment gains (losses) is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net realized investment gains (losses) from continuing operations:				
Fixed maturities:				
Available-for-sale	$ (219			