UNITED FIRE & CASUALTY CO
Form S-3/A
May 03, 2002

As filed with the Securities and Exchange Commission on May 3, 2002

Registration No. 333-83446

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 3
TO
FORM S-3
REGISTRATION STATEMENT

Under
THE SECURITIES ACT OF 1933

UNITED FIRE & CASUALTY COMPANY

(Name of Registrant as Specified in its Charter)

Iowa	**42-0644327**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

118 SECOND AVENUE S.E.
CEDAR RAPIDS, IOWA 52407
(319) 399-5700
(Address and Telephone Number of Registrant s Principal Executive Offices)

JOHN A. RIFE
118 SECOND AVENUE S.E.
CEDAR RAPIDS, IOWA 52407
(319) 399-5700
(Name, Address, and Telephone Number of Agent for Service)

Copies To:

Michael K. Denney **Bradley & Riley PC** **2007 First Avenue S.E.** **Cedar Rapids, Iowa 52406-2804**	**Daniel T. Young** **Thompson Hine LLP** **3900 Key Center** **127 Public Square** **Cleveland, Ohio 44114-1291**

Approximate Date of Proposed Sale to the Public: As soon as practicable after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¨
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. ¨
If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering. ¨
If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered (1)(2)	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of Registration Fee
$25[ ]% Cumulative Convertible Redeemable Preferred Stock, Series A, no par value	2,760,000	$25.00	$69,000,000	$6,348
Common Stock, $3.33 1/3 par value				

(1) Includes 360,000 shares the underwriters have the option to purchase to cover over-allotments.

(2) A presently indeterminable number of shares of common stock, if any, which may be issuable upon conversion of the 2,760,000 shares of preferred stock.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

2,400,000 Shares

United Fire & Casualty Company

[ ]% Convertible Preferred Stock, Series A

Dividends on the [ ]% Convertible Preferred Stock, Series A, are cumulative from the date of original issuance and are payable on March 15, June 15, September 15 and December 15 of each year, beginning on June 15, 2002. The preferred stock has a liquidation preference of $25 per share.

The preferred stock is convertible at the option of the holder at any time, unless previously redeemed, into shares of common stock, $3.33 $^{1}/3$ par value, of United Fire & Casualty Company at an initial conversion price of $[ ] per share of common stock, which is equivalent to [ ] shares of common stock for each share of preferred stock converted, subject to adjustment upon certain events as described in this prospectus.

We may redeem all or any shares of preferred stock on or after May 15, 2005. The preferred stock will be subject to mandatory redemption on May 15, 2014.

Our preferred stock will trade on the Nasdaq National Market System under the trading symbol UFCSP. Our common stock trades on the Nasdaq National Market System under the trading symbol UFCS. On May , 2002, the closing price of our common stock on the Nasdaq National Market System was $.

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

Investing in our preferred stock involves risks. See Risk Factors beginning on page 6.

	Price to Public	Underwriting Discount	Proceeds to United Fire & Casualty Company
Per Share	$ 25.00	$	$
Total	$ 60,000,000	$	$

The underwriters have an option to purchase up to 360,000 additional shares of preferred stock at the public offering price, less the underwriting discount, from us within 30 days from the date of this prospectus.

Delivery of the shares of preferred stock will be made on or about [May], 2002.

McDonald Investments Inc. A.G. Edwards & Sons, Inc.

The date of this prospectus is [May], 2002.

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You should rely only on the information contained in this document or information to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate as of the date of this document.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus or incorporated by reference in this prospectus. Because this is a summary, it is not complete and does not contain all the information that may be important to you. You should read the entire prospectus carefully, including the information under Risk Factors, before making an investment decision.

Unless otherwise indicated, all information presented in this prospectus has been prepared based on generally accepted accounting principles in the United States and assumes that the underwriters over-allotment option is not exercised.

Our Company

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 and life insurance. We and our property and casualty insurers are licensed in 40 states, primarily in the Midwest, West and South, and are represented by approximately 1,220 independent agencies. Our life insurance subsidiary is licensed in 25 states, primarily in the Midwest and West, and is represented by approximately 1,470 independent agencies.

At December 31, 2001, we had $278.9 million in total equity and $1.85 billion in total assets. For the year ended December 31, 2001, our total revenue was $472.9 million and net income was $24.0 million, or $2.40 per share. Of our net income, 64.6% was attributable to our property and casualty segment and 35.4% was attributable to our life insurance segment.

Our family of property and casualty insurers has received a group rating of A (Excellent) from A.M. Best Company. Within the group, all of our property and casualty insurers have an A (Excellent) rating, except Lafayette Insurance Company, which has an A- (Excellent) rating. Standard & Poor s rates United Fire & Casualty Company, Addison Insurance Company and Lafayette Insurance Company A+. Our life insurance subsidiary has received an A- (Excellent) from A.M. Best Company and an A+ rating from Standard & Poor s. Rating agencies such as A.M. Best Company and Standard and Poor s evaluate insurance companies based on financial strength and the ability to pay claims, factors relevant to policyholders, but not necessarily to investors. Financial strength ratings by insurance rating agencies are not ratings of securities or recommendations to buy, hold or sell any security.

Our Property and Casualty Business

We write both commercial and personal lines of property and casualty insurance. We focus on our commercial lines, which represented approximately 82% of our direct property and casualty premiums written for the year ended December 31, 2001. Our primary commercial lines are tailored business packages that include the following coverages: fire and allied lines, automobile, workers compensation and fidelity and surety. We also write multiple peril, inland marine and specialty lines for our commercial policyholders.

Our personal lines, which represented approximately 18% of our direct property and casualty premiums written for the year ended December 31, 2001, primarily consist of automobile and fire and allied lines coverage. Additionally, we write policies covering recreational vehicles and watercraft.

Because we rely on independent agencies to market our product lines, we utilize a profit-sharing plan as an incentive for our agents to place high-quality property and casualty business with us. In addition to United Fire & Casualty Company, our property and casualty segment consists of the following related companies: Addison Insurance Company, Lafayette Insurance Company, American Indemnity Company, Texas General Indemnity Company, United Fire & Indemnity Company and United Fire Lloyds.

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 business. Our principal life insurance products are single premium annuities and universal life products. For the year ended December 31, 2001, single premium annuities accounted for approximately 83% of our life insurance premium revenues determined on the basis of statutory accounting principles, and universal life products accounted for approximately 7% of that revenue. We also underwrite and market single premium whole life insurance, term life insurance, credit life insurance and disability insurance products.

Business Focus

We compete in the insurance business by focusing on our goal of writing good business with good agents at an adequate price. We focus primarily on areas within the Midwest, West and South where we believe our agents can most effectively compete. Although we continue to write quality personal business, we believe we will benefit more in the long-term by emphasizing our commercial lines of business. We endeavor to realize our goal by relying on our principal strengths, which we believe include:

Experienced Senior Management Team and Employees. Our 22-person senior management team has extensive experience, with an average of over 28 years of experience in the insurance industry and over 17 years 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 719 employees employed as of December 31, 2001 have completed internal insurance-related training courses within the last 12 months. Further, 321 employees hold a total of 722 insurance industry professional designations, and 238 employees are enrolled in insurance industry courses.

Management Focus and Discipline. 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 and identify and react swiftly to positive or negative trends. We are able to track our performance, including profitability reports and loss ratios, by reporting segment, product, region, state, producer and policyholder.

Pricing Discipline and Underwriting Expertise. We are selective about the new policies we underwrite, seeking new 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.

Strong Agency Relationships. We distribute our products through a network of approximately 1,220 independent property and casualty agencies and approximately 1,470 independent life agencies. We have developed strong agency relationships due to our local presence and our performance-based compensation programs. 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.

Local Market Presence. We underwrite property and casualty insurance in 40 states. Our strongest property and casualty markets are Texas, Iowa, Louisiana, Missouri and Illinois, which accounted for approximately 55.8% of our direct property and casualty premiums written in 2001. We underwrite life insurance in 25 states, with Iowa, Minnesota, Wisconsin, Illinois and Nebraska accounting for approximately 72.4% of our direct life insurance premiums written in 2001. We believe our local and regional presence in our strongest markets provides us a competitive advantage over large, national competitors with centralized operations.

Commitment to Financial Stability. At December 31, 2001, our consolidated statutory surplus was approximately $194,988,000. We have historically kept a strong balance sheet by following conservative investing practices and by maintaining appropriate reserves in our property and casualty and life insurance operations. As of December 31, 2001, over 89% of our invested assets were invested in fixed income securities, 89% of which were investment grade and 7% of which were government securities. The remaining 11% of our invested assets was invested in equities, short-term investments, policy loans and other long-term investments.

Emphasis on 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 to our agents where they can receive quotes, report claims on-line, 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. For our policyholders we provide secure online access to their account information.

Easy-to-Understand Life Insurance Products. Unlike many of the life insurance products offered by our competitors, we offer straight-forward life insurance products that our policyholders can easily understand.

Recent Trends

During the 1990s and into 2000, the property and casualty insurance industry was characterized by excess capacity, which resulted in highly competitive market conditions evidenced by declining premium rates and, in many cases, policy terms less favorable to insurers. As a result, the industry experienced reduced profitability and a recent contraction of capacity, as property and casualty companies chose, or were forced, to withdraw from the business. In response to the contraction of capacity, many insurance and reinsurance companies, including our companies, independently sought and achieved price increases and improved policy terms.

Following the events of September 11, we have seen accelerated improvement in policy pricing and terms throughout the U.S. property and casualty insurance markets. In 2002, we expect to see further price increases. We believe that we are favorably positioned to take advantage of the improving conditions in the property and casualty insurance market and that the expected price increases, together with improved terms and conditions, will contribute to more favorable financial results. However, we can give no assurance that we will be able to broadly implement price increases which would result in increased premium revenues. During 2001, we recorded a pre-tax charge of $6.9 million representing our estimated loss, through assumed reinsurance, for the terrorist attacks on September 11. We do not expect any additional material payout beyond this charge unless the insurance industry or the judicial system determines that the attacks were multiple events, in which case our estimate for reserves would increase by approximately $3,000,000, based upon information currently available to us.

Our principal executive offices are located at 118 Second Avenue, S.E., Cedar Rapids, Iowa 52407. Our telephone number is 319-399-5700. Our Web site address is www.unitedfiregroup.com. The information on our Web site is not part of this prospectus.

The Offering

[ ]% Cumulative Convertible Redeemable Preferred Stock, Series A, offered by United Fire & Casualty Company	2,400,000 shares (1)
Preferred stock to be outstanding immediately after the offering	2,400,000 shares (1)
Preferred stock liquidation preference	$25 per share
Preferred stock annual dividend	[ ]%
Initial conversion price	$[ ] per share, equivalent to [ ] shares of common stock for each share of preferred stock
Conversion rights	Each share of preferred stock will be convertible into shares of our common stock at an initial price of $[ ] per share of common stock, equivalent to [ ] shares of common stock for each share of preferred stock. The conversion price may be adjusted from time to time upon the occurence of certain events. See Description of Our Capital Stock Series A Preferred Stock Conversion Rights.
Redemption at our option	We may redeem all or some of the preferred stock at any time on or after May 15, 2005 at a redemption price of $25 per share of preferred stock, plus accrued and unpaid dividends. If we redeem any shares on or after May 15, 2005 but before May 15, 2006 we will pay a premium equal to 3.0% of the redemption price; if we redeem any shares on or after May 15, 2006 but before May 15, 2007 we will pay a premium equal to 1.5% of the redemption price. See Description of Our Capital Stock Series A Preferred Stock Redemption.
Mandatory redemption	We are obligated to redeem all outstanding shares of the preferred stock on May 15, 2014. The redemption price will be equal to $25 plus an amount equal to accrued and unpaid dividends.
Nasdaq symbol	UFCSP
Use of proceeds	We expect to use the net proceeds from the sale for general corporate purposes. See Use of Proceeds.

(1) Does not include up to 360,000 shares the underwriters have the option to purchase to cover over-allotments.

Summary Financial Data

	Year ended December 31,				
	2001	2000	1999	1998	1997
	(Dollars in thousands, except per share data) (Prepared on the basis of generally accepted accounting principles)				
Income Statement Data:					
Revenues:					
Net premiums earned	$ 372,019	$ 333,365	$ 273,051	$ 245,727	$ 244,939
Net investment income	98,909	86,867	75,317	67,928	61,686
Realized gains (losses) and other income	(84)	(1,825)	2,936	22,796	2,676
Commission and policy fee income	2,108	2,172	1,912	1,815	1,829
	$ 472,952	$ 420,579	$ 353,216	$ 338,266	$ 311,130
Benefits, losses and expenses:					
Losses and settlement expenses	$ 270,329	$ 236,807	$ 197,291	$ 191,388	$ 159,199
Increase in liability for future policy benefits	5,236	6,241	5,157	3,707	5,016
Amortization of deferred policy acquisition costs	67,502	58,394	49,863	47,892	50,269
Other underwriting expenses	53,042	59,378	51,401	40,315	35,968
Interest on policyholders accounts	48,213	42,410	32,286	26,568	22,510
	$ 444,322	$ 403,230	$ 335,998	$ 309,870	$ 272,962
Income before income taxes	$ 28,630	$ 17,349	$ 17,218	$ 28,396	$ 38,168
Federal income taxes	4,537	1,822	1,834	4,719	9,436
Net income	$ 24,093	$ 15,527	$ 15,384	$ 23,677	$ 28,732
Earnings available to common stockholders	$ 24,093	$ 15,527	$ 15,384	$ 23,677	$ 28,732
Weighted average common shares outstanding	10,035,819	10,047,248	10,079,563	10,393,930	10,727,440
Basic and diluted earnings per common share	$ 2.40	$ 1.55	$ 1.53	$ 2.28	$ 2.68
Cash dividends declared per common share	$ 0.72	$ 0.71	$ 0.68	$ 0.67	$ 0.63
Balance Sheet Data:					
Total cash and investments	$ 1,561,112	$ 1,403,035	$ 1,240,460	$ 1,084,116	$ 998,278
Total assets	1,851,839	1,674,109	1,467,716	1,250,594	1,157,922
Reserves for future policy benefits and losses, claims and settlement expenses	1,323,316	1,180,190	1,039,593	826,306	714,205
Stockholders equity	278,988	257,429	237,793	256,282	277,208

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. If any of the events described in the following risk factors occurs, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our preferred stock and our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Unpredictable catastrophic events could reduce our net income.

Our property and casualty insurance operations expose us to claims arising out of catastrophes, including hurricanes, tornadoes, windstorms, hailstorms, fires, explosions, earthquakes and other events that may cause catastrophes, including terrorist acts. For example, a hailstorm that swept through New Orleans, Louisiana, in 2000 negatively affected our business in 2000 and 2001. Catastrophe claims arise principally under our commercial insurance policies, but we also have exposure under our personal insurance policies. Our automobile business exposes us to losses to automobiles arising from floods. Property damage resulting from catastrophes is the greatest risk of loss we face in the ordinary course of our business. Because the occurrence and severity of catastrophes are inherently unpredictable, historical results of operations may not be indicative of future results of operations. Claims from catastrophic events could reduce our net income, cause substantial volatility in our financial results for any fiscal quarter or year or otherwise adversely affect our financial condition or results of operations. Our ability to write new business could also be affected. Increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from catastrophic events in the future.

Our reserves for losses and costs related to adjustment of losses and our annuity reserves may be inadequate, which would result in reductions in net income and stockholders equity and could result in a downgrading of our rating and the ratings of our insurance company subsidiaries.

Our reserves for claims and future policy benefits may prove to be inadequate. We establish and carry, as a liability, reserves based on estimates by actuaries of how much we will need to pay for future benefits and claims. We establish property and casualty reserves for loss and loss adjustment expenses based on assumptions and estimates of damages and liabilities incurred. For our life insurance and annuity products, we calculate these reserves based on many assumptions and estimates, including estimated premiums we will receive over the assumed life of the policy, the timing of the event covered by the insurance policy, the amount of benefits or claims to be paid and the investment returns on the assets we purchase with the premiums we receive.

Our reserves are only estimates; we determine the amount of these reserves based on our best estimate and judgment of the losses and costs we will incur on existing insurance policies.

Because of the uncertainties that surround estimating loss reserves, we cannot precisely determine the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level we assume prior to payment of benefits or claims. The following factors may have a substantial impact on our future loss experience:

- the amounts of claims settlements and awards;
- the performance of our investments;
- legislative or judicial developments; and
- changes in inflation and economic conditions.

Actual claims and claim expenses paid might exceed our reserves. If our reserves are insufficient to cover our actual loss and loss adjustment expenses, we would have to augment our reserves and incur charges to our earnings. These charges could be material. Further, strengthening reserves causes a reduction in surplus and could cause a downgrading of our rating and the ratings of our insurance company subsidiaries. This in turn could impair our ability to sell insurance policies.

On September 11, 2001, terrorists hijacked and crashed four airplanes, resulting in large losses to life and property. Our only exposure to these losses is through assumed reinsurance, where we contract with other insurance companies to pay part of the loss incurred on policies they write. We estimate our 2001 pre-tax losses associated with these terrorist attacks to be $6.9 million, or $4.5 million net of taxes. However, if the insurance industry or the judicial system determines that the attacks should be considered multiple events, we estimate, based upon information currently available to us, that our pre-tax losses would increase by approximately $3,000,000. These incidents may have further repercussions and effects on us and our industry that are inherently unpredictable and beyond our control. The current war on terrorism, the potential commission of further terrorist attacks, substantial political instability and societal disruption may result in further losses.

Interest rate and market value fluctuations could negatively affect our profitability.

Some of our products, principally fixed annuities, expose us to the risk that changes in interest rates will reduce our spread, or the difference between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on our investments intended to support our obligations under the contracts.

In periods of increasing interest rates, we may not be able to replace our invested assets with higher yielding assets to the extent needed to fund the higher rates we must pay with respect to our interest sensitive products to keep them competitive. Consequently, we may have to accept a lower spread, and thus lower profitability, or face a decline in sales and loss of existing contracts and related assets. In periods of declining interest rates, we have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments then available. Moreover, borrowers may prepay fixed income securities, commercial mortgages and mortgage-backed securities in which we have invested in order to borrow at lower market rates, which exacerbates this risk. Because we are entitled to reset the interest rates on our annuities only at limited, pre-established intervals and because many of our policies have guaranteed interest rates, our spreads could decrease and potentially become negative.

Due to the reinvestment risk described above, a decline in market interest rates available on investments could also reduce our return from investments of capital that do not support particular policy obligations, which could also have a material adverse effect on our results of operations. The adverse effect on us of fluctuations in interest rates may be exacerbated because we currently maintain, and intend to continue to maintain, a large portion, approximately 89%, of our investment portfolio in fixed income securities. Generally, the fair value of these investments increases or decreases in an inverse relationship with changes in interest rates. Because we classify approximately 83% of our fixed income securities as available-for-sale, we must report the value of those investments at their current fair value. Accordingly, fluctuations in interest rates may result in fluctuations in the valuation of our fixed income investments, which could affect our stockholders equity.

Increases in interest rates may cause increased surrenders and withdrawals of insurance products. In periods of increasing interest rates, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns. This process may lead to an outflow of cash from our business. These outflows may require invested assets to be sold at a time when the prices of those assets are lower because of the increase in market interest rates, which may result in realized investment losses. In addition, unanticipated withdrawals and terminations also may require us to accelerate the amortization of deferred policy acquisition costs, which would increase our expenses in the current period.

The fair value of securities in our investment portfolio may fluctuate depending on general economic and market conditions or events relating to a particular issuer of securities. Changes in the fair value of securities in our investment portfolio are reflected in our financial statements and, therefore, could result in realized or unrealized investment losses, thereby affecting our stockholders equity.

Our results may fluctuate as a result of many factors, including cyclical changes in the insurance industry.

The results of companies in the property and casualty insurance industry historically have been subject to significant fluctuations and uncertainties. Rates for property and casualty insurance are influenced primarily by factors that are outside of our control, including market and competitive conditions and regulatory issues. Any significant decrease in the rates for property and casualty insurance could reduce our net income. Our profitability, like the profitability of other companies in the industry, can be affected significantly by:

rising levels of actual costs that we are unaware of at the time we price our products;

volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks;

changes in loss reserves resulting from