UNITED FIRE GROUP INC
Form 10-Q
August 08, 2012

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

FORM 10-Q

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

for the quarterly period ended June 30, 2012

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 52407
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

As of August 6, 2012, 25,435,181 shares of common stock were outstanding.

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FORWARD-LOOKING INFORMATION

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

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PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.
Consolidated Balance Sheets

(In Thousands, Except Per Share Amounts)	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value $3,927 in 2012 and $4,161 in 2011)	$3,864	$4,143
Available-for-sale, at fair value (amortized cost $2,657,938 in 2012 and $2,562,786 in 2011)	2,800,624	2,697,248
Equity securities, at fair value (amortized cost $68,663 in 2012 and $68,559 in 2011)	174,359	159,451
Trading securities, at fair value (amortized cost $14,263 in 2012 and $13,429 in 2011)	14,249	13,454
Mortgage loans	4,732	4,829
Policy loans	7,393	7,209
Other long-term investments	24,399	20,574
Short-term investments	1,100	1,100
Total investments	$3,030,720	$2,908,008
Cash and cash equivalents	$101,978	$144,527
Accrued investment income	32,750	32,219
Premiums receivable (net of allowance for doubtful accounts of $728 in 2012 and $825 in 2011)	211,205	172,348
Deferred policy acquisition costs	107,058	106,654
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $34,510 in 2012 and $35,248 in 2011)	44,098	45,644
Reinsurance receivables and recoverables	152,898	128,574
Prepaid reinsurance premiums	3,315	6,191
Income taxes receivable	14,454	26,742
Goodwill and intangible assets	29,530	30,801
Other assets	13,257	17,216
TOTAL ASSETS	$3,741,263	$3,618,924
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	$960,291	$945,051
Life insurance	1,504,178	1,476,281
Unearned premiums	330,297	288,991
Accrued expenses and other liabilities	140,883	138,210
Deferred income taxes	25,252	13,624
Debt	45,000	45,000
Trust preferred securities	—	15,626

TOTAL LIABILITIES	$3,005,901	$2,922,783
Stockholders' Equity		
Common stock, $0.001 par value; authorized 75,000,000 shares; 25,432,681 and 25,505,350 shares issued and outstanding in 2012 and 2011, respectively	$25	$25
Additional paid-in capital	212,171	213,045
Retained earnings	426,744	400,485
Accumulated other comprehensive income, net of tax	96,422	82,586
TOTAL STOCKHOLDERS' EQUITY	$735,362	$696,141
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,741,263	$3,618,924

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 Per Share Amounts)	2012	2011	2012	2011
Revenues				
Net premiums earned	$170,090	$152,210	$331,593	$266,414
Investment income, net of investment expenses	28,749	27,741	57,895	54,804
Net realized investment gains				
Other-than-temporary impairment charges	(4)	—	(4)	—
All other net realized gains	568	1,124	3,362	3,777
Net realized investment gains	564	1,124	3,358	3,777
Other income	243	729	499	885
Total revenues	$199,646	$181,804	$393,345	$325,880
Benefits, Losses and Expenses				
Losses and loss settlement expenses	$106,766	$135,811	$198,250	$211,993
Future policy benefits	8,356	7,880	18,494	16,062
Amortization of deferred policy acquisition costs	34,179	43,732	68,730	69,778
Other underwriting expenses	20,541	14,720	42,535	30,777
Interest on policyholders' accounts	10,627	10,657	21,283	21,327
Total expenses	$180,469	$212,800	$349,292	$349,937
Income (loss) before income taxes	$19,177	$(30,996)	$44,053	$(24,057)
Federal income tax expense (benefit)	4,461	(13,082)	10,153	(11,953)
Net income (loss)	$14,716	$(17,914)	$33,900	$(12,104)
Other comprehensive income				
Change in net unrealized appreciation on investments	8,667	21,439	22,270	22,939
Adjustment for net realized gains included in income	(564)	(1,124)	(3,358)	(3,777)
Adjustment for employee benefit costs included in expense	1,732	732	2,375	1,286
	$9,835	$21,047	$21,287	$20,448
Income tax effect of components of other comprehensive income	(3,442)	(7,366)	(7,451)	(7,157)
	$6,393	$13,681	$13,836	$13,291
Comprehensive income (loss)	$21,109	$(4,233)	$47,736	$1,187
Weighted average common shares outstanding	25,476,220	26,101,842	25,491,091	26,148,438
Basic earnings (loss) per common share	$0.58	$(0.69)	$1.33	$(0.46)
Diluted earnings (loss) per common share	0.58	(0.69)	1.33	(0.46)
Cash dividends declared per common share	0.15	0.15	0.30	0.30

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 Per Share Data)	Six Months Ended June 30, 2012
Common stock	
Balance, beginning of year	$25
Shares repurchased (101,901 shares)	(1)
Shares issued for stock-based awards (29,232 shares)	1
Balance, end of period	$25
Additional paid-in capital	
Balance, beginning of year	$213,045
Compensation expense and related tax benefit for stock-based award grants	859
Shares repurchased	(2,133)
Shares issued for stock-based awards	400
Balance, end of period	$212,171
Retained earnings	
Balance, beginning of year	$400,485
Net income	33,900
Dividends on common stock ($0.30 per share)	(7,641)
Balance, end of period	$426,744
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	$82,586
Change in net unrealized investment appreciation (1)	12,292
Change in liability for underfunded employee benefit plans	1,544
Balance, end of period	$96,422
Summary of changes	
Balance, beginning of year	$696,141
Net income	33,900
All other changes in stockholders' equity accounts	5,321
Balance, end of period	$735,362

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

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

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United Fire Group, Inc.
Consolidated Statements of Cash Flows (Unaudited)

(In Thousands)	Six Months Ended June 30, 2012	2011
Cash Flows From Operating Activities		
Net income (loss)	$33,900	$(12,104)
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	7,127	3,768
Depreciation and amortization	3,671	1,708
Stock-based compensation expense	916	939
Net realized investment gains	(3,358)	(3,777)
Net cash flows from trading investments	(748)	(2,104)
Deferred income tax expense (benefit)	6,626	(7,571)
Changes in:		
Accrued investment income	(531)	507
Premiums receivable	(38,857)	(29,226)
Deferred policy acquisition costs	(4,520)	(6,373)
Reinsurance receivables	(24,324)	(5,883)
Prepaid reinsurance premiums	2,876	(602)
Income taxes receivable	12,288	(4,029)
Other assets	3,959	(806)
Future policy benefits and losses, claims and loss settlement expenses	34,345	52,813
Unearned premiums	41,306	29,542
Accrued expenses and other liabilities	5,048	25,493
Deferred income taxes	(2,448)	(1,019)
Other, net	(2,131)	(486)
Total adjustments	$41,245	$52,894
Net cash provided by operating activities	$75,145	$40,790
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	$13,412	$21,367
Proceeds from call and maturity of held-to-maturity investments	285	709
Proceeds from call and maturity of available-for-sale investments	302,334	316,235
Proceeds from short-term and other investments	2,875	1,554
Purchase of available-for-sale investments	(414,828)	(292,808)
Purchase of short-term and other investments	(4,650)	(1,706)
Net purchases and sales of property and equipment	(857)	3,486
Acquisition of property and casualty company, net of cash acquired	—	(172,619)
Net cash used in investing activities	$(101,429)	$(123,782)
Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	$78,313	$71,489
Withdrawals from investment and universal life contracts	(69,521)	(57,263)
Borrowings of short-term debt	—	79,900
Repayment of trust preferred securities	(15,626)	—
Payment of cash dividends	(7,641)	(7,840)
Repurchase of common stock	(2,134)	(6,082)
Issuance of common stock	401	139
Tax impact from issuance of common stock	(57)	6

Net cash (used in) provided by financing activities	$(16,265)	$80,349
Net Change in Cash and Cash Equivalents	$(42,549)	$(2,643)
Cash and Cash Equivalents at Beginning of Period	144,527	180,057
Cash and Cash Equivalents at End of Period	$101,978	$177,414

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

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Business

The terms “United Fire,” “we,” “us,” or “our” refer to United Fire Group, Inc., and its consolidated subsidiaries and affiliates, as the context requires. We are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. We are licensed as a property and casualty insurer in 43 states plus the District of Columbia and as a life insurer in 36 states.

Basis of Presentation

We maintain our records in conformity with the accounting practices prescribed or permitted by the insurance departments of the states in which we are domiciled. To the extent that certain of these practices differ from U.S. generally accepted accounting principles (“GAAP”), we have made adjustments to present the accompanying unaudited Consolidated Financial Statements in conformity with GAAP. Certain financial information that is included in our Annual Report on Form 10-K, including certain financial statement footnote disclosures, are not required by the rules and regulations of the Securities and Exchange Commission (“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 (for net realizable value); goodwill and intangible assets (for recoverability); and future policy benefits and losses, claims and loss settlement expenses.

In the preparation of the accompanying unaudited Consolidated Financial Statements, we have 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.

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

In the opinion of the management of United Fire, 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, 2011. The review report of Ernst & Young LLP as of and for the three- and six-month periods ended June 30, 2012, accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 “Financial Statements.”

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, 2012 and 2011, we made payments for income taxes totaling $8.9 million and $0.6 million, respectively. For the six-month period ended June 30, 2012, we received a federal tax refund of $15.5 million that resulted from the utilization of our 2009 net operating losses and net capital losses in the

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carryback period. No tax refunds were received for the six-month period ended June 30, 2011.
For the six-month periods ended June 30, 2012 and 2011, we made interest payments totaling $0.8 million and $0.4 million, respectively. These payments exclude interest credited to policyholders' accounts.

Deferred Policy Acquisition Costs

The costs associated with underwriting new business – primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts – are deferred and amortized over the terms of the underlying policies. The following table shows the reconciliation of the components of our deferred policy acquisition costs asset, including the related amortization recognized for the six-month period ended June 30, 2012.

(In Thousands)	Property & Casualty	Life Insurance	Total
Recorded asset at December 31, 2011	$60,668	$45,986	$106,654
Amortization of value of business acquired	(1,674)	—	(1,674)
Underwriting costs deferred	69,742	3,508	73,250
Amortization of deferred policy acquisition costs	(62,621)	(4,435)	(67,056)
	$66,115	$45,059	$111,174
Change in "shadow" deferred policy acquisition costs	—	(4,116)	(4,116)
Recorded asset at June 30, 2012	$66,115	$40,943	$107,058

In October 2010, the Financial Accounting Standards Board ("FASB") issued updated accounting guidance to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be incremental and directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. Acquisition costs that are not eligible for deferral are to be charged to expense in the period incurred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs.

Effective January 1, 2012, we elected to adopt the updated accounting guidance on a prospective basis. As a result of the adoption, the amount of underwriting expenses eligible for deferral has decreased. After consideration of our normal recoverability assessment, which we refer to as a premium deficiency charge, and the amortization pattern of our deferred policy acquisition costs, we recognized approximately $8.1 million of pretax expense in the six-month period ended June 30, 2012 that we would not have recognized had the guidance remained the same. The impact of the adoption on the Consolidated Statements of Income and Comprehensive Income for the six-month period ended June 30, 2012 was an increase to other underwriting expenses of $13.9 million, a decrease to deferred policy acquisition cost amortization of $5.8 million and a decrease to net income of $5.3 million. This represents a reduction to net income of $0.21 per share.

The impact of the updated accounting guidance on our results for the full year will be influenced by a number of factors including: the volume of premiums written; our assessment of successful acquisition efforts; the profitability of our lines of property and casualty business, which impacts the level of premium deficiency charge recorded; and the normal amortization pattern of these deferred policy acquisition costs, which is generally over one year. The greatest impact will be experienced in the most current quarter as the recorded deferred policy acquisitions costs would amortize to expense in succeeding quarters to offset a portion of the initial impact when assessed on an annual basis. Accordingly, the impact of the updated accounting guidance on our results reported for the six-month period ended June 30, 2012 should not be considered to be representative of the impact for the full year.

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Income Taxes

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 a federal income tax expense of $10.2 million and a federal income tax benefit of $12.0 million for the six-month periods ended June 30, 2012 and 2011, respectively. Our effective tax rate is different than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

We have recognized no liability for unrecognized tax benefits at June 30, 2012 or December 31, 2011. 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.

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 2006.

Recently Issued Accounting Standards

Adopted Accounting Standards

Comprehensive Income

In June and December 2011, the FASB issued guidance amending the presentation of comprehensive income and its components. Under the new guidance, a reporting entity has the option to present comprehensive income in a single continuous statement or in two separate but consecutive statements. This new guidance is to be applied retrospectively. We adopted the new guidance in the first quarter of 2012 by electing to report comprehensive income in a single continuous statement as shown in the accompanying Consolidated Statements of Income and Comprehensive Income. The adoption of the new guidance affects presentation only and therefore had no impact on our results of operations or financial position.

Fair Value Measurements

In May 2011, the FASB issued updated accounting guidance that changed the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between GAAP and International Financial Reporting Standards. The guidance also requires additional disclosures for fair value measurements that are estimated using significant unobservable (i.e., Level 3) inputs. We adopted the updated guidance on a prospective basis effective January 1, 2012, and we have provided the additional disclosures required in "Note 3. Fair Value of Financial Instruments". The adoption of the new guidance did not have any impact on our financial position or 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 as of June 30, 2012 and December 31, 2011, is as follows:

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June 30, 2012	(Dollars in Thousands)			
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
States, municipalities and political subdivisions	$3,556	$44	$—	$3,600
Mortgage-backed securities	280	18	—	298
Collateralized mortgage obligations	28	1	—	29
Total Held-to-Maturity Fixed Maturities	$3,864	$63	$—	$3,927
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
U.S. Treasury	$42,364	$1,140	$—	$43,504
U.S. government agency	39,722	490	—	40,212
States, municipalities and political subdivisions	699,803	58,080	269	757,614
Foreign bonds	226,172	10,089	627	235,634
Public utilities	241,811	15,203	55	256,959
Corporate bonds				
Energy	178,831	7,718	1	186,548
Industrials	307,282	12,987	484	319,785
Consumer goods and services	209,643	9,232	271	218,604
Health care	120,500	7,130	7	127,623
Technology, media and telecommunications	123,527	5,910	106	129,331
Financial services	299,318	10,538	1,746	308,110
Mortgage-backed securities	33,884	1,130	22	34,992
Collateralized mortgage obligations	129,515	6,644	301	135,858
Asset-backed securities	5,188	432	151	5,469
Redeemable preferred stocks	378	3	—	381
Total Available-For-Sale Fixed Maturities	$2,657,938	$146,726	$4,040	$2,800,624
Equity securities				
Common stocks				
Public utilities	$7,231	$7,952	$172	$15,011
Energy	5,094	6,679	—	11,773
Industrials	13,032	18,206	240	30,998
Consumer goods and services	10,394	7,701	134	17,961
Health care	8,212	10,018	187	18,043
Technology, media and telecommunications	5,367	5,822	134	11,055
Financial services	15,699	50,549	342	65,906
Nonredeemable preferred stocks	3,634	119	141	3,612
Total Available-for-Sale Equity Securities	$68,663	$107,046	$1,350	$174,359
Total Available-for-Sale Securities	$2,726,601	$253,772	$5,390	$2,974,983

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December 31, 2011	(Dollars in Thousands)			
Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities				
Bonds				
States, municipalities and political subdivisions	$3,739	$52	$61	$3,730
Mortgage-backed securities	356	25	—	381
Collateralized mortgage obligations	48	2	—	50
Total Held-to-Maturity Fixed Maturities	$4,143	$79	$61	$4,161
AVAILABLE-FOR-SALE				
Fixed maturities				
Bonds				
U.S. Treasury	$42,530	$1,421	$—	$43,951
U.S. government agency	95,813	582	—	96,395
States, municipalities and political subdivisions	687,039	61,076	8	748,107
Foreign bonds	206,872	8,766	823	214,815
Public utilities	254,822	15,562	313	270,071
Corporate bonds				
Energy	189,902	7,567	277	197,192
Industrials	285,696	10,631	650	295,677
Consumer goods and services	203,948	8,872	646	212,174
Health care	109,219	6,497	45	115,671
Technology, media and telecommunications	108,315	4,951	318	112,948
Financial services	258,526	9,075	2,300	265,301
Mortgage-backed securities	34,353	1,041	4	35,390
Collateralized mortgage obligations	79,545	3,490	184	82,851
Asset-backed securities	5,801	495	—	6,296
Redeemable preferred stocks	405	4	—	409
Total Available-For-Sale Fixed Maturities	$2,562,786	$140,030	$5,568	$2,697,248
Equity securities				
Common stocks				
Public utilities	$7,231	$7,602	$98	$14,735
Energy	5,094	7,116	—	12,210
Industrials	12,678	16,153	275	28,556
Consumer goods and services	10,750	7,982	168	18,564
Health care	8,212	8,008	232	15,988
Technology, media and telecommunications	5,368	4,796	146	10,018
Financial services	15,592	41,041	543	56,090
Nonredeemable preferred stocks	3,634	40	384	3,290
Total Available-for-Sale Equity Securities	$68,559	$92,738	$1,846	$159,451
Total Available-for-Sale Securities	$2,631,345	$232,768	$7,414	$2,856,699

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Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading securities at June 30, 2012, by contractual maturity, are shown in the following table. 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.

(In Thousands)	Held-To-Maturity		Available-For-Sale		Trading	
June 30, 2012	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$406	$416	$241,061	$245,155	$490	$520
Due after one year through five years	3,150	3,184	1,051,843	1,107,127	7,376	7,171
Due after five years through 10 years	—	—	1,054,621	1,123,705	1,844	1,776
Due after 10 years	—	—	141,826	148,318	4,553	4,782
Asset-backed securities	—	—	5,188	5,469	—	—
Mortgage-backed securities	280	298	33,884	34,992	—	—
Collateralized mortgage obligations	28	29	129,515	135,858	—	—
	$3,864	$3,927	$2,657,938	$2,800,624	$14,263	$14,249

Net Realized Investment Gains and Losses

Net realized gains (losses) on disposition of investments are computed using the specific identification method and recognized as a component of earnings for the current period. A summary of net realized investment gains (losses) resulting from investment sales and calls is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2012	2011	2012	2011
Net realized investment gains (losses)				
Fixed maturities	$792	$1,048	$2,323	$2,434
Equity securities	(4)	218	697	1,334
Trading securities	(224)	(38)	338	278
Other long-term investments	—	(104)	—	(269)
Total net realized investment gains	$564	$1,124	$3,358	$3,777

The proceeds and gross realized gains and losses on the sale of available-for-sale securities are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2012	2011	2012	2011
Proceeds from sales	$10,412	$16,520	$13,412	$21,367
Gross realized gains	8	261	478	351
Gross realized losses	—	172	25	688

There were no sales of held-to-maturity securities during the six-month periods ended June 30, 2012 and 2011.

Our investment portfolio includes trading securities with embedded derivatives. These securities, which are primarily convertible redeemable preferred debt securities, are recorded at fair value. Income or loss, including the change in the fair value of these trading securities, is recognized currently in earnings as a component of net realized investment gains and losses. Our portfolio of trading securities had a fair value of $14.2 million and $13.5 million at June 30, 2012 and December 31, 2011, respectively.

Off-Balance Sheet Arrangements

Pursuant to an agreement with one of our limited liability partnership investments, we are contractually committed

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to make capital contributions up to $15.0 million, upon request by the partnership, through December 31, 2017. Our remaining potential contractual obligation was $7.4 million at June 30, 2012.

Unrealized Appreciation and Depreciation

A summary of changes in net unrealized investment appreciation (depreciation) during the reporting period is as follows:

	Six Months Ended June 30,	
(In Thousands)	2012	2011
Change in net unrealized investment appreciation		
Available-for-sale fixed maturities and equity securities	$23,028	$19,419
Deferred policy acquisition costs	(4,116)	(257)
Income tax effect	(6,620)	(6,707)
Total change in net unrealized investment appreciation, net of tax	$12,292	$12,455

In the above table, the amount reported as changes in deferred policy acquisition costs pertains to our life insurance segment and represents the impact of fluctuations that occur in the interest rate environment from time to time.

We continually monitor the difference between our cost basis and the estimated fair value of our investments. Our accounting policy for impairment recognition requires other-than-temporary impairment ("OTTI") charges to be recorded when we determine that it is more likely than not that we will be unable to collect all amounts due according to the contractual terms of the fixed maturity security or that the anticipated recovery in fair value of the equity security will not occur in a reasonable amount of time. Impairment charges on investments are recorded based on the fair value of the investments at the measurement date. Factors considered in evaluating whether a decline in value is other-than-temporary include: the length of time and the extent to which fair value has been less than cost; the financial condition and near-term prospects of the issuer; our intention to hold the investment; and the likelihood that we will be required to sell the investment.

The tables on the following pages summarize our fixed maturity and equity securities that were in an unrealized loss position at June 30, 2012 and December 31, 2011. The securities are presented by the length of time they have been continuously in an unrealized loss position. It is possible that we could recognize OTTI charges in future periods on securities held at June 30, 2012, if future events or information cause us to determine that a decline in fair value is other-than-temporary.

We believe the unrealized depreciation in value of securities in our fixed maturity portfolio is primarily attributable to changes in market interest rates and not the credit quality of the issuer. We have no intent to sell and it is more likely than not that we will not be required to sell these securities until such time as the fair value recovers to at least equal our cost basis or the securities mature.

We have evaluated the unrealized losses reported for all of our equity securities at June 30, 2012, and have concluded that the duration and severity of these losses do not warrant the recognition of an OTTI charge at June 30, 2012. Our largest unrealized loss greater than 12 months on an individual equity security at June 30, 2012 was $0.2 million. We have no intention to sell any of these securities prior to a recovery in value, but will continue to monitor the fair value reported for these securities as part of our overall process to evaluate investments for OTTI recognition.

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(In Thousands)

June 30, 2012	Less than 12 months			12 months or longer			Total	
Type of Investment	Number of Issues	Fair Value	Gross Unrealized Depreciation	Number of Issues	Fair Value	Gross Unrealized Depreciation	Fair Value	Gross Unrealized Depreciation
AVAILABLE-FOR-SALE								
Fixed maturities								
Bonds								
States, municipalities and political subdivisions	36	$21,466	$ 269	—	$—	$ —	$21,466	$ 269
Foreign bonds	14	23,083	488	2	3,982	139	27,065	627
Public utilities	1	989	11	1	1,117	44	2,106	55
Corporate bonds								
Energy	1	2,526	1	—	—	—	2,526	1
Industrials	9	27,584	381	1	2,897	103	30,481	484
Consumer goods and services	12	17,088	252	1	1,379	19	18,467	271
Health care	1	1,715	7	—	—	—	1,715	7
Technology, media and telecommunications	3	10,589	47	1	2,135	59	12,724	106
Financial services	16	24,317	340	22	22,061	1,406	46,378	1,746
Mortgage-backed securities	6	5,034	22	—	—	—	5,034	22
Collateralized mortgage obligations	5	18,857	117	7	303	184	19,160	301
Asset-backed securities	1	96	151	—	—	—	96	151
Total Available-For-Sale Fixed Maturities	105	$153,344	$ 2,086	35	$33,874	$ 1,954	$187,218	$ 4,040
Equity securities								