

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands, except share data)	December 31,	2005	2004
Assets			
Investments:			
Fixed maturities:			
Available-for-sale, at fair value (amortized cost — \$1,189,408 in 2005 and \$992,650 in 2004)		\$1,181,636	\$1,008,949
Held-to-maturity, at amortized cost (fair value — \$138,902 in 2005 and \$166,293 in 2004)		134,451	156,787
Trading, at fair value (amortized cost — \$15,465 in 2005 and \$11,756 in 2004)		15,312	11,939
Equity securities available-for-sale, at fair value (cost — \$186,417 in 2005 and \$169,479 in 2004)		321,096	315,875
Short-term investments, at cost which approximates fair value		45,296	76,168
Total investments		1,697,791	1,569,718
Cash		—	—
Accrued investment income		16,974	15,183
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$19,987 in 2005 and \$16,164 in 2004		126,894	146,667
Ceded unearned premiums		114,668	101,446
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$18,605 in 2005 and \$13,837 in 2004		593,209	464,180
Deferred policy acquisition costs, net		69,477	67,146
Property and equipment, at cost, net of accumulated depreciation of \$35,306 in 2005 and \$36,777 in 2004		20,859	18,335
Investment in unconsolidated investees		54,340	43,398
Goodwill, net of accumulated amortization of \$4,700 in 2005 and 2004		26,214	26,214
Other assets		15,444	16,488
Total assets		\$2,735,870	\$2,468,775
Liabilities and shareholders' equity			
Liabilities:			
Unpaid losses and settlement expenses		\$1,331,866	\$1,132,599
Unearned premiums		383,683	367,205
Reinsurance balances payable		97,526	78,062
Notes payable, short-term debt		15,541	46,839
Income taxes — current		4,425	11,612
Income taxes — deferred		22,717	38,966
Bonds payable, long-term debt		100,000	100,000
Other liabilities		87,171	69,831
Total liabilities		2,042,929	1,845,114
Shareholders' equity:			
Common stock (\$1 par value, authorized 50,000,000 shares, issued 31,344,058 shares in 2005 and 31,108,607 shares in 2004)		31,344	31,109
Paid-in capital		181,794	180,592
Accumulated other comprehensive earnings net of tax		82,785	106,017
Retained earnings		478,043	386,968
Deferred compensation		7,735	6,891
Treasury stock, at cost (5,792,753 shares in 2005 and 2004)		(88,760)	(87,916)
Total shareholders' equity		692,941	623,661
Total liabilities and shareholders' equity		\$2,735,870	\$2,468,775

Consolidated Statements of Earnings and Comprehensive Earnings

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands, except per share data)	Years ended December 31,	2005	2004	2003
Net premiums earned		\$491,307	\$511,348	\$463,597
Net investment income		61,641	54,087	44,151
Net realized investment gains		16,354	13,365	12,138
Consolidated revenue		569,302	578,800	519,886
Losses and settlement expenses		251,170	306,131	278,990
Policy acquisition costs		136,058	134,595	119,281
Insurance operating expenses		35,196	30,731	27,989
Interest expense on debt		7,118	6,894	1,010
General corporate expenses		6,780	5,536	3,886
Total expenses		436,322	483,887	431,156
Equity in earnings of unconsolidated investees		10,896	5,429	5,548
Earnings before income taxes		143,876	100,342	94,278
Income tax expense (benefit):				
Current		40,481	32,495	23,760
Deferred		(3,739)	(5,189)	(773)
Income tax expense		36,742	27,306	22,987
Net earnings		\$107,134	\$ 73,036	\$ 71,291
Other comprehensive earnings (loss), net of tax				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period		\$ (12,594)	\$ 16,871	\$ 31,793
Less: Reclassification adjustment for gains (losses) included in net earnings		(10,638)	(8,553)	(5,391)
Other comprehensive earnings (loss)		(23,232)	8,318	26,402
Comprehensive earnings		\$ 83,902	\$ 81,354	\$ 97,693
Earnings per share:				
Basic				
Net earnings per share		\$4.21	\$2.90	\$2.84
Comprehensive earnings per share		\$3.30	\$3.23	\$3.89
Diluted				
Net earnings per share		\$4.07	\$2.80	\$2.76
Comprehensive earnings per share		\$3.19	\$3.12	\$3.78
Weighted average number of common shares outstanding:				
Basic		25,459	25,223	25,120
Diluted		26,324	26,093	25,846

Consolidated Statements of Shareholders' Equity

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands, except per share data)	Total Shareholders' Equity	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Stock at Cost
Balance, January 1, 2003	\$456,555	\$30,473	\$170,205	\$71,297	\$265,573	\$5,531	\$(86,524)
Net earnings	71,291				71,291		
Other comprehensive earnings, net of tax	26,402			26,402			
Shares issued from public offering, less costs	10,048	420	9,628				
Treasury shares purchased (798 shares)	(22)						(22)
Deferred compensation under Rabbi trust plans	—					538	(538)
Shares issued from exercise of stock options	708	65	643				
Other capital items, including CatEPuts amortization	(792)		(792)				
Dividends declared (\$.40 per share)	(10,056)				(10,056)		
Balance, December 31, 2003	\$554,134	\$30,958	\$179,684	\$97,699	\$326,808	\$6,069	\$(87,084)
Net earnings	73,036				73,036		
Other comprehensive earnings, net of tax	8,318			8,318			
Treasury shares purchased (266 shares)	(10)						(10)
Deferred compensation under Rabbi trust plans	—					822	(822)
Shares issued from exercise of stock options	1,059	151	908				
Dividends declared (\$.51 per share)	(12,876)				(12,876)		
Balance, December 31, 2004	\$623,661	\$31,109	\$180,592	\$106,017	\$386,968	\$6,891	\$(87,916)
Net earnings	107,134				107,134		
Other comprehensive loss, net of tax	(23,232)			(23,232)			
Deferred compensation under Rabbi trust plans	—					844	(844)
Shares issued from exercise of stock options	1,437	235	1,202				
Dividends declared (\$.63 per share)	(16,059)				(16,059)		
Balance, December 31, 2005	\$692,941	\$31,344	\$181,794	\$82,785	\$478,043	\$7,735	\$(88,760)

Consolidated Statements of Cash Flows

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands)	Years ended December 31,	2005	2004	2003
Cash flows from operating activities				
Net earnings		\$ 107,134	\$ 73,036	\$ 71,291
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Net realized investment gains		(16,354)	(13,365)	(12,138)
Depreciation		3,228	3,033	3,234
Other items, net		11,311	10,738	164
Change in: Accrued investment income		(1,791)	(2,378)	(5,209)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)		19,773	6,193	(30,602)
Reinsurance balances payable		19,464	(14,320)	14,151
Ceded unearned premium		(13,221)	302	(6,342)
Reinsurance balances recoverable on unpaid losses		(129,029)	(92,132)	(31,162)
Deferred policy acquisition costs		(2,331)	(3,409)	(3,635)
Accounts payable and accrued expenses		9,693	2,411	5,107
Unpaid losses and settlement expenses		199,267	229,158	170,603
Unearned premiums		16,479	(437)	16,839
Income taxes: Current		(7,187)	4,460	5,365
Deferred		(3,739)	(5,189)	(773)
Changes in investment in unconsolidated investees: Undistributed earnings		(10,896)	(5,429)	(5,548)
Net proceeds from trading portfolio activity		(3,774)	(3,710)	(326)
Net cash provided by operating activities		\$ 198,027	\$ 188,962	\$ 191,019
Cash flows from investing activities				
Purchase of: Fixed maturities, held-to-maturity		\$ (3,024)	\$ —	\$ (3,002)
Fixed maturities, available-for-sale		(407,658)	(360,162)	(508,785)
Equity securities, available-for-sale		(73,519)	(58,675)	(31,505)
Short-term investments, net		—	(2,219)	—
Property and equipment		(10,538)	(4,051)	(4,403)
Note receivable		(6,000)	—	—
Proceeds from sale of: Fixed maturities, held-to-maturity		—	—	6,340
Fixed maturities, available-for-sale		149,724	108,088	116,047
Equity securities, available-for-sale		72,374	39,638	31,907
Short-term investments, net		38,506	—	13,816
Property and equipment		4,787	1,298	311
Insurance shell (UIH)		—	—	5,100
Proceeds from call or maturity of: Fixed maturities, held-to-maturity		25,363	24,080	48,079
Fixed maturities, available-for-sale		55,578	71,814	40,684
Note receivable		1,500	3,000	1,500
Net cash used in investing activities		\$(152,907)	\$(177,189)	\$(283,911)
Cash flows from financing activities				
Proceeds from stock offering		\$ —	\$ —	\$ 10,048
Proceeds from issuance of long-term debt — bonds		—	—	98,463
Proceeds from issuance of short-term debt		214	366	1,185
Payment on short-term debt		(31,512)	(1,088)	(7,981)
Shares issued under stock option plan		1,437	1,059	708
Treasury shares purchased		—	(10)	(22)
Cash dividends paid		(15,259)	(12,100)	(9,509)
Net cash provided by (used in) financing activities		\$ (45,120)	\$ (11,773)	\$ 92,892
Net decrease in cash		—	—	—
Cash at beginning of year		—	—	—
Cash at end of year		\$ —	\$ —	\$ —