

CONSOLIDATED BALANCE SHEETS

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

(in thousands, except share data)	December 31,	2006	2005
Assets			
Investments:			
Fixed maturities:			
Available-for-sale, at fair value (amortized cost – \$1,240,020 in 2006 and \$1,189,408 in 2005)	\$1,234,571	\$1,181,636	
Held-to-maturity, at amortized cost (fair value – \$108,730 in 2006 and \$138,902 in 2005)	106,310	134,451	
Trading, at fair value (amortized cost – \$15,125 in 2006 and \$15,465 in 2005)	14,960	15,312	
Equity securities available-for-sale, at fair value (cost – \$201,443 in 2006 and \$186,417 in 2005)	368,195	321,096	
Short-term investments, at cost which approximates fair value	104,205	45,296	
Total investments	1,828,241	1,697,791	
Cash	–	–	
Accrued investment income	18,628	16,974	
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$21,620 in 2006 and \$19,987 in 2005	126,021	126,894	
Ceded unearned premiums	97,596	114,668	
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$16,806 in 2006 and \$18,605 in 2005	525,671	593,209	
Deferred policy acquisition costs, net	73,817	69,477	
Property and equipment, at cost, net of accumulated depreciation of \$38,060 in 2006 and \$35,306 in 2005	20,590	20,859	
Investment in unconsolidated investees	36,667	54,340	
Goodwill, net of accumulated amortization of \$4,700 in 2006 and 2005	26,214	26,214	
Other assets	17,851	15,444	
Total assets	\$2,771,296	\$2,735,870	
Liabilities and shareholders' equity			
Liabilities:			
Unpaid losses and settlement expenses	\$1,318,777	\$1,331,866	
Unearned premiums	387,811	383,683	
Reinsurance balances payable	85,046	97,526	
Notes payable, short-term debt	–	15,541	
Income taxes – current	8,318	4,425	
Income taxes – deferred	27,069	22,717	
Bonds payable, long-term debt	100,000	100,000	
Other liabilities	87,755	87,171	
Total liabilities	2,014,776	2,042,929	
Shareholders' equity:			
Common stock (\$1 par value, authorized 50,000,000 shares, issued 31,689,740 shares in 2006 and 31,344,058 shares in 2005)	31,690	31,344	
Paid-in capital	187,632	181,794	
Accumulated other comprehensive earnings net of tax	105,145	82,785	
Retained earnings	594,147	478,043	
Deferred compensation	7,744	7,735	
Treasury stock, at cost (7,416,762 shares in 2006 and 5,792,753 shares in 2005)	(169,838)	(88,760)	
Total shareholders' equity	756,520	692,941	
Total liabilities and shareholders' equity	\$2,771,296	\$2,735,870	

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,	2006	2005	2004
Net premiums earned		\$530,338	\$491,307	\$511,348
Net investment income		71,325	61,641	54,087
Net realized investment gains		31,045	16,354	13,365
Consolidated revenue		632,708	569,302	578,800
Losses and settlement expenses		256,889	251,170	306,131
Policy acquisition costs		145,776	136,058	134,595
Insurance operating expenses		43,617	35,196	30,731
Interest expense on debt		6,581	7,118	6,894
General corporate expenses		8,069	6,780	5,536
Total expenses		460,932	436,322	483,887
Equity in earnings of unconsolidated investees		15,117	10,896	5,429
Earnings before income taxes		186,893	143,876	100,342
Income tax expense (benefit):				
Current		59,942	40,481	32,495
Deferred		(7,688)	(3,739)	(5,189)
Income tax expense		52,254	36,742	27,306
Net earnings		\$134,639	\$107,134	\$ 73,036
Other comprehensive earnings (loss), net of tax				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period		\$ 32,011	\$ (12,594)	\$ 16,871
Less: Reclassification adjustment for gains included in net earnings		(9,651)	(10,638)	(8,553)
Other comprehensive earnings (loss)		22,360	(23,232)	8,318
Comprehensive earnings		\$156,999	\$ 83,902	\$ 81,354
Earnings per share:				
Basic				
Net earnings per share		\$5.40	\$4.21	\$2.90
Comprehensive earnings per share		\$6.30	\$3.30	\$3.23
Diluted				
Net earnings per share		\$5.27	\$4.07	\$2.80
Comprehensive earnings per share		\$6.14	\$3.19	\$3.12
Weighted average number of common shares outstanding:				
Basic		24,918	25,459	25,223
Diluted		25,571	26,324	26,093

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(in thousands)	Years ended December 31,	2006	2005	2004
Cash flows from operating activities				
Net earnings		\$ 134,639	\$ 107,134	\$ 73,036
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Net realized investment gains		(31,045)	(16,354)	(13,365)
Depreciation		3,503	3,228	3,033
Other items, net		5,783	11,311	10,738
Change in: Accrued investment income		(1,654)	(1,791)	(2,378)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)		873	19,773	6,193
Reinsurance balances payable		(12,480)	19,464	(14,320)
Ceded unearned premium		17,072	(13,221)	302
Reinsurance balances recoverable on unpaid losses		67,538	(129,029)	(92,132)
Deferred policy acquisition costs		(4,340)	(2,331)	(3,409)
Accounts payable and accrued expenses		3,005	9,693	2,411
Unpaid losses and settlement expenses		(13,089)	199,267	229,158
Unearned premiums		4,128	16,479	(437)
Income taxes: Current		6,823	(7,187)	4,460
Deferred		(7,688)	(3,739)	(5,189)
Stock option excess tax benefit		(2,930)	–	–
Changes in investment in unconsolidated investees: Undistributed earnings		(15,117)	(10,896)	(5,429)
Dividends received		16,500	–	–
Net proceeds from trading portfolio activity		254	(3,774)	(3,710)
Net cash provided by operating activities		\$ 171,775	\$ 198,027	\$ 188,962

(in thousands)	Years ended December 31,	2006	2005	2004
Cash flows from investing activities				
Purchase of: Fixed maturities, held-to-maturity		\$ —	\$ (3,024)	\$ —
Fixed maturities, available-for-sale		(412,019)	(407,658)	(360,162)
Equity securities, available-for-sale		(139,462)	(73,519)	(58,675)
Short-term investments, net		(61,548)	—	(2,219)
Property and equipment		(4,590)	(10,538)	(4,051)
Note receivable		(5,000)	(6,000)	—
Proceeds from sale of: Fixed maturities, available-for-sale		231,385	149,724	108,088
Equity securities, available-for-sale		146,635	72,374	39,638
Short-term investments, net		—	38,506	—
Property and equipment		1,356	4,787	1,298
Investment in unconsolidated investee		32,499	—	—
Proceeds from call or maturity of: Fixed maturities, held-to-maturity		28,215	25,363	24,080
Fixed maturities, available-for-sale		117,204	55,578	71,814
Note receivable		2,000	1,500	3,000
Net cash used in investing activities		\$ (63,325)	\$ (152,907)	\$ (177,189)
Cash flows from financing activities				
Proceeds from issuance of short-term debt		\$35	\$214	\$366
Payment on short-term debt		(15,576)	(31,512)	(1,088)
Stock option excess tax benefit		2,930	—	—
Proceeds from stock option exercises		3,254	1,437	1,059
Treasury shares purchased		(81,069)	—	(10)
Cash dividends paid		(18,024)	(15,259)	(12,100)
Net cash used in financing activities		\$ (108,450)	\$ (45,120)	\$ (11,773)
Net decrease in cash		—	—	—
Cash at beginning of year		—	—	—
Cash at end of year		\$ —	\$ —	\$ —

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 Compen- sation	Treasury Stock at Cost
Balance, January 1, 2004	\$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)
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)
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)
Net earnings	\$134,639				\$134,639		
Other comprehensive earnings, net of tax	22,360			22,360			
Treasury shares purchased							
(1,624,009 shares)	(81,069)						(81,069)
Deferred compensation under							
Rabbi trust plans	—					9	(9)
Stock option excess tax benefit	2,930		2,930				
Exercise of stock options	3,254	346	2,908				
Dividends declared (\$.75 per share)	(18,535)				(18,535)		
Balance, December 31, 2006	\$756,520	\$31,690	\$187,632	\$105,145	\$594,147	\$7,744	\$(169,838)