

CONSOLIDATED BALANCE SHEETS

in thousands, except per share data	December 31	2008	2007
Assets			
Investments:			
Fixed income:			
Available-for-sale, at fair value (amortized cost – \$1,236,676 in 2008 and \$1,274,734 in 2007)		\$1,224,215	\$1,283,305
Held-to-maturity, at amortized cost (fair value – \$41,421 in 2008 and \$75,673 in 2007)		39,821	73,648
Trading, at fair value (amortized cost – \$10,282 in 2008 and \$15,350 in 2007)		10,020	15,413
Equity securities available-for-sale, at fair value (cost – \$251,283 in 2008 and \$255,598 in 2007)		286,790	393,680
Short-term investments, at cost which approximates fair value		97,982	73,731
Total investments		1,658,828	1,839,777
Cash		–	–
Accrued investment income		17,226	18,296
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$14,740 in 2008 and \$13,336 in 2007		92,149	105,937
Ceded unearned premiums		65,977	71,021
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$15,803 in 2008 and \$18,877 in 2007		350,284	417,250
Deferred policy acquisition costs, net		78,520	78,882
Property and equipment, at cost, net of accumulated depreciation of \$43,218 in 2008 and \$40,509 in 2007		21,565	20,050
Income taxes – deferred		24,141	–
Investment in unconsolidated investees		38,697	38,162
Goodwill		26,214	26,214
Other assets		45,800	10,934
Total assets		\$2,419,401	\$2,626,523
Liabilities and Shareholders' Equity			
Liabilities:			
Unpaid losses and settlement expenses		\$1,159,311	\$1,192,178
Unearned premiums		335,170	355,522
Reinsurance balances payable		30,224	38,273
Notes payable, short-term debt		–	27,975
Income taxes – deferred		–	25,042
Bonds payable, long-term debt		100,000	100,000
Accrued expenses		32,894	39,303
Other liabilities		53,648	73,808
Total liabilities		\$1,711,247	\$1,852,101
Shareholders' equity:			
Common stock (\$1 par value, authorized 50,000,000 shares, issued 32,106,085 shares in 2008 and 31,869,596 shares in 2007)		32,106	31,870
Paid-in capital		196,989	192,446
Accumulated other comprehensive earnings, net of tax		15,130	95,701
Retained earnings		807,195	749,767
Deferred compensation		8,312	7,980
Treasury stock, at cost (10,631,656 shares in 2008 and 9,714,456 shares in 2007)		(351,578)	(303,342)
Total shareholders' equity		\$ 708,154	\$ 774,422
Total liabilities and shareholders' equity		\$2,419,401	\$2,626,523

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

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

in thousands, except per share data	Years Ended December 31	2008	2007	2006
Net premiums earned		\$ 528,764	\$544,478	\$530,338
Net investment income		78,986	78,901	71,325
Net realized investment gains (losses)		(46,738)	28,966	31,045
Consolidated revenue		561,012	652,345	632,708
Losses and settlement expenses		247,174	190,868	256,889
Policy acquisition costs		163,320	155,610	145,776
Insurance operating expenses		35,207	42,235	43,617
Interest expense on debt		6,704	6,997	6,581
General corporate expenses		6,853	9,474	8,069
Total expenses		459,258	405,184	460,932
Equity in earnings of unconsolidated investees		4,844	7,315	15,117
Earnings before income taxes		106,598	254,476	186,893
Income tax expense (benefit):				
Current		33,721	75,551	59,942
Deferred		(5,799)	3,058	(7,688)
Income tax expense		27,922	78,609	52,254
Net earnings		\$ 78,676	\$175,867	\$134,639
Other comprehensive earnings (loss), net of tax				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period		\$(111,152)	\$ 9,339	\$ 32,011
Less: Reclassification adjustment for losses (gains) included in net earnings		30,581	(18,783)	(9,651)
Other comprehensive earnings (loss)		(80,571)	(9,444)	22,360
Comprehensive earnings (loss)		\$ (1,895)	\$166,423	\$156,999
Earnings per share:				
Basic – Net earnings per share		\$ 3.65	\$7.46	\$5.40
Comprehensive earnings (loss) per share		\$(0.09)	\$7.06	\$6.30
Earnings per share:				
Diluted – Net earnings per share		\$ 3.60	\$7.30	\$5.27
Comprehensive earnings (loss) per share		\$(0.09)	\$6.91	\$6.14
Weighted average number of common shares outstanding:				
Basic		21,540	23,574	24,918
Diluted		21,848	24,085	25,571

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years ended December 31,	2008	2007	2006
Cash flows from operating activities				
Net earnings		\$ 78,676	\$ 175,867	\$ 134,639
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Net realized investment losses (gains)		46,738	(28,966)	(31,045)
Depreciation		3,596	3,567	3,503
Other items, net		17,287	10,137	5,783
Change in: Accrued investment income		1,070	332	(1,654)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)		13,788	20,084	873
Reinsurance balances payable		(8,049)	(16,702)	(12,480)
Ceded unearned premium		5,044	26,575	17,072
Reinsurance balances recoverable on unpaid losses		66,966	108,421	67,538
Deferred policy acquisition costs		362	(5,065)	(4,340)
Accounts payable and accrued expenses		(6,409)	4,613	3,005
Unpaid losses and settlement expenses		(32,867)	(126,599)	(13,089)
Unearned premiums		(20,352)	(32,289)	4,128
Income taxes: Current		2,163	(12,250)	6,823
Deferred		(5,799)	3,058	(7,688)
Stock option excess tax benefit		(4,929)	(2,042)	(2,930)
Changes in investment in unconsolidated investees: Undistributed earnings		(4,844)	(7,315)	(15,117)
Dividends received		3,960	5,940	16,500
Net (cash used in) proceeds from trading portfolio activity		4,933	(343)	254
Net cash provided by operating activities		\$161,334	\$ 127,023	\$ 171,775

CONTINUED

(in thousands)	Years ended December 31,	2008	2007	2006
Cash flows from Investing activities				
Purchase of: Fixed income, held-to-maturity		\$ —	\$ —	\$ —
Fixed income, available-for-sale		(445,778)	(339,334)	(412,019)
Equity securities, available-for-sale		(123,415)	(101,332)	(139,462)
Short-term investments, net		(88,838)	—	(61,548)
Property and equipment		(6,002)	(4,456)	(4,590)
Note receivable		—	—	(5,000)
Proceeds from sale of: Fixed income, held-to-maturity		5,230	—	—
Fixed income, available-for-sale		143,074	99,360	231,385
Equity securities, available-for-sale		89,032	77,040	146,635
Short-term investments, net		—	18,926	—
Property and equipment		891	1,429	1,356
Investment in unconsolidated investee		—	—	32,499
Proceeds from call or maturity of: Fixed income, held-to-maturity		28,870	32,722	28,215
Fixed income, available-for-sale		327,462	199,427	117,204
Note receivable		—	9,500	2,000
Net cash used in investing activities		\$ (69,474)	\$ (6,718)	\$ (63,325)
Cash flows from financing activities				
Proceeds from issuance of short-term debt		\$ 54,017	\$ 80,619	\$ 35
Payment on short-term debt		(81,992)	(52,644)	(15,576)
Stock option excess tax benefit		4,929	2,042	2,930
Proceeds from stock option exercises		(150)	2,952	3,254
Treasury shares purchased		(47,904)	(133,268)	(81,069)
Cash dividends paid		(20,760)	(20,006)	(18,024)
Net cash used in financing activities		\$ (91,860)	\$ (120,305)	\$ (108,450)
Net decrease in cash		—	—	—
Cash at beginning of year		—	—	—
Cash at end of year		\$ —	\$ —	\$ —

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share data)	Common Shares	Total Shareholders' Equity	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Stock at Cost
Balance, January 1, 2006	25,551,305	\$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)	(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	345,682	3,254	346	2,908				
Dividends declared (\$.75 per share)		(18,535)				(18,535)		
Balance, December 31, 2006	24,272,978	\$756,520	\$31,690	\$187,632	\$105,145	\$594,147	\$7,744	\$(169,838)
Net earnings		\$175,867				175,867		
Other comprehensive loss, net of tax		(9,444)			(9,444)			
Treasury shares purchased	(2,297,694)	(133,268)						(133,268)
Deferred compensation under Rabbi trust plans		—					236	(236)
Stock option excess tax benefit		2,042		2,042				
Exercise of stock options	179,856	2,952	180	2,772				
Dividends declared (\$.87 per share)		(20,247)				(20,247)		
Balance, December 31, 2007	22,155,140	\$774,422	\$31,870	\$192,446	\$ 95,701	\$749,767	\$7,980	\$(303,342)
Net earnings		\$ 78,676				78,676		
Other comprehensive loss, net of tax		(80,571)			(80,571)			
Treasury shares purchased	(917,200)	(47,904)						(47,904)
Deferred compensation under Rabbi trust plans		—					332	(332)
Stock option excess tax benefit		4,929		4,929				
Exercise of stock options	236,489	(150)	236	(386)				
Dividends declared (\$.99 per share)		(21,248)				(21,248)		
Balance, December 31, 2008	21,474,429	\$708,154	\$32,106	\$196,989	\$ 15,130	\$807,195	\$8,312	\$(351,578)

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