

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

August 08, 2013

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated under

the Laws of Ohio

03-0483872

(State or other jurisdiction of

incorporation or organization)

(I.R.S. Employer

Identification No.)

3700 Colonnade Parkway, Suite 600, Birmingham, Alabama 35243

(Address of principal executive offices and zip code)

(205) 870-4000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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 ☒ No ☐

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined by rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 31, 2013 there were 11,496,098 shares of the registrant's common stock outstanding.

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| EXHIBIT INDEX                         |                                                                                                             |
| Exhibit 31.1                          | Certification of the Chief Executive Officer under Exchange Act Rule 13a-14(a)                              |
| Exhibit 31.2                          | Certification of the Chief Financial Officer under Exchange Act Rule 13a-14(a)                              |
| Exhibit 32                            | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 |
| 101.INS                               | XBRL Instance Document                                                                                      |

101.SCH XBRL Taxonomy Extension Schema  
101.CAL XBRL Taxonomy Extension Calculation Linkbase  
101.DEF XBRL Taxonomy Extension Definition Linkbase  
101.LAB XBRL Taxonomy Extension Label Linkbase  
101.PRE XBRL Taxonomy Extension Presentation Linkbase

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## PART I

## FINANCIAL INFORMATION

## ITEM 1

## Financial Statements

## INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

(unaudited)

|                                                          | Three months ended June 30, |           |          | Six months ended June 30, |           |           |         |
|----------------------------------------------------------|-----------------------------|-----------|----------|---------------------------|-----------|-----------|---------|
|                                                          | 2013                        | 2012      | % Change | 2013                      | 2012      | % Change  |         |
| Revenues:                                                |                             |           |          |                           |           |           |         |
| Earned premium                                           | \$331,215                   | \$294,118 | 12.6     | %                         | \$649,804 | \$571,266 | 13.7    |
| Net investment income                                    | 8,622                       | 9,600     | (10.2)   | )%                        | 16,960    | 19,346    | (12.3)  |
| Net realized gains on investments <sup>1</sup>           | 794                         | 2,166     | (63.4)   | )%                        | 4,617     | 2,405     | 92.0    |
| Other income                                             | 73                          | 98        | (25.3)   | )%                        | 125       | 367       | (66.0)  |
| Total revenues                                           | 340,704                     | 305,983   | 11.3     | %                         | 671,506   | 593,385   | 13.2    |
| Costs and Expenses:                                      |                             |           |          |                           |           |           |         |
| Losses and loss adjustment expenses                      | 257,079                     | 230,907   | 11.3     | %                         | 507,449   | 445,685   | 13.9    |
| Commissions and other underwriting expenses              | 66,986                      | 60,863    | 10.1     | %                         | 129,359   | 123,003   | 5.2     |
| Interest expense                                         | 3,460                       | 2,703     | 28.0     | %                         | 6,998     | 5,405     | 29.5    |
| Corporate general and administrative expenses            | 2,335                       | 2,084     | 12.0     | %                         | 4,072     | 4,100     | (0.7)   |
| Other expenses                                           | 717                         | 103       | 596.4    | %                         | 1,394     | 347       | 302.1   |
| Total costs and expenses                                 | 330,575                     | 296,660   | 11.4     | %                         | 649,272   | 578,540   | 12.2    |
| Earnings before income taxes                             | 10,129                      | 9,323     | 8.6      | %                         | 22,234    | 14,845    | 49.8    |
| Provision for income taxes                               | 2,721                       | 2,369     | 14.9     | %                         | 6,164     | 3,597     | 71.3    |
| Net Earnings                                             | \$7,408                     | \$6,954   | 6.5      | %                         | \$16,070  | \$11,248  | 42.9    |
| Net Earnings per Common Share:                           |                             |           |          |                           |           |           |         |
| Basic                                                    | \$0.65                      | \$0.59    | 10.2     | %                         | \$1.40    | \$0.96    | 45.8    |
| Diluted                                                  | 0.64                        | 0.58      | 10.3     | %                         | 1.37      | 0.94      | 45.7    |
| Average Number of Common Shares:                         |                             |           |          |                           |           |           |         |
| Basic                                                    | 11,448                      | 11,709    | (2.2)    | )%                        | 11,485    | 11,719    | (2.0)   |
| Diluted                                                  | 11,643                      | 11,937    | (2.5)    | )%                        | 11,698    | 11,993    | (2.5)   |
| Cash Dividends per Common Share                          | \$0.300                     | \$0.225   | 33.3     | %                         | \$0.600   | \$0.450   | 33.3    |
| <sup>1</sup> Net realized gains before impairment losses | \$1,093                     | \$2,584   | (57.7)   | )%                        | \$4,988   | \$3,470   | 43.8    |
| Total other-than-temporary impairment (OTTI) losses      | (486)                       | (418)     | 16.3     | %                         | (558)     | (1,034)   | (46.1)  |
| Non-credit portion in other comprehensive income         | 187                         | 0         | NM       |                           | 187       | 1         | NM      |
| OTTI losses reclassified from other comprehensive income | 0                           | 0         | 0.0      | %                         | 0         | (32)      | (100.0) |
| Net impairment losses recognized in earnings             | (299)                       | (418)     | (28.4)   | )%                        | (371)     | (1,065)   | (65.2)  |
| Total net realized gains on investments                  | \$794                       | \$2,166   | (63.4)   | )%                        | \$4,617   | \$2,405   | 92.0    |

NM = Not Meaningful

See Condensed Notes to Consolidated Financial Statements.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

|                                                                                  | Three months ended<br>June 30, |           | Six months ended June 30, |            |
|----------------------------------------------------------------------------------|--------------------------------|-----------|---------------------------|------------|
|                                                                                  | 2013                           | 2012      | 2013                      | 2012       |
| Net earnings                                                                     | \$7,408                        | \$6,954   | \$16,070                  | \$11,248   |
| Other comprehensive income (loss) before tax:                                    |                                |           |                           |            |
| Net change in postretirement benefit liability                                   | 50                             | (6        | ) 100                     | (11        |
| Unrealized gains (losses) on investments:                                        |                                |           |                           |            |
| Unrealized holding gains (losses) arising during the period                      | (29,998                        | ) 3,455   | (27,310                   | ) 10,118   |
| Less: Reclassification adjustments for gains included in net income              | (794                           | ) (2,166  | ) (4,617                  | ) (2,405   |
| Unrealized gains (losses) on investments, net                                    | (30,792                        | ) 1,289   | (31,928                   | ) 7,713    |
| Other comprehensive income (loss), before tax                                    | (30,742                        | ) 1,283   | (31,828                   | ) 7,702    |
| Income tax benefit (expense) related to components of other comprehensive income | 10,760                         | (449      | ) 11,140                  | (2,696     |
| Other comprehensive income (loss), net of tax                                    | (19,982                        | ) 834     | (20,688                   | ) 5,006    |
| Comprehensive income (loss)                                                      | \$(12,575                      | ) \$7,788 | \$(4,618                  | ) \$16,254 |

See Condensed Notes to Consolidated Financial Statements.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts in line descriptions)

|                                                                                                           | June 30, 2013<br>(unaudited) | December 31,<br>2012 |
|-----------------------------------------------------------------------------------------------------------|------------------------------|----------------------|
| Assets                                                                                                    |                              |                      |
| Investments:                                                                                              |                              |                      |
| Fixed maturities – at fair value (amortized cost \$1,313,845 and \$1,278,051)                             | \$1,323,336                  | \$1,321,828          |
| Equity securities – at fair value (cost \$64,604 and \$69,992)                                            | 70,077                       | 73,106               |
| Short-term investments - at fair value (amortized cost \$3,617 and \$0)                                   | 3,616                        | 0                    |
| Total investments                                                                                         | \$1,397,029                  | \$1,394,934          |
| Cash and cash equivalents                                                                                 | 115,861                      | 165,182              |
| Accrued investment income                                                                                 | 12,784                       | 11,926               |
| Agents' balances and premium receivable, net of allowances for doubtful accounts of \$15,499 and \$16,124 | 456,447                      | 427,156              |
| Property and equipment, net of accumulated depreciation of \$49,131 and \$45,339                          | 44,479                       | 39,301               |
| Prepaid reinsurance premium                                                                               | 3,548                        | 2,637                |
| Recoverables from reinsurers (includes \$786 and \$750 on paid losses and LAE)                            | 14,606                       | 14,428               |
| Deferred policy acquisition costs                                                                         | 92,268                       | 88,251               |
| Current and deferred income taxes                                                                         | 30,931                       | 25,798               |
| Receivable for securities sold                                                                            | 5,399                        | 48,467               |
| Other assets                                                                                              | 11,800                       | 10,236               |
| Goodwill                                                                                                  | 75,275                       | 75,275               |
| Total assets                                                                                              | \$2,260,428                  | \$2,303,593          |
| Liabilities and Shareholders' Equity                                                                      |                              |                      |
| Liabilities:                                                                                              |                              |                      |
| Unpaid losses and loss adjustment expenses                                                                | \$612,004                    | \$572,894            |
| Unearned premium                                                                                          | 581,795                      | 538,142              |
| Payable to reinsurers                                                                                     | 0                            | 137                  |
| Long-term debt (fair value \$272,767 and \$288,879)                                                       | 275,000                      | 275,000              |
| Commissions payable                                                                                       | 30,813                       | 18,073               |
| Payable for securities purchased                                                                          | 24,344                       | 132,440              |
| Other liabilities                                                                                         | 97,802                       | 110,665              |
| Total liabilities                                                                                         | \$1,621,759                  | \$1,647,351          |
| Commitments and contingencies (See Note 9)                                                                |                              |                      |
| Shareholders' equity:                                                                                     |                              |                      |
| Common stock, no par value (50,000,000 shares authorized; 21,538,888 and 21,493,354 shares issued)        | \$21,589                     | \$21,529             |
| Additional paid-in capital                                                                                | 364,599                      | 361,845              |
| Retained earnings                                                                                         | 675,341                      | 666,199              |
| Accumulated other comprehensive income, net of tax                                                        | 9,163                        | 29,851               |
| Treasury stock, at cost (10,043,372 and 9,888,680 shares)                                                 | (432,022)                    | (423,181)            |
| Total shareholders' equity                                                                                | \$638,669                    | \$656,242            |
| Total liabilities and shareholders' equity                                                                | \$2,260,428                  | \$2,303,593          |

See Condensed Notes to Consolidated Financial Statements.



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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)

(unaudited)

|                                                                           | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss),<br>Net of Tax | Treasury<br>Stock | Total     |
|---------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------------------------------|-------------------|-----------|
| Balance at December 31, 2011                                              | \$21,358        | \$355,911                        | \$652,423            | \$35,319                                                              | \$(403,221)       | \$661,789 |
| Net earnings                                                              | —               | —                                | 11,248               | —                                                                     | —                 | 11,248    |
| Net change in postretirement benefit liability                            | —               | —                                | —                    | (7                                                                    | )                 | (7        |
| Change in unrealized gain on investments                                  | —               | —                                | —                    | 4,180                                                                 | —                 | 4,180     |
| Change in non-credit component of impairment losses on fixed maturities   | —               | —                                | —                    | 833                                                                   | —                 | 833       |
| Comprehensive income                                                      |                 |                                  |                      |                                                                       |                   | \$16,254  |
| Dividends paid to common shareholders                                     | —               | —                                | (5,300               | )                                                                     | —                 | (5,300    |
| Shares issued and share-based compensation expense, including tax benefit | 68              | 2,911                            | —                    | —                                                                     | —                 | 2,978     |
| Acquisition of treasury stock                                             | —               | —                                | —                    | —                                                                     | (8,562            | ) (8,562  |
| Balance at June 30, 2012                                                  | \$21,425        | \$358,821                        | \$658,371            | \$40,325                                                              | \$(411,783)       | \$667,160 |
| Net earnings                                                              | \$—             | \$—                              | \$13,072             | \$—                                                                   | \$—               | \$13,072  |
| Net change in postretirement benefit liability                            | —               | —                                | —                    | (959                                                                  | )                 | (959      |
| Change in unrealized gain on investments                                  | —               | —                                | —                    | (10,047                                                               | )                 | (10,047   |
| Change in non-credit component of impairment losses on fixed maturities   | —               | —                                | —                    | 531                                                                   | —                 | 531       |
| Comprehensive income                                                      |                 |                                  |                      |                                                                       |                   | \$2,597   |
| Dividends paid to common shareholders                                     | —               | —                                | (5,244               | )                                                                     | —                 | (5,244    |
| Shares issued and share-based compensation expense, including tax benefit | 104             | 3,023                            | —                    | —                                                                     | —                 | 3,127     |
| Acquisition of treasury stock                                             | —               | —                                | —                    | —                                                                     | (11,398           | ) (11,398 |
| Balance at December 31, 2012                                              | \$21,529        | \$361,845                        | \$666,199            | \$29,851                                                              | \$(423,181)       | \$656,242 |
| Net earnings                                                              | \$—             | \$—                              | \$16,070             | \$—                                                                   | \$—               | \$16,070  |
| Net change in postretirement benefit liability                            |                 |                                  |                      | 65                                                                    |                   | 65        |
| Change in unrealized gain on investments                                  | —               | —                                | —                    | (20,945                                                               | )                 | (20,945   |
| Change in non-credit component of impairment losses on fixed maturities   | —               | —                                | —                    | 192                                                                   | —                 | 192       |
| Comprehensive loss                                                        |                 |                                  |                      |                                                                       |                   | \$(4,618  |
| Dividends paid to common shareholders                                     | —               | —                                | (6,928               | )                                                                     | —                 | (6,928    |
| Shares issued and share-based compensation expense, including tax benefit | 60              | 2,754                            | —                    | —                                                                     | —                 | 2,814     |

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|                                                                   |          |           |           |         |             |           |
|-------------------------------------------------------------------|----------|-----------|-----------|---------|-------------|-----------|
| Acquisition of treasury stock                                     | —        | —         | —         | —       | (8,841 )    | (8,841 )  |
| Balance at June 30, 2013                                          | \$21,589 | \$364,599 | \$675,341 | \$9,163 | \$(432,022) | \$638,669 |
| See <u>Condensed Notes to Consolidated Financial Statements</u> . |          |           |           |         |             |           |

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|                                                                                           | Three months ended June 30, |           |
|-------------------------------------------------------------------------------------------|-----------------------------|-----------|
|                                                                                           | 2013                        | 2012      |
| Operating Activities:                                                                     |                             |           |
| Net earnings                                                                              | \$7,408                     | \$6,954   |
| Adjustments:                                                                              |                             |           |
| Depreciation                                                                              | 2,031                       | 2,159     |
| Amortization                                                                              | 5,091                       | 2,353     |
| Net realized gains on investments                                                         | (794)                       | (2,166)   |
| Gain on disposal of property and equipment                                                | (1)                         | (10)      |
| Share-based compensation expense                                                          | 1,446                       | 968       |
| Activity related to rabbi trust                                                           | (12)                        | (16)      |
| Decrease (increase) in accrued investment income                                          | (958)                       | 505       |
| Decrease (increase) in agents' balances and premium receivable                            | 9,676                       | 8,159     |
| Decrease (increase) in reinsurance receivables                                            | 240                         | 1,104     |
| Decrease (increase) in deferred policy acquisition costs                                  | 3,824                       | 1,076     |
| Decrease (increase) in other assets                                                       | 2,681                       | (4,086)   |
| Increase (decrease) in unpaid losses and loss adjustment expenses                         | 15,203                      | 16,942    |
| Increase (decrease) in unearned premium                                                   | (10,861)                    | (5,502)   |
| Increase (decrease) increase in payable to reinsurers                                     | 0                           | (185)     |
| Increase (decrease) in other liabilities                                                  | 2,913                       | 5,948     |
| Net cash provided by operating activities                                                 | 37,889                      | 34,201    |
| Investing Activities:                                                                     |                             |           |
| Purchases of fixed maturities                                                             | (183,985)                   | (131,418) |
| Purchases of equity securities                                                            | (1,100)                     | 0         |
| Purchases of short-term investments                                                       | (3,616)                     | 0         |
| Purchases of property and equipment                                                       | (7,463)                     | (6,943)   |
| Maturities and redemptions of fixed maturities                                            | 57,128                      | 34,786    |
| Proceeds from sale of fixed maturities                                                    | 88,206                      | 86,724    |
| Proceeds from sale of equity securities                                                   | 3,726                       | 0         |
| Net cash used in investing activities                                                     | (47,105)                    | (16,852)  |
| Financing Activities:                                                                     |                             |           |
| Proceeds from stock options exercised and employee stock purchases, including tax benefit | 201                         | 350       |
| Principal payments under capital lease obligation                                         | (145)                       | 0         |
| Acquisition of treasury stock                                                             | (5,167)                     | (7,037)   |
| Dividends paid to shareholders                                                            | (3,453)                     | (2,644)   |
| Net cash used in financing activities                                                     | (8,564)                     | (9,330)   |
| Net (decrease) increase in cash and cash equivalents                                      | (17,781)                    | 8,020     |
| Cash and cash equivalents at beginning of period                                          | 133,641                     | 61,295    |
| Cash and cash equivalents at end of period                                                | \$115,861                   | \$69,314  |

See Condensed Notes to Consolidated Financial Statements.



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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|                                                                                           | Six months ended June 30, |           |
|-------------------------------------------------------------------------------------------|---------------------------|-----------|
|                                                                                           | 2013                      | 2012      |
| Operating Activities:                                                                     |                           |           |
| Net earnings                                                                              | \$ 16,070                 | \$ 11,248 |
| Adjustments:                                                                              |                           |           |
| Depreciation                                                                              | 4,053                     | 4,086     |
| Amortization                                                                              | 9,714                     | 4,556     |
| Net realized gains on investments                                                         | (4,617)                   | (2,405)   |
| Loss on disposal of property and equipment                                                | 0                         | 15        |
| Share-based compensation expense                                                          | 2,087                     | 2,146     |
| Activity related to rabbi trust                                                           | 25                        | 35        |
| Decrease (increase) in accrued investment income                                          | (858)                     | (102)     |
| Decrease (increase) in agents' balances and premium receivable                            | (29,291)                  | (44,463)  |
| Decrease (increase) in reinsurance receivables                                            | (1,088)                   | (37)      |
| Decrease (increase) in deferred policy acquisition costs                                  | (4,017)                   | (9,959)   |
| Decrease (increase) in other assets                                                       | 4,478                     | (5,319)   |
| Increase (decrease) in unpaid losses and loss adjustment expenses                         | 39,110                    | 35,469    |
| Increase (decrease) in unearned premium                                                   | 43,653                    | 61,575    |
| Increase (decrease) increase in payable to reinsurers                                     | (137)                     | (45)      |
| Increase (decrease) in other liabilities                                                  | 205                       | (997)     |
| Net cash provided by operating activities                                                 | 79,386                    | 55,803    |
| Investing Activities:                                                                     |                           |           |
| Purchases of fixed maturities                                                             | (490,415)                 | (255,436) |
| Purchases of equity securities                                                            | (1,100)                   | 0         |
| Purchases of short-term investments                                                       | (3,616)                   | 0         |
| Purchases of property and equipment                                                       | (9,231)                   | (7,585)   |
| Maturities and redemptions of fixed maturities                                            | 103,282                   | 81,993    |
| Proceeds from sale of fixed maturities                                                    | 280,935                   | 123,542   |
| Proceeds from sale of equity securities                                                   | 7,244                     | 0         |
| Net cash used in investing activities                                                     | (112,901)                 | (57,487)  |
| Financing Activities:                                                                     |                           |           |
| Proceeds from stock options exercised and employee stock purchases, including tax benefit | 728                       | 833       |
| Principal payments under capital lease obligation                                         | (449)                     | 0         |
| Acquisition of treasury stock                                                             | (9,157)                   | (8,303)   |
| Dividends paid to shareholders                                                            | (6,928)                   | (5,300)   |
| Net cash used in financing activities                                                     | (15,806)                  | (12,770)  |
| Net decrease in cash and cash equivalents                                                 | (49,321)                  | (14,453)  |
| Cash and cash equivalents at beginning of period                                          | 165,182                   | 83,767    |
| Cash and cash equivalents at end of period                                                | \$ 115,861                | \$ 69,314 |

See Condensed Notes to Consolidated Financial Statements.



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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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Note 1 Reporting and Accounting Policies

Nature of Operations

We are a holding company that, through subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance. Although licensed to write insurance in all 50 states and the District of Columbia, we focus on select states that we believe offer the greatest opportunity for premium growth and profitability.

Basis of Consolidation and Reporting

The accompanying consolidated financial statements are unaudited and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012. This Quarterly Report on Form 10-Q, including the Condensed Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on our financial performance since the beginning of the year.

These financial statements reflect certain adjustments necessary for a fair presentation of our results of operations and financial position. Such adjustments consist of normal, recurring accruals recorded to match expenses with their related revenue streams and the elimination of all significant inter-company transactions and balances.

We have evaluated events that occurred after June 30, 2013 for recognition or disclosure in our financial statements and the notes to the financial statements.

Schedules may not foot due to rounding.

Estimates

We based certain accounts and balances within these financial statements upon our estimates and assumptions. The amount of reserves for claims not yet paid, for example, is an item that we can only record by estimation. Unrealized capital gains and losses on investments are subject to market fluctuations, and we use judgment in the determination of whether unrealized losses on certain securities are temporary or other-than-temporary. Should actual results differ significantly from these estimates, the effect on our results of operations could be material. The results of operations for the periods presented may not be indicative of our results for the entire year.

Recently Adopted Accounting Standards

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued guidance requiring expanded disclosures about amounts reclassified out of accumulated other comprehensive income (AOCI). Entities are required to present reclassifications by component when reporting changes in AOCI balances. The guidance requires the presentation of significant amounts reclassified out of AOCI by income statement line item. We adopted the new guidance as of March 31, 2013. The new guidance affects disclosures only and therefore had no impact on our results of operations or financial position.



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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 2 Computation of Net Earnings per Share

The following table illustrates our computations of basic and diluted net earnings per common share (in thousands, except per share figures):

|                                             | Three months ended June 30, |         | Six months ended June 30, |          |
|---------------------------------------------|-----------------------------|---------|---------------------------|----------|
|                                             | 2013                        | 2012    | 2013                      | 2012     |
| Net earnings                                | \$7,408                     | \$6,954 | \$16,070                  | \$11,248 |
| Average basic shares outstanding            | 11,448                      | 11,709  | 11,485                    | 11,719   |
| Basic net earnings per share                | \$0.65                      | \$0.59  | \$1.40                    | \$0.96   |
| Average basic shares outstanding            | 11,448                      | 11,709  | 11,485                    | 11,719   |
| Restricted stock not yet vested             | 47                          | 23      | 45                        | 22       |
| Dilutive effect of assumed option exercises | 31                          | 99      | 34                        | 105      |
| Dilutive effect of Performance Share Plan   | 117                         | 106     | 135                       | 148      |
| Average diluted shares outstanding          | 11,643                      | 11,937  | 11,698                    | 11,993   |
| Diluted net earnings per share              | \$0.64                      | \$0.58  | \$1.37                    | \$0.94   |

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Note 3 Fair Value

Fair values of instruments are based on:

- (i) quoted prices in active markets for identical assets (Level 1),  
quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in
- (ii) markets that are not active and model-derived valuations in which all significant inputs are observable in active  
markets (Level 2) or
- (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the  
marketplace (Level 3).

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

The following tables present, for each of the fair value hierarchy levels, our assets and liabilities for which we report fair value on a recurring basis (in thousands):

|                                          | Fair Value |             |          |             |   |
|------------------------------------------|------------|-------------|----------|-------------|---|
| June 30, 2013                            | Level 1    | Level 2     | Level 3  | Total       |   |
| Cash and cash equivalents                | \$115,861  | \$0         | \$0      | \$115,861   |   |
| Fixed maturity securities:               |            |             |          |             |   |
| U.S. government                          | 75,897     | 227         | 3,124    | 79,248      |   |
| Government-sponsored entities            | 0          | 13,613      | 0        | 13,613      |   |
| State and municipal                      | 0          | 458,522     | 0        | 458,522     |   |
| Mortgage-backed securities:              |            |             |          |             |   |
| Residential                              | 0          | 284,338     | 0        | 284,338     |   |
| Commercial                               | 0          | 38,828      | 0        | 38,828      |   |
| Total mortgage-backed securities         | \$0        | \$323,166   | \$0      | \$323,166   |   |
| Collateralized mortgage obligations      | 0          | 11,647      | 0        | 11,647      |   |
| Asset-backed securities                  | 0          | 63,833      | 0        | 63,833      |   |
| Corporates                               | 0          | 365,254     | 8,055    | 373,308     |   |
| Total fixed maturities                   | \$75,897   | \$1,236,260 | \$11,179 | \$1,323,336 |   |
| Equity securities                        | 70,077     | 0           | 0        | 70,077      |   |
| Short-term investments                   | \$3,616    | \$0         | \$0      | \$3,616     |   |
| Total cash and investments               | \$265,451  | \$1,236,260 | \$11,179 | \$1,512,890 |   |
| Percentage of total cash and investments | 17.5       | % 81.7      | % 0.7    | % 100.0     | % |

|                                          | Fair Value |             |          |             |   |
|------------------------------------------|------------|-------------|----------|-------------|---|
| December 31, 2012                        | Level 1    | Level 2     | Level 3  | Total       |   |
| Cash and cash equivalents                | \$165,182  | \$0         | \$0      | \$165,182   |   |
| Fixed maturity securities:               |            |             |          |             |   |
| U.S. government                          | 81,529     | 296         | 3,712    | 85,537      |   |
| Government-sponsored entities            | 0          | 22,140      | 0        | 22,140      |   |
| State and municipal                      | 0          | 457,113     | 0        | 457,113     |   |
| Mortgage-backed securities:              |            |             |          |             |   |
| Residential                              | 0          | 281,907     | 0        | 281,907     |   |
| Commercial                               | 0          | 13,768      | 0        | 13,768      |   |
| Total mortgage-backed securities         | \$0        | \$295,675   | \$0      | \$295,675   |   |
| Collateralized mortgage obligations      | 0          | 19,307      | 0        | 19,307      |   |
| Asset-backed securities                  | 0          | 79,257      | 0        | 79,257      |   |
| Corporates                               | 0          | 353,697     | 9,101    | 362,797     |   |
| Total fixed maturities                   | \$81,529   | \$1,227,486 | \$12,813 | \$1,321,828 |   |
| Equity securities                        | 73,106     | 0           | 0        | 73,106      |   |
| Total cash and investments               | \$319,817  | \$1,227,486 | \$12,813 | \$1,560,116 |   |
| Percentage of total cash and investments | 20.5       | % 78.7      | % 0.8    | % 100.0     | % |

We do not report our long-term debt at fair value in the Consolidated Balance Sheets. The \$272.8 million and \$288.9 million fair value of our long-term debt at June 30, 2013 and December 31, 2012, respectively, would be included in Level 2 of the fair value hierarchy if it were reported at fair value.

Level 1 includes cash and cash equivalents, U.S. Treasury securities, an exchange-traded fund and equities invested in a rabbi trust. Level 2 includes securities whose fair value was determined using observable market inputs. Level 3 securities are



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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

comprised of (i) securities for which there is no active or inactive market for similar instruments, (ii) securities whose fair value is determined based on unobservable inputs and (iii) securities, other than those backed by the U.S.

Government, that are not rated by a nationally recognized statistical rating organization ("NRSRO"). We recognize transfers between levels at the beginning of the reporting period.

A third party nationally recognized pricing service provides the fair value of securities in Level 2. We review the third party pricing methodologies quarterly and test for significant differences between the market price used to value the security and recent sales activity.

The following tables present the changes in the Level 3 fair value category (in thousands):

| Three months ended June 30, 2013                |                    |                        |                                   |                                           |            |         |          |
|-------------------------------------------------|--------------------|------------------------|-----------------------------------|-------------------------------------------|------------|---------|----------|
|                                                 | U.S.<br>Government | State and<br>Municipal | Mortgage-<br>Backed<br>Securities | Collateralized<br>Mortgage<br>Obligations | Corporates | ABS     | Total    |
| Balance at beginning of period                  | \$3,115            | \$ 0                   | \$ 0                              | \$ 0                                      | \$8,899    | \$0     | \$12,014 |
| Total gains or (losses), unrealized or realized |                    |                        |                                   |                                           |            |         |          |
| Included in net earnings                        | (9                 | ) 0                    | 0                                 | 0                                         | 350        | 0       | 341      |
| Included in other comprehensive income          | 18                 | 0                      | 0                                 | 0                                         | (216       | ) 0     | (198 )   |
| Settlements                                     | 0                  | 0                      | 0                                 | 0                                         | (979       | ) 0     | (979 )   |
| Balance at end of period                        | \$3,124            | \$ 0                   | \$ 0                              | \$ 0                                      | \$8,055    | \$0     | \$11,179 |
| Three months ended June 30, 2012                |                    |                        |                                   |                                           |            |         |          |
|                                                 | U.S.<br>Government | State and<br>Municipal | Mortgage-<br>Backed<br>Securities | Collateralized<br>Mortgage<br>Obligations | Corporates | ABS     | Total    |
| Balance at beginning of period                  | \$3,897            | \$ 0                   | \$ 0                              | \$ 499                                    | \$9,644    | \$0     | \$14,040 |
| Total gains or (losses), unrealized or realized |                    |                        |                                   |                                           |            |         |          |
| Included in net earnings                        | (39                | ) (15                  | ) 0                               | 0                                         | 181        | 0       | 128      |
| Included in other comprehensive income          | 41                 | (16                    | ) 32                              | 1                                         | 86         | 1       | 146      |
| Purchases                                       | 0                  | 0                      | 7,156                             | 0                                         | 0          | 1,360   | 8,516    |
| Settlements                                     | 0                  | 0                      | 0                                 | (14                                       | ) (915     | ) 0     | (929 )   |
| Transfers in                                    | 0                  | 2,781                  | 0                                 | 0                                         | 969        | 0       | 3,749    |
| Balance at end of period                        | \$3,899            | \$ 2,750               | \$ 7,188                          | \$ 486                                    | \$9,966    | \$1,361 | \$25,651 |

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

|                                                 | Six months ended June 30, 2013 |                        |                                   |                                           |            |     |          |
|-------------------------------------------------|--------------------------------|------------------------|-----------------------------------|-------------------------------------------|------------|-----|----------|
|                                                 | U.S.<br>Government             | State and<br>Municipal | Mortgage-<br>Backed<br>Securities | Collateralized<br>Mortgage<br>Obligations | Corporates | ABS | Total    |
| Balance at beginning of period                  | \$3,712                        | \$0                    | \$0                               | \$0                                       | \$9,101    | \$0 | \$12,813 |
| Total gains or (losses), unrealized or realized |                                |                        |                                   |                                           |            |     |          |
| Included in net earnings                        | (31                            | ) 0                    | 0                                 | 0                                         | 472        | 0   | 441      |
| Included in other comprehensive income          | (71                            | ) 0                    | 0                                 | 0                                         | (321       | ) 0 | (393 )   |
| Settlements                                     | (485                           | ) 0                    | 0                                 | 0                                         | (1,197     | ) 0 | (1,682 ) |
| Balance at end of period                        | \$3,124                        | \$0                    | \$0                               | \$0                                       | \$8,055    | \$0 | \$11,179 |

|                                                 | Six months ended June 30, 2012 |                        |                                   |                                           |            |         |          |
|-------------------------------------------------|--------------------------------|------------------------|-----------------------------------|-------------------------------------------|------------|---------|----------|
|                                                 | U.S.<br>Government             | State and<br>Municipal | Mortgage-<br>Backed<br>Securities | Collateralized<br>Mortgage<br>Obligations | Corporates | ABS     | Total    |
| Balance at beginning of period                  | \$4,438                        | \$0                    | \$0                               | \$509                                     | \$10,426   | \$0     | \$15,374 |
| Total gains or (losses), unrealized or realized |                                |                        |                                   |                                           |            |         |          |
| Included in net earnings                        | (70                            | ) (15                  | ) 0                               | 0                                         | 62         | 0       | (22 )    |
| Included in other comprehensive income          | (13                            | ) (16                  | ) 32                              | 4                                         | 233        | 1       | 241      |
| Purchases                                       | 0                              | 0                      | 7,156                             | 0                                         | 0          | 1,360   | 8,516    |
| Sales                                           | 0                              | 0                      | 0                                 | 0                                         | (253       | ) 0     | (253 )   |
| Settlements                                     | (456                           | ) 0                    | 0                                 | (26                                       | ) (1,268   | ) 0     | (1,751 ) |
| Transfers in                                    | 0                              | 2,781                  | 0                                 | 0                                         | 1,836      | 0       | 4,617    |
| Transfers out                                   | 0                              | 0                      | 0                                 | 0                                         | (1,070     | ) 0     | (1,070 ) |
| Balance at end of period                        | \$3,899                        | \$2,750                | \$7,188                           | \$486                                     | \$9,966    | \$1,361 | \$25,651 |

Of the \$11.2 million fair value of securities in Level 3 at June 30, 2013, which consists of 12 securities, we priced five based on non-binding broker quotes, four prices were provided by our unaffiliated money managers and one security, which is included in Level 3 because it is not rated by a nationally recognized statistical rating organization, was priced by a nationally recognized pricing service. We manually calculated the remaining two securities, which have a combined fair value of \$0.7 million.

Quantitative information about the significant unobservable inputs used in the fair value measurement of these manually priced securities at June 30, 2013 is as follows (in millions):

|                | Fair Value | Valuation Technique        | Unobservable Input                    | Value Used |
|----------------|------------|----------------------------|---------------------------------------|------------|
| Corporate bond | \$0.1      | Recovery rate <sup>1</sup> | Probability of default                | 100%       |
| Corporate bond | 0.6        | Discounted cash flow       | Comparable credit rating <sup>2</sup> | CCC        |
| Total          | \$0.7      |                            |                                       |            |

<sup>1</sup> Recovery rate for senior unsecured bonds as indicated in Moody's Investor's Service Annual Default Study: Corporate Default and Recovery Rates, 1920-2012.

<sup>2</sup> This bond is not rated, but is supported by JC Penney Corporation trust assets; therefore a JC Penney comparable bond rating is used.

The significant unobservable inputs used in the fair value measurement of our manually-priced corporate bonds are a probability of default assumption and an assigned credit rating. Significant changes in either of these inputs in isolation could result in a significant change in fair value measurement for these corporate bonds. Generally, a reduction in probability of

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

default would increase security valuation. A change in the credit rating assumption would change the yield spread associated with that bond, and thus the yield used in discounting the cash flows to arrive at the security's valuation. There were no transfers between Levels 1, 2 or 3 during the six months ended June 30, 2013.

The gains or losses included in net earnings are included in the line item net realized gains on investments in the Consolidated Statements of Earnings. We recognize the net gains or losses included in other comprehensive income in the line item unrealized gains (losses) on investments, net in the Consolidated Statements of Comprehensive Income and the line item change in unrealized gain on investments or the line item change in non-credit component of impairment losses on fixed maturities in the Consolidated Statements of Changes in Shareholders' Equity.

The following table presents the carrying value and estimated fair value of our financial instruments (in thousands):

|                            | June 30, 2013  |              | December 31, 2012 |              |
|----------------------------|----------------|--------------|-------------------|--------------|
|                            | Carrying Value | Fair Value   | Carrying Value    | Fair Value   |
| Assets:                    |                |              |                   |              |
| Cash and cash equivalents  | \$ 115,861     | \$ 115,861   | \$ 165,182        | \$ 165,182   |
| Investments                |                |              |                   |              |
| Fixed maturities           | 1,323,336      | 1,323,336    | 1,321,828         | 1,321,828    |
| Equity securities          | 70,077         | 70,077       | 73,106            | 73,106       |
| Short-term                 | \$3,616        | \$3,616      | \$0               | \$0          |
| Total cash and investments | \$ 1,512,890   | \$ 1,512,890 | \$ 1,560,116      | \$ 1,560,116 |
| Liabilities:               |                |              |                   |              |
| Long-term debt             | \$275,000      | \$272,767    | \$275,000         | \$288,879    |

See Note 4 to the Consolidated Financial Statements for additional information on investments and Note 5 for additional information on long-term debt.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Note 4 Investments

We consider all fixed maturity and equity securities to be available-for-sale and report them at fair value with the net unrealized gains or losses reported after-tax (net of any valuation allowance) as a component of other comprehensive income. The proceeds from sales of securities for the three and six months ended June 30, 2013 were \$91.9 million and \$288.2 million, respectively. The proceeds from sales of securities for the three and six months ended June 30, 2012 were \$86.7 million and \$123.5 million, respectively. The proceeds for the six months ended June 30, 2013 were net of \$5.4 million of receivable for securities sold during the second quarter of 2013 that had not settled at June 30, 2013.

Gains or losses on securities are determined on a specific identification basis.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

Summarized information for the major categories of our investment portfolio follows (in thousands):  
June 30, 2013

|                                     | Amortized<br>Cost or Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value    | OTTI<br>Recognized<br>in<br>Accumulated<br>OCI <sup>(1)</sup> |
|-------------------------------------|---------------------------|------------------------------|-------------------------------|---------------|---------------------------------------------------------------|
| Fixed maturities:                   |                           |                              |                               |               |                                                               |
| U.S. government                     | \$78,253                  | \$1,560                      | \$(565                        | ) \$79,248    | \$0                                                           |
| Government-sponsored entities       | 13,332                    | 280                          | 0                             | 13,613        | 0                                                             |
| State and municipal                 | 449,547                   | 11,251                       | (2,276                        | ) 458,522     | (53 )                                                         |
| Mortgage-backed securities:         |                           |                              |                               |               |                                                               |
| Residential                         | 287,232                   | 2,658                        | (5,552                        | ) 284,338     | (424 )                                                        |
| Commercial                          | 39,136                    | 394                          | (702                          | ) 38,828      | 0                                                             |
| Total mortgage-backed securities    | \$326,368                 | \$3,052                      | \$(6,254                      | ) \$323,166   | \$(424 )                                                      |
| Collateralized mortgage obligations | 11,326                    | 324                          | (4                            | ) 11,647      | (193 )                                                        |
| Asset-backed securities             | 63,993                    | 121                          | (281                          | ) 63,833      | (8 )                                                          |
| Corporates                          | 371,025                   | 8,109                        | (5,826                        | ) 373,308     | (637 )                                                        |
| Total fixed maturities              | \$1,313,845               | \$24,697                     | \$(15,206                     | ) \$1,323,336 | \$(1,316 )                                                    |
| Equity securities                   | 64,604                    | 5,473                        | 0                             | 70,077        | 0                                                             |
| Short-term investments              | 3,617                     | 0                            | 0                             | 3,616         | 0                                                             |
| Total                               | \$1,382,065               | \$30,170                     | \$(15,206                     | ) \$1,397,029 | \$(1,316 )                                                    |

December 31, 2012

|                                     | Amortized<br>Cost or Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value    | OTTI<br>Recognized<br>in<br>Accumulated<br>OCI <sup>(1)</sup> |
|-------------------------------------|---------------------------|------------------------------|-------------------------------|---------------|---------------------------------------------------------------|
| Fixed maturities:                   |                           |                              |                               |               |                                                               |
| U.S. government                     | \$83,320                  | \$2,225                      | \$(8                          | ) \$85,537    | \$0                                                           |
| Government-sponsored entities       | 21,401                    | 740                          | 0                             | 22,140        | 0                                                             |
| State and municipal                 | 438,367                   | 19,109                       | (364                          | ) 457,113     | (53 )                                                         |
| Mortgage-backed securities:         |                           |                              |                               |               |                                                               |
| Residential                         | 275,668                   | 6,511                        | (272                          | ) 281,907     | (292 )                                                        |
| Commercial                          | 13,023                    | 749                          | (3                            | ) 13,768      | 0                                                             |
| Total mortgage-backed securities    | \$288,691                 | \$7,259                      | \$(275                        | ) \$295,675   | \$(292 )                                                      |
| Collateralized mortgage obligations | 18,847                    | 469                          | (9                            | ) 19,307      | (244 )                                                        |
| Asset-backed securities             | 78,931                    | 435                          | (109                          | ) 79,257      | (51 )                                                         |
| Corporates                          | 348,494                   | 14,807                       | (503                          | ) 362,797     | (972 )                                                        |
| Total fixed maturities              | \$1,278,051               | \$45,045                     | \$(1,268                      | ) \$1,321,828 | \$(1,612 )                                                    |
| Equity securities                   | 69,992                    | 3,115                        | 0                             | 73,106        | 0                                                             |
| Total                               | \$1,348,042               | \$48,160                     | \$(1,268                      | ) \$1,394,934 | \$(1,612 )                                                    |

(1) The total non-credit portion of OTTI recognized in Accumulated OCI reflecting the original non-credit loss at the time the credit impairment was determined.



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The following tables set forth the amount of unrealized loss by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

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## Condensed Notes to Consolidated Financial Statements

|                                     | Less than 12 Months |           |            |            |     | 12 Months or More |        |            |            |  |
|-------------------------------------|---------------------|-----------|------------|------------|-----|-------------------|--------|------------|------------|--|
|                                     | Number of           | Fair      | Gross      | Unrealized |     | Number of         | Fair   | Gross      | Unrealized |  |
|                                     | Securities          | Value     | Unrealized | Losses as  |     | Securities        | Value  | Unrealized | Losses as  |  |
|                                     | with                |           | Losses     | % of Cost  |     | with              |        | Losses     | % of Cost  |  |
|                                     | Unrealized          |           |            |            |     | Unrealized        |        |            |            |  |
|                                     | Losses              |           |            |            |     | Losses            |        |            |            |  |
| June 30, 2013                       |                     |           |            |            |     |                   |        |            |            |  |
| Fixed maturities:                   |                     |           |            |            |     |                   |        |            |            |  |
| U.S. government                     | 13                  | \$33,778  | \$(565)    | ) 1.6      | % 0 | \$0               | \$0    | 0.0        | %          |  |
| Government-sponsored entities       | 0                   | 0         | 0          | 0.0        | % 0 | 0                 | 0      | 0.0        | %          |  |
| State and municipal                 | 58                  | 118,593   | (2,267)    | ) 1.9      | % 2 | 869               | (9)    | ) 1.1      | %          |  |
| Mortgage-backed securities:         |                     |           |            |            |     |                   |        |            |            |  |
| Residential                         | 167                 | 204,532   | (5,552)    | ) 2.6      | % 0 | 0                 | 0      | 0.0        | %          |  |
| Commercial                          | 13                  | 26,772    | (698)      | ) 2.5      | % 2 | 235               | (3)    | ) 1.5      | %          |  |
| Total mortgage-backed securities    | 180                 | \$231,304 | \$(6,250)  | ) 2.6      | % 2 | \$235             | \$(3)  | ) 1.5      | %          |  |
| Collateralized mortgage obligations | 3                   | 641       | (3)        | ) 0.4      | % 1 | 431               | (1)    | ) 0.3      | %          |  |
| Asset-backed securities             | 34                  | 35,517    | (280)      | ) 0.8      | % 2 | 84                | (1)    | ) 1.5      | %          |  |
| Corporates                          | 145                 | 170,693   | (5,814)    | ) 3.3      | % 1 | 885               | (12)   | ) 1.3      | %          |  |
| Total fixed maturities              | 433                 | \$590,527 | \$(15,179) | ) 2.5      | % 8 | \$2,505           | \$(27) | ) 1.1      | %          |  |
| Equity securities                   | 0                   | 0         | 0          | 0.0        | % 0 | 0                 | 0      | 0.0        | %          |  |
| Short-term investments              | 1                   | 3,616     | 0          | 0.0        | % 0 | 0                 | 0      | 0.0        | %          |  |
| Total                               | 434                 | \$594,143 | \$(15,179) | ) 2.5      | % 8 | \$2,505           | \$(27) | ) 1.1      | %          |  |

|                                  | Less than 12 Months |          |            |            |     | 12 Months or More |       |            |            |  |
|----------------------------------|---------------------|----------|------------|------------|-----|-------------------|-------|------------|------------|--|
|                                  | Number of           | Fair     | Gross      | Unrealized |     | Number of         | Fair  | Gross      | Unrealized |  |
|                                  | Securities          | Value    | Unrealized | Losses as  |     | Securities        | Value | Unrealized | Losses as  |  |
|                                  | with                |          | Losses     | % of Cost  |     | with              |       | Losses     | % of Cost  |  |
|                                  | Unrealized          |          |            |            |     | Unrealized        |       |            |            |  |
|                                  | Losses              |          |            |            |     | Losses            |       |            |            |  |
| December 31, 2012                |                     |          |            |            |     |                   |       |            |            |  |
| Fixed maturities:                |                     |          |            |            |     |                   |       |            |            |  |
| U.S. government                  | 3                   | \$11,758 | \$(8)      | ) 0.1      | % 0 | \$0               | \$0   | 0.0        | %          |  |
| Government-sponsored entities    | 0                   | 0        | 0          | 0.0        | % 0 | 0                 | 0     | 0.0        | %          |  |
| State and municipal              | 32                  | 52,399   | (364)      | ) 0.7      | % 0 | 0                 | 0     | 0.0        | %          |  |
| Mortgage-backed securities:      |                     |          |            |            |     |                   |       |            |            |  |
| Residential                      | 42                  | 75,927   | (272)      | ) 0.4      | % 0 | 0                 | 0     | 0.0        | %          |  |
| Commercial                       | 1                   | 73       | 0          | 0.6        | % 1 | 259               | (3)   | ) 1.1      | %          |  |
| Total mortgage-backed securities | 43                  | \$76,000 | \$(272)    | ) 0.4      | % 1 | \$259             | \$(3) | ) 1.1      | %          |  |

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|                                     |     |           |          |   |     |   |   |         |       |   |     |   |
|-------------------------------------|-----|-----------|----------|---|-----|---|---|---------|-------|---|-----|---|
| Collateralized mortgage obligations | 2   | 1,264     | (9       | ) | 0.7 | % | 0 | 0       | 0.0   | % |     |   |
| Asset-backed securities             | 6   | 11,941    | (57      | ) | 0.5 | % | 2 | 6,138   | (52   | ) | 0.8 | % |
| Corporates                          | 58  | 70,540    | (503     | ) | 0.7 | % | 0 | 0       | 0.0   | % |     |   |
| Total fixed maturities              | 144 | \$223,903 | \$(1,213 | ) | 0.5 | % | 3 | \$6,397 | \$(55 | ) | 0.8 | % |
| Equity securities                   | 0   | 0         | 0        |   | 0.0 | % | 0 | 0       | 0.0   | % |     |   |
| Total                               | 144 | \$223,903 | \$(1,213 | ) | 0.5 | % | 3 | \$6,397 | \$(55 | ) | 0.8 | % |

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

The determination of whether unrealized losses are “other-than-temporary” requires judgment based on subjective as well as objective factors. Factors we considered and resources we used in our determination include:

- the intent to sell the security;
- whether it is more likely than not that there will be a requirement to sell the security before our anticipated recovery;
- whether the unrealized loss is credit-driven or a result of changes in market interest rates;
- the length of time the security’s fair value has been below our cost;
- the extent to which fair value is less than cost basis;
- historical operating, balance sheet and cash flow data contained in issuer SEC filings;
- issuer news releases;
- near-term prospects for improvement in the issuer and/or its industry;
- industry research and communications with industry specialists and
- third-party research and credit rating reports.

We regularly evaluate for potential impairment each security position that has any of the following: a fair value of less than 95% of its book value, an unrealized loss that equals or exceeds \$100,000 or one or more impairment charges recorded in the past. In addition, we review positions held related to an issuer of a previously impaired security.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

The following table summarizes those securities, excluding the rabbi trust, with unrealized gains or losses:

|                                                               | June 30,<br>2013 | December 31,<br>2012 |   |  |
|---------------------------------------------------------------|------------------|----------------------|---|--|
| Number of positions held with unrealized:                     |                  |                      |   |  |
| Gains                                                         | 513              | 749                  |   |  |
| Losses                                                        | 442              | 147                  |   |  |
| Number of positions held that individually exceed unrealized: |                  |                      |   |  |
| Gains of \$500,000                                            | 2                | 3                    |   |  |
| Losses of \$500,000                                           | 0                | 0                    |   |  |
| Percentage of positions held with unrealized:                 |                  |                      |   |  |
| Gains that were investment grade                              | 82               | % 81                 | % |  |
| Losses that were investment grade                             | 86               | % 86                 | % |  |
| Percentage of fair value held with unrealized:                |                  |                      |   |  |
| Gains that were investment grade                              | 92               | % 92                 | % |  |
| Losses that were investment grade                             | 90               | % 93                 | % |  |

The following table sets forth the amount of unrealized loss, excluding the rabbi trust, by age and severity at June 30, 2013 (in thousands):

| Age of Unrealized Losses:        | Fair Value of<br>Securities with<br>Unrealized<br>Losses | Total Gross<br>Unrealized<br>Losses | Less Than 5%* | 5% - 10%*  | Greater<br>Than 10%* |
|----------------------------------|----------------------------------------------------------|-------------------------------------|---------------|------------|----------------------|
| Three months or less             | \$502,170                                                | \$(12,491 )                         | \$(8,250 )    | \$(4,020 ) | \$(221 )             |
| Four months through six months   | 48,306                                                   | (1,365 )                            | (1,077 )      | (288 )     | 0                    |
| Seven months through nine months | 43,667                                                   | (1,324 )                            | (676 )        | (648 )     | 0                    |
| Ten months through twelve months | 73                                                       | 0                                   | 0             | 0          | 0                    |
| Greater than twelve months       | 2,432                                                    | (27 )                               | (27 )         | 0          | 0                    |
| Total                            | \$596,648                                                | \$(15,206 )                         | \$(10,029 )   | \$(4,956 ) | \$(221 )             |

\* As a percentage of amortized cost or cost.

The change in unrealized gains (losses) on marketable securities included the following (in thousands):

|                                                                           | Pre-tax<br>Fixed<br>Maturities | Equity<br>Securities | Tax<br>Effects | Net         |
|---------------------------------------------------------------------------|--------------------------------|----------------------|----------------|-------------|
| Six months ended June 30, 2013                                            |                                |                      |                |             |
| Unrealized holding gains (losses) on securities arising during the period | \$(30,328 )                    | \$3,018              | \$9,558        | \$(17,751 ) |
| Realized (gains) losses on securities sold                                | (4,329 )                       | (660 )               | 1,746          | (3,242 )    |
| Impairment loss recognized in earnings                                    | 371                            | 0                    | (130 )         | 241         |
| Change in unrealized gains (losses) on marketable securities, net         | \$(34,286 )                    | \$2,358              | \$11,175       | \$(20,753 ) |
| Six months ended June 30, 2012                                            |                                |                      |                |             |
| Unrealized holding gains (losses) on securities arising during the period | \$7,053                        | \$3,065              | \$(3,541 )     | \$6,577     |
| Realized (gains) losses on securities sold                                | (3,470 )                       | 0                    | 1,214          | (2,255 )    |
| Impairment loss recognized in earnings                                    | 1,065                          | 0                    | (373 )         | 692         |
|                                                                           | \$4,649                        | \$3,065              | \$(2,700 )     | \$5,014     |

Change in unrealized gains (losses) on  
marketable securities, net

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

For fixed maturity securities that are other-than-temporarily impaired, we assess our intent to sell and the likelihood that we will be required to sell the security before recovery of our amortized cost. If a fixed maturity security is considered other-than-temporarily impaired but we do not intend to and are not more than likely to be required to sell the security before our recovery of amortized cost, we separate the amount of the impairment into a credit loss component and the amount due to all other factors. The excess of the amortized cost over the present value of the expected cash flows determines the credit loss component of an impairment charge on a fixed maturity security. The present value is determined using the best estimate of cash flows discounted at (1) the effective interest rate implicit at the date of acquisition for non-structured securities or (2) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows vary depending on the type of security. We recognize the credit loss component of an impairment charge in net earnings and the non-credit component in accumulated other comprehensive income. If we intend to sell or will, more likely than not, be required to sell a security, we treat the entire amount of the impairment as a credit loss.

The following table is a progression of credit losses on fixed maturity securities that were bifurcated between a credit and non-credit component (in thousands):

|                                                       | Six months ended June 30, |         |
|-------------------------------------------------------|---------------------------|---------|
|                                                       | 2013                      | 2012    |
| Beginning balance                                     | \$487                     | \$1,728 |
| Additions for:                                        |                           |         |
| Newly impaired securities                             | 48                        | 9       |
| Reductions for:                                       |                           |         |
| Securities sold and paid down                         | (164                      | ) (296  |
| Securities that no longer have a non-credit component | 0                         | (735    |
| Ending balance                                        | \$371                     | \$706   |

The table below sets forth the scheduled maturities of fixed maturity securities at June 30, 2013, based on their fair values (in thousands). We report securities that do not have a single maturity date at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

|                                                                       | Fair Value                       |                                   |                                               | Amortized Cost                |                               |
|-----------------------------------------------------------------------|----------------------------------|-----------------------------------|-----------------------------------------------|-------------------------------|-------------------------------|
| Maturity                                                              | Securities with Unrealized Gains | Securities with Unrealized Losses | Securities with No Unrealized Gains or Losses | All Fixed Maturity Securities | All Fixed Maturity Securities |
| One year or less                                                      | \$40,166                         | \$869                             | \$4,097                                       | \$45,133                      | \$44,822                      |
| After one year through five years                                     | 390,059                          | 157,525                           | 6,685                                         | 554,270                       | 543,201                       |
| After five years through ten years                                    | 136,052                          | 153,831                           | 1,594                                         | 291,477                       | 290,646                       |
| After ten years                                                       | 20,618                           | 12,593                            | 600                                           | 33,811                        | 33,489                        |
| Mortgage-backed, asset-backed and collateralized mortgage obligations | 130,433                          | 268,213                           | 0                                             | 398,645                       | 401,687                       |
| Total                                                                 | \$717,328                        | \$593,032                         | \$12,976                                      | \$1,323,336                   | \$1,313,845                   |

## Note 5 Long-Term Debt

In September 2012, we issued \$275 million principal of senior notes due September 2022 (the “5.0% Senior Notes”). The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually. At the time we issued the 5.0% Senior Notes, we capitalized \$2.2 million of debt issuance costs, which we are amortizing over the term of the 5.0% Senior Notes. We calculated the June 30, 2013 fair value of \$272.8 million using a 262 basis point spread to the ten-year U.S. Treasury Note of 2.487%.

In August 2011, we renewed our agreement for a \$50 million three-year revolving credit facility (the “Credit Agreement”) that requires us to meet certain financial and other covenants. We are currently in compliance with all covenants under the Credit Agreement. At June 30, 2013, there were no borrowings outstanding under the Credit Agreement.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 6 Income Taxes

The following is a reconciliation of income taxes at the statutory rate of 35.0% to the effective provision for income taxes as shown in the Consolidated Statements of Earnings (in thousands):

|                                   | Three months ended June 30, |         | Six months ended June 30, |          |
|-----------------------------------|-----------------------------|---------|---------------------------|----------|
|                                   | 2013                        | 2012    | 2013                      | 2012     |
| Earnings before income taxes      | \$10,129                    | \$9,323 | \$22,234                  | \$14,845 |
| Income taxes at statutory rates   | \$3,545                     | \$3,263 | \$7,782                   | \$5,196  |
| Effect of:                        |                             |         |                           |          |
| Dividends-received deduction      | (130)                       | (42)    | (179)                     | (79)     |
| Tax-exempt interest               | (716)                       | (814)   | (1,465)                   | (1,644)  |
| Adjustment to valuation allowance | 0                           | (80)    | 0                         | 80       |
| Other                             | 22                          | 41      | 27                        | 44       |
| Provision for income taxes        | \$2,721                     | \$2,369 | \$6,164                   | \$3,597  |
| GAAP effective tax rate           | 26.9                        | % 25.4  | % 27.7                    | % 24.2   |

## Note 7 Additional Information

## Supplemental Cash Flow Information

We made the following payments that we do not separately disclose in the Consolidated Statements of Cash Flows (in thousands):

|                             | Three months ended June 30, |         | Six months ended June 30, |         |
|-----------------------------|-----------------------------|---------|---------------------------|---------|
|                             | 2013                        | 2012    | 2013                      | 2012    |
| Income tax payments         | \$0                         | \$5,000 | \$0                       | \$5,000 |
| Interest payments on debt   | 0                           | 0       | 6,951                     | 5,363   |
| Negative Cash Book Balances |                             |         |                           |         |

Negative cash book balances, included in the line item "Other liabilities" in the Consolidated Balance Sheets, were \$37.6 million and \$45.4 million, respectively, at June 30, 2013 and December 31, 2012.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 8 Insurance Reserves

Insurance reserves include liabilities for unpaid losses, both known and estimated for incurred but not reported (“IBNR”), and unpaid loss adjustment expenses (“LAE”). The following table provides an analysis of changes in the liability for unpaid losses and LAE on a GAAP basis (in thousands):

|                                                        | Three months ended June 30, |             | Six months ended June 30, |             |
|--------------------------------------------------------|-----------------------------|-------------|---------------------------|-------------|
|                                                        | 2013                        | 2012        | 2013                      | 2012        |
| Balance at Beginning of Period                         |                             |             |                           |             |
| Unpaid losses on known claims                          | \$218,835                   | \$194,048   | \$205,589                 | \$181,972   |
| IBNR losses                                            | 223,898                     | 179,343     | 218,552                   | 177,645     |
| LAE                                                    | 154,068                     | 140,539     | 148,753                   | 135,787     |
| Total unpaid losses and LAE                            | 596,800                     | 513,930     | 572,894                   | 495,403     |
| Reinsurance recoverables                               | (13,793)                    | ) (15,704)  | ) (13,678)                | ) (14,640)  |
| Unpaid losses and LAE, net of reinsurance recoverables | 583,008                     | 498,226     | 559,215                   | 480,764     |
| Current Activity                                       |                             |             |                           |             |
| Loss and LAE incurred:                                 |                             |             |                           |             |
| Current accident year                                  | 255,650                     | 229,014     | 506,149                   | 443,882     |
| Prior accident years                                   | 1,428                       | 1,893       | 1,300                     | 1,803       |
| Total loss and LAE incurred                            | 257,079                     | 230,907     | 507,449                   | 445,685     |
| Loss and LAE payments:                                 |                             |             |                           |             |
| Current accident year                                  | (150,335)                   | ) (133,255) | ) (228,191)               | ) (202,517) |
| Prior accident years                                   | (91,567)                    | ) (78,804)  | ) (240,290)               | ) (206,858) |
| Total loss and LAE payments                            | (241,902)                   | ) (212,059) | ) (468,480)               | ) (409,375) |
| Balance at End of Period                               |                             |             |                           |             |
| Unpaid losses and LAE, net of reinsurance recoverables | 598,184                     | 517,074     | 598,184                   | 517,074     |
| Add back reinsurance recoverables                      | 13,819                      | 13,798      | 13,819                    | 13,798      |
| Total unpaid losses and LAE                            | \$612,004                   | \$530,872   | \$612,004                 | \$530,872   |
| Unpaid losses on known claims                          | \$222,138                   | \$202,622   | \$222,138                 | \$202,622   |
| IBNR losses                                            | 232,546                     | 182,630     | 232,546                   | 182,630     |
| LAE                                                    | 157,320                     | 145,620     | 157,320                   | 145,620     |
| Total unpaid losses and LAE                            | \$612,004                   | \$530,872   | \$612,004                 | \$530,872   |

## Note 9 Commitments and Contingencies

## Commitments

There have been no material changes from the commitments discussed in the Form 10-K for the year ended December 31, 2012. For a description of our previously reported commitments, refer to Note 14 Commitments and Contingencies in the Form 10-K for the year ended December 31, 2012.

## Contingencies

There have been no material changes from the contingencies discussed in the Form 10-K for the year ended December 31, 2012. For a description of our previously reported contingencies, refer to Note 14 Commitments and Contingencies, in the Form 10-K for the year ended December 31, 2012.



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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 10 Accumulated Other Comprehensive Income

The components of other comprehensive income before and after tax are as follows (in thousands):

|                                                                                         | Three months ended June 30,<br>2013 |            |             | 2012       |            |             |   |
|-----------------------------------------------------------------------------------------|-------------------------------------|------------|-------------|------------|------------|-------------|---|
|                                                                                         | Before Tax                          | Income Tax | Net         | Before Tax | Income Tax | Net         |   |
| Accumulated change in postretirement benefit liability, beginning of period             | \$ (918                             | ) \$ 321   | \$ (596     | ) \$ 513   | \$ (180    | ) \$ 334    |   |
| Effect on other comprehensive income                                                    | 50                                  | (17        | ) 32        | (6         | ) 2        | (4          | ) |
| Accumulated change in postretirement benefit liability, end of period                   | \$ (868                             | ) \$ 304   | \$ (564     | ) \$ 508   | \$ (178    | ) \$ 330    |   |
| Accumulated unrealized gains on investments, net, beginning of period                   | \$ 45,756                           | \$ (16,015 | ) \$ 29,741 | \$ 60,242  | \$ (21,085 | ) \$ 39,158 |   |
| Other comprehensive income before reclassification                                      | (29,998                             | ) 10,499   | (19,499     | ) 3,455    | (1,209     | ) 2,246     |   |
| Reclassification adjustment for other-than-temporary impairments included in net income | 299                                 | (105       | ) 194       | 418        | (146       | ) 271       |   |
| Reclassification adjustment for realized gains included in net income                   | (1,093                              | ) 382      | (710        | ) (2,584   | ) 904      | (1,680      | ) |
| Effect on other comprehensive income                                                    | (30,792                             | ) 10,777   | (20,015     | ) 1,289    | (451       | ) 837       |   |
| Accumulated unrealized gains on investments, net, end of period                         | \$ 14,964                           | \$ (5,237  | ) \$ 9,727  | \$ 61,531  | \$ (21,536 | ) \$ 39,995 |   |
| Accumulated other comprehensive income, beginning of period                             | \$ 44,838                           | \$ (15,693 | ) \$ 29,145 | \$ 60,756  | \$ (21,265 | ) \$ 39,491 |   |
| Change in postretirement benefit liability                                              | 50                                  | (17        | ) 32        | (6         | ) 2        | (4          | ) |
| Change in unrealized gains on investments, net                                          | (30,792                             | ) 10,777   | (20,015     | ) 1,289    | (451       | ) 837       |   |
| Effect on other comprehensive income                                                    | (30,742                             | ) 10,760   | (19,982     | ) 1,283    | (449       | ) 834       |   |
| Accumulated other comprehensive income, end of period                                   | \$ 14,096                           | \$ (4,934  | ) \$ 9,163  | \$ 62,039  | \$ (21,714 | ) \$ 40,325 |   |

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

|                                                                                         | Six months ended June 30,<br>2013 |              |           | 2012       |              |           |
|-----------------------------------------------------------------------------------------|-----------------------------------|--------------|-----------|------------|--------------|-----------|
|                                                                                         | Before Tax                        | Income Tax   | Net       | Before Tax | Income Tax   | Net       |
| Accumulated change in postretirement benefit liability, beginning of period             | \$ (967 )                         | \$ 339       | \$ (629 ) | \$ 519     | \$ (182 )    | \$ 337    |
| Effect on other comprehensive income                                                    | 100                               | (35 )        | 65        | (11 )      | 4            | (7 )      |
| Accumulated change in postretirement benefit liability, end of period                   | \$ (868 )                         | \$ 304       | \$ (564 ) | \$ 508     | \$ (178 )    | \$ 330    |
| Accumulated unrealized gains on investments, net, beginning of period                   | \$ 46,892                         | \$ (16,412 ) | \$ 30,480 | \$ 53,817  | \$ (18,836 ) | \$ 34,981 |
| Other comprehensive income before reclassification                                      | (27,310 )                         | 9,559        | (17,752 ) | 10,118     | (3,541 )     | 6,577     |
| Reclassification adjustment for other-than-temporary impairments included in net income | 371                               | (130 )       | 241       | 1,065      | (373 )       | 692       |
| Reclassification adjustment for realized gains included in net income                   | (4,988 )                          | 1,746        | (3,242 )  | (3,470 )   | 1,215        | (2,256 )  |
| Effect on other comprehensive income                                                    | (31,928 )                         | 11,175       | (20,753 ) | 7,713      | (2,700 )     | 5,014     |
| Accumulated unrealized gains on investments, net, end of period                         | \$ 14,964                         | \$ (5,237 )  | \$ 9,727  | \$ 61,531  | \$ (21,536 ) | \$ 39,995 |
| Accumulated other comprehensive income, beginning of period                             | \$ 45,924                         | \$ (16,073 ) | \$ 29,851 | \$ 54,336  | \$ (19,018 ) | \$ 35,319 |
| Change in postretirement benefit liability                                              | 100                               | (35 )        | 65        | (11 )      | 4            | (7 )      |
| Change in unrealized gains on investments, net                                          | (31,928 )                         | 11,175       | (20,753 ) | 7,713      | (2,700 )     | 5,014     |
| Effect on other comprehensive income                                                    | (31,828 )                         | 11,140       | (20,688 ) | 7,702      | (2,696 )     | 5,006     |
| Accumulated other comprehensive income, end of period                                   | \$ 14,096                         | \$ (4,934 )  | \$ 9,163  | \$ 62,039  | \$ (21,714 ) | \$ 40,325 |

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 2

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" which anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. We make these statements subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in this report not dealing with historical results or current facts are forward-looking and we base them on estimates, assumptions and projections. Statements which include the words "assumes," "believes," "seeks," "expects," "may," "should," "intends," "likely," "targets," "plans," "anticipates," "estimates" or the negative version of those words and similar statements of a future or forward-looking nature identify forward-looking statements. Examples of such forward-looking statements include statements relating to expectations concerning market conditions, premium growth, earnings, investment performance, expected losses, rate changes and loss experience.

The primary events or circumstances that could cause actual results to differ materially from what we expect include determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio (including other-than temporary impairments for credit losses), bodily injury loss cost trends, undesired business mix or risk profile for new business and competitive conditions in our key Focus States. We undertake no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements see "Risk Factors" contained in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012.

OVERVIEW

In the second quarter of 2013 our gross written premium grew 11.1%. The majority of this growth came from California and Florida, our two most profitable states. See Results of Operations – Underwriting – Premium for a more detailed discussion of our gross written premium growth.

Net earnings and diluted earnings per share for the three months ended June 30, 2013 were \$7.4 million and \$0.64, respectively, compared to \$7.0 million and \$0.58, respectively, for the three months ended June 30, 2012. Net earnings and diluted earnings per share for the six months ended June 30, 2013 were \$16.1 million and \$1.37, respectively, compared to \$11.2 million and \$0.94, respectively, for the six months ended June 30, 2012. The increase in diluted earnings per share for the three and six months ended June 30, 2013 was primarily due to an increase in underwriting income.

Included in net earnings for the three months and six months ended June 30, 2013 were \$0.9 million (\$1.4 million pre-tax) and \$0.8 million (\$1.3 million pre-tax) of unfavorable development on prior accident year loss and LAE reserves, primarily from bodily injury, property damage and personal injury protection coverages in the states of California and Florida related to accident year 2012. Included in net earnings for the three months and six months ended June 30, 2012 were \$1.2 million (\$1.9 million pre-tax) and \$1.2 million (\$1.8 million pre-tax), respectively, of unfavorable development on prior accident year loss and LAE reserves. The following table displays combined ratio results by accident year developed through June 30, 2013.

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Management's Discussion and Analysis of Financial Condition and Results of Operations

| Accident Year Combined Ratio<br>Developed Through |             |          |              |          |          |              |          |          |            | Prior Accident Year<br>Favorable /<br>(Unfavorable)<br>Development |            | (\$ in millions)<br>Prior Accident<br>Year<br>Favorable /<br>(Unfavorable)<br>Development |  |
|---------------------------------------------------|-------------|----------|--------------|----------|----------|--------------|----------|----------|------------|--------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------|--|
| Accident<br>Year                                  | Mar<br>2012 | Jun 2012 | Sept<br>2012 | Dec 2012 | Mar 2013 | June<br>2013 | Q2 2013  | YTD 2013 | Q2<br>2013 | YTD<br>2013                                                        | Q2<br>2013 | YTD<br>2013                                                                               |  |
| Prior                                             |             |          |              |          |          |              |          |          |            |                                                                    | \$(0.4 )   | \$(0.2 )                                                                                  |  |
| 2005                                              | 87.8        | % 87.8   | % 87.8       | % 87.8   | % 87.7   | % 87.7       | % 0.0    | % 0.1    | % 0.0      | % 0.0                                                              | 0.0        | 0.6                                                                                       |  |
| 2006                                              | 90.3        | % 90.3   | % 90.3       | % 90.4   | % 90.3   | % 90.3       | % 0.0    | % 0.1    | % (0.1 )   | % 0.9                                                              |            |                                                                                           |  |
| 2007                                              | 92.5        | % 92.5   | % 92.5       | % 92.3   | % 92.2   | % 92.2       | % 0.0    | % 0.1    | % 0.0      | % 1.5                                                              |            |                                                                                           |  |
| 2008                                              | 91.6        | % 91.5   | % 91.5       | % 91.6   | % 91.4   | % 91.4       | % 0.0    | % 0.2    | % 0.3      | % 1.8                                                              |            |                                                                                           |  |
| 2009                                              | 92.7        | % 92.6   | % 92.6       | % 92.6   | % 92.4   | % 92.3       | % 0.1    | % 0.3    | % 1.3      | % 2.8                                                              |            |                                                                                           |  |
| 2010                                              | 99.8        | % 99.6   | % 99.5       | % 99.5   | % 99.8   | % 99.7       | % 0.1    | % (0.2 ) | % 0.9      | % (1.9 )                                                           |            |                                                                                           |  |
| 2011                                              | 97.9        | % 98.3   | % 98.9       | % 100.0  | % 100.5  | % 100.4      | % 0.0    | % (0.4 ) | % 0.5      | % (4.5 )                                                           |            |                                                                                           |  |
| 2012                                              | 99.9        | % 99.2   | % 98.9       | % 99.3   | % 99.2   | % 99.5       | % (0.3 ) | % (0.2 ) | % (3.9 )   | % (2.3 )                                                           |            |                                                                                           |  |
| 2013                                              |             |          |              |          | 98.2     | % 97.8       | %        |          |            |                                                                    |            |                                                                                           |  |
| YTD                                               |             |          |              |          |          |              |          |          |            |                                                                    | \$(1.4 )   | \$(1.3 )                                                                                  |  |

The improvement in the 2013 accident year combined ratio during the second quarter of 2013 was primarily due to favorable development on loss and LAE reserves from the first three months of 2013 from a reduction in the estimated frequency on bodily injury, property damage and collision coverages. See Results of Operations – Underwriting – Profitability for a more detailed discussion of our underwriting results.

Pre-tax net investment income for the three months ended June 30, 2013 was \$8.6 million compared to \$9.6 million for the three months ended June 30, 2012. Pre-tax net investment income for the six months ended June 30, 2013 was \$17.0 million compared to \$19.3 million for the six months ended June 30, 2012. The decrease in pre-tax net investment income in both periods is a result of low and declining new market investment yields at which cash from maturing and prepaid securities was invested.

Our book value per share decreased 1.8% from \$56.55 at December 31, 2012 to \$55.56 at June 30, 2013. This decrease was primarily due to a decline in unrealized gains as a result of an increase in interest rates and shareholder dividends partially offset by earnings for the six months ended June 30, 2013.

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RESULTS OF OPERATIONS

Underwriting

Premium

Our insurance subsidiaries provide personal automobile insurance products with a concentration on nonstandard auto insurance. While there is no industry-recognized definition of nonstandard auto insurance, we believe that it is generally understood to mean coverage for drivers who, because of their driving record, age or vehicle type, represent higher than normal risks and pay higher rates for comparable coverage. We also write commercial vehicle insurance and insurance for classic collectible automobiles ("Classic Collector").

We offer three primary products to individual drivers: the Low Cost product, which offers the most restrictive coverage, the Value Added product, which offers broader coverage and higher limits, and the Premier product, which we designed to offer the broadest coverage for standard and preferred risk drivers.

We are licensed to write insurance in all 50 states and the District of Columbia, but we focus our operations in targeted urban areas identified in selected Focus States that we believe offer the greatest opportunity for premium growth and profitability.

We classify the states in which we operate into two categories:

• "Focus States" – These states include Arizona, California, Florida, Georgia, Nevada, Pennsylvania and Texas.

• "Other States" – Include all other states where we are maintaining our writings. We believe each state offers us an opportunity for underwriting profit.

We continually evaluate our market opportunities; thus, the Focus States and Other States may change over time as new market opportunities arise, as the allocation of resources changes or as regulatory environments change.

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Our net earned premium was as follows (\$ in thousands):

|                             | Three months ended June 30, |           | Change   | % Change |    |
|-----------------------------|-----------------------------|-----------|----------|----------|----|
|                             | 2013                        | 2012      |          |          |    |
| Net earned premium          |                             |           |          |          |    |
| Gross written premium       |                             |           |          |          |    |
| Personal Auto               |                             |           |          |          |    |
| Focus States                | \$290,238                   | \$258,224 | \$32,014 | 12.4     | %  |
| Other States                | 7,006                       | 8,872     | (1,867   | ) (21.0  | )% |
| Total Personal Auto         | 297,243                     | 267,096   | 30,147   | 11.3     | %  |
| Commercial Vehicle          | 21,413                      | 19,479    | 1,934    | 9.9      | %  |
| Classic Collector           | 4,056                       | 3,793     | 263      | 6.9      | %  |
| Total gross written premium | 322,712                     | 290,368   | 32,345   | 11.1     | %  |
| Ceded reinsurance           | (2,535                      | ) (1,987  | ) (548   | ) 27.6   | %  |
| Net written premium         | 320,177                     | 288,380   | 31,797   | 11.0     | %  |
| Change in unearned premium  | 11,037                      | 5,737     | 5,300    | 92.4     | %  |
| Net earned premium          | \$331,215                   | \$294,118 | \$37,097 | 12.6     | %  |
|                             |                             |           |          |          |    |
|                             | Six months ended June 30,   |           | Change   | % Change |    |
|                             | 2013                        | 2012      |          |          |    |
| Net earned premium          |                             |           |          |          |    |
| Gross written premium       |                             |           |          |          |    |
| Personal Auto               |                             |           |          |          |    |
| Focus States                | \$633,359                   | \$572,732 | \$60,627 | 10.6     | %  |
| Other States                | 15,248                      | 18,997    | (3,749   | ) (19.7  | )% |
| Total Personal Auto         | 648,607                     | 591,729   | 56,878   | 9.6      | %  |
| Commercial Vehicle          | 42,671                      | 38,264    | 4,407    | 11.5     | %  |
| Classic Collector           | 6,777                       | 6,285     | 492      | 7.8      | %  |
| Total gross written premium | 698,055                     | 636,278   | 61,777   | 9.7      | %  |
| Ceded reinsurance           | (4,910                      | ) (3,739  | ) (1,170 | ) 31.3   | %  |
| Net written premium         | 693,145                     | 632,539   | 60,607   | 9.6      | %  |
| Change in unearned premium  | (43,342                     | ) (61,272 | ) 17,931 | (29.3    | )% |
| Net earned premium          | \$649,804                   | \$571,266 | \$78,537 | 13.7     | %  |

The following table summarizes our policies in force:

|                         | At June 30, |         | Change | % Change |    |
|-------------------------|-------------|---------|--------|----------|----|
|                         | 2013        | 2012    |        |          |    |
| Policies in Force       |             |         |        |          |    |
| Personal Auto           |             |         |        |          |    |
| Focus States            | 869,649     | 863,149 | 6,500  | 0.8      | %  |
| Other States            | 25,123      | 30,734  | (5,611 | ) (18.3  | )% |
| Total Personal Auto     | 894,772     | 893,883 | 889    | 0.1      | %  |
| Commercial Vehicle      | 40,800      | 37,979  | 2,821  | 7.4      | %  |
| Classic Collector       | 38,828      | 37,014  | 1,814  | 4.9      | %  |
| Total policies in force | 974,400     | 968,876 | 5,524  | 0.6      | %  |



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Gross written premium grew 11.1% and 9.7% during the second quarter and first six months of 2013, respectively, compared

with the same periods of 2012. During the first six months of 2013, Infinity implemented rate revisions in various states with

an overall rate increase of 2.6%. Excluding the effect of rate changes in California and Florida, our largest states, the overall rate increase was 5.4%. Policies in force at June 30, 2013 increased 0.6% compared with the same period in 2012. Gross written premium grew more than policies in force due to a shift in overall business mix toward policies offering broader coverage and higher average premium as well as growth in Florida business, which has a higher average premium per policy than our other states.

During the second quarter and first six months of 2013, personal auto insurance gross written premium in our Focus States grew 12.4% and 10.6%, respectively, when compared with the same periods of 2012. The increase in gross written premium is primarily due to growth in California and Florida, which grew a combined 18.7% and 18.3% during the second quarter and first six months of 2013, respectively, as a result of improved retention, higher average premium and renewal business growth in Florida. The growth in California and Florida during the second quarter and first six months of 2013 was partially offset by declines in Arizona, Georgia and Texas. We have raised rates and tightened underwriting restrictions in Arizona, Georgia and Texas in order to improve their profitability.

Our Commercial Vehicle gross written premium grew 9.9% and 11.5% during the second quarter and first six months of 2013, respectively. This growth is primarily due to higher average premium and better retention for this product.

Gross written premium in our Classic Collector product grew 6.9% and 7.8% during the second quarter and first six months of 2013, respectively. This growth is primarily due to growth in renewal business and a shift toward policies offering broader coverage and higher average premium.

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Profitability

A key operating performance measure of insurance companies is underwriting profitability, as opposed to overall profitability or net earnings. We measure underwriting profitability by the combined ratio. When the combined ratio is under 100%, we consider underwriting results profitable; when the ratio is over 100%, we consider underwriting results unprofitable. The combined ratio does not reflect investment income, other income, interest expense, corporate general and administrative expenses, other expenses or federal income taxes.

While we report financial results in accordance with GAAP for shareholder and other users' purposes, we report it on a statutory basis for insurance regulatory purposes. We evaluate underwriting profitability based on a combined ratio calculated using statutory accounting principles. The statutory combined ratio represents the sum of the following ratios: (i) losses and LAE incurred as a percentage of net earned premium and (ii) underwriting expenses incurred, net of fees, as a percentage of net written premium. Certain expenses are treated differently under statutory and GAAP accounting principles. Under GAAP, commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized as deferred policy acquisition costs and amortized on a pro rata basis over the period in which the related premium is earned; on a statutory basis these items are expensed as incurred. Additionally, bad debt charge-offs on agent balances and premium receivables are included only in the GAAP combined ratios.

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The following table presents the statutory and GAAP combined ratios:

|                                                    | Three months ended June 30,    |                       |                   | 2012                           |                       |                   | % Point Change                 |                       |                   |    |
|----------------------------------------------------|--------------------------------|-----------------------|-------------------|--------------------------------|-----------------------|-------------------|--------------------------------|-----------------------|-------------------|----|
|                                                    | 2013<br>Loss &<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio | 2012<br>Loss &<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio | 2013<br>Loss &<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio |    |
| Personal Auto:                                     |                                |                       |                   |                                |                       |                   |                                |                       |                   |    |
| Focus States                                       | 78.1                           | % 17.7                | % 95.8            | % 79.1                         | % 17.9                | % 97.0            | % (1.0)                        | )(0.2                 | )(1.2             | )% |
| Other States                                       | 73.8                           | % 20.5                | % 94.3            | % 92.2                         | % 21.3                | % 113.5           | % (18.4)                       | )(0.8                 | )(19.2            | )% |
| Total Personal Auto                                | 78.0                           | % 17.7                | % 95.7            | % 79.5                         | % 18.0                | % 97.5            | % (1.5)                        | )(0.2                 | )(1.8             | )% |
| Commercial Vehicle                                 | 75.3                           | % 17.2                | % 92.6            | % 62.2                         | % 18.7                | % 80.8            | % 13.1                         | % (1.4                | )(11.7            | %  |
| Classic Collector                                  | 56.1                           | % 32.6                | % 88.7            | % 75.2                         | % 34.0                | % 109.2           | % (19.1)                       | )(1.4                 | )(20.5            | )% |
| Total statutory ratios                             | 77.8                           | % 17.9                | % 95.7            | % 78.6                         | % 18.4                | % 97.0            | % (0.8)                        | )(0.5                 | )(1.3             | )% |
| Total statutory ratios<br>excluding<br>development | 80.9                           | % 17.9                | % 98.8            | % 79.5                         | % 18.4                | % 97.9            | % 1.4                          | % (0.5                | )(0.8             | %  |
| GAAP ratios                                        | 77.6                           | % 20.2                | % 97.8            | % 78.5                         | % 20.7                | % 99.2            | % (0.9)                        | )(0.5                 | )(1.4             | )% |
| GAAP ratios<br>excluding<br>development            | 80.7                           | % 20.2                | % 100.9           | % 79.4                         | % 20.7                | % 100.1           | % 1.3                          | % (0.5                | )(0.8             | %  |

|                                                    | Six months ended June 30,      |                       |                   | 2012                           |                       |                   | % Point Change                 |                       |                   |    |
|----------------------------------------------------|--------------------------------|-----------------------|-------------------|--------------------------------|-----------------------|-------------------|--------------------------------|-----------------------|-------------------|----|
|                                                    | 2013<br>Loss &<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio | 2012<br>Loss &<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio | 2013<br>Loss &<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio |    |
| Personal Auto:                                     |                                |                       |                   |                                |                       |                   |                                |                       |                   |    |
| Focus States                                       | 78.9                           | % 17.4                | % 96.3            | % 78.7                         | % 18.7                | % 97.5            | % 0.2                          | % (1.3                | )(1.1             | )% |
| Other States                                       | 78.1                           | % 21.4                | % 99.5            | % 80.5                         | % 21.9                | % 102.5           | % (2.5)                        | )(0.6                 | )(3.0             | )% |
| Total Personal Auto                                | 78.8                           | % 17.5                | % 96.4            | % 78.8                         | % 18.9                | % 97.6            | % 0.1                          | % (1.3                | )(1.2             | )% |
| Commercial Vehicle                                 | 73.0                           | % 16.6                | % 89.6            | % 66.5                         | % 18.1                | % 84.6            | % 6.5                          | % (1.5                | )(5.0             | %  |
| Classic Collector                                  | 49.0                           | % 34.6                | % 83.5            | % 70.0                         | % 37.2                | % 107.2           | % (21.0)                       | )(2.6                 | )(23.6            | )% |
| Total statutory ratios                             | 78.2                           | % 17.7                | % 95.9            | % 78.1                         | % 19.1                | % 97.3            | % 0.1                          | % (1.5                | )(1.3             | )% |
| Total statutory ratios<br>excluding<br>development | 78.0                           | % 17.7                | % 95.7            | % 77.7                         | % 19.1                | % 96.8            | % 0.3                          | % (1.5                | )(1.1             | )% |
| GAAP ratios                                        | 78.1                           | % 19.9                | % 98.0            | % 78.0                         | % 21.5                | % 99.5            | % 0.1                          | % (1.6                | )(1.5             | )% |
| GAAP ratios<br>excluding<br>development            | 77.9                           | % 19.9                | % 97.8            | % 77.7                         | % 21.5                | % 99.2            | % 0.2                          | % (1.6                | )(1.4             | )% |

In evaluating the profit performance of our business, we review underwriting profitability using statutory combined ratios. Accordingly, the discussion of underwriting results that follows will focus on these ratios and the components thereof, unless otherwise indicated.

The statutory combined ratio for the three and six months ended June 30, 2013 each decreased by 1.3 points from the same periods of 2012. The second quarter of 2013 included \$1.4 million of unfavorable development on prior year loss and LAE reserves and \$11.7 million in favorable development on loss and LAE reserves from the first three months of 2013. The first six months of 2013 included \$1.3 million of unfavorable development on prior year loss and LAE reserves. The second quarter of 2012 included \$1.9 million of unfavorable development on prior year loss and LAE reserves and \$4.6 million in favorable development on loss and LAE reserves from the first three months of 2012. The first six months of 2012 included \$1.8 million of unfavorable development on prior year loss and LAE reserves.

Excluding the effect of development from all periods, the statutory combined ratio increased by 0.8 points and decreased 1.1 points for the three and six months ended June 30, 2013, respectively, compared to the same periods of 2012. The decrease in

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the first six months was due to a decline in the underwriting ratio. The underwriting ratio has declined primarily as a result of spreading fixed underwriting costs over a larger written premium base as well as a reduction in commission ratios.

The GAAP combined ratio for the three and six months ended June 30, 2013 decreased by 1.4 points and 1.5 points, respectively, from the same periods of 2012. Excluding the effect of development from all periods, the GAAP combined ratio increased by 0.8 points and decreased by 1.4 points for the three and six months ended June 30, 2013, respectively, compared to the same periods of 2012. We expect the GAAP combined ratio, excluding reserve development, to be between 96.5% and 97.5% for the full year 2013.

Losses from catastrophes were \$1.1 million and \$1.7 million for the three and six months ended June 30, 2013, respectively, compared to \$1.9 million and \$2.1 million for the same periods of 2012.

The combined ratio in the Focus States decreased by 1.2 points and 1.1 points for the three and six months ended June 30, 2013, respectively. In the second quarter, the decline was due to improvement in the loss and LAE ratios in Arizona and Texas. In the first six months, the decline was primarily due to a decline in the underwriting ratio. As we experience

premium growth in these states, the ratio of fixed underwriting costs to premium has declined. Also, the average commission ratios declined due to a shift in business mix from new to renewal, which pays lower commission rates. The combined ratio in the Other States decreased by 19.2 points and 3.0 points, respectively, during the three and six months ended June 30, 2013 when compared to the same periods of 2012 primarily due to an overall decline in the loss and LAE ratio in these states.

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#### Net Investment Income

Net investment income is comprised of gross investment income and investment management fees and expenses, as shown in the following table (in thousands):

|                                                                | Three months ended June 30, |             | Six months ended June 30, |             |
|----------------------------------------------------------------|-----------------------------|-------------|---------------------------|-------------|
|                                                                | 2013                        | 2012        | 2013                      | 2012        |
| Investment income:                                             |                             |             |                           |             |
| Interest income on fixed maturities, cash and cash equivalents | \$8,607                     | \$9,856     | \$17,202                  | \$19,943    |
| Dividends on equity securities                                 | 625                         | 200         | 858                       | 378         |
| Gross investment income                                        | \$9,232                     | \$10,056    | \$18,060                  | \$20,321    |
| Investment expenses                                            | (610)                       | (456)       | (1,100)                   | (975)       |
| Net investment income                                          | \$8,622                     | \$9,600     | \$16,960                  | \$19,346    |
| Average investment balance, at cost                            | \$1,489,599                 | \$1,247,028 | \$1,495,490               | \$1,241,196 |
| Annualized returns excluding realized gains and losses         | 2.3                         | % 3.1       | % 2.3                     | % 3.1       |
| Annualized returns including realized gains and losses         | 2.5                         | % 3.8       | % 2.9                     | % 3.5       |

The annualized returns declined due to an increase in prepayment speeds on unamortized premiums and an increase in sales which resulted in reinvestments at lower rates.

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Net investment income for the three and six months ended June 30, 2013 declined compared to the same periods of 2012 primarily due to a decline in book yields because of a general decline in market interest rates for high quality bonds. In spite of the recent increase in market interest rates, the book yield on our portfolio continues to exceed our new money rates. Therefore, we expect that investment returns will continue to decline as proceeds from maturing or prepaid investments are expected to be reinvested at yields lower than the average book yield for the total portfolio.

#### Realized Gains (Losses) on Investments

We recorded impairments for unrealized losses deemed other-than-temporary and realized gains and losses on sales and disposals, as follows (before tax, in thousands):

|                  | Three months ended June 30, 2013   |                                      |                               | Three months ended June 30, 2012   |                                      |                               |
|------------------|------------------------------------|--------------------------------------|-------------------------------|------------------------------------|--------------------------------------|-------------------------------|
|                  | Impairments Recognized in Earnings | Net Realized Gains (Losses) on Sales | Total Realized Gains (Losses) | Impairments Recognized in Earnings | Net Realized Gains (Losses) on Sales | Total Realized Gains (Losses) |
| Fixed maturities | \$(299)                            | \$807                                | \$508                         | \$(418)                            | \$2,584                              | \$2,166                       |
| Equities         | 0                                  | 286                                  | 286                           | 0                                  | 0                                    | 0                             |
| Total            | \$(299)                            | \$1,093                              | \$794                         | \$(418)                            | \$2,584                              | \$2,166                       |

  

|                  | Six months ended June 30, 2013     |                                      |                               | Six months ended June 30, 2012     |                                      |                               |
|------------------|------------------------------------|--------------------------------------|-------------------------------|------------------------------------|--------------------------------------|-------------------------------|
|                  | Impairments Recognized in Earnings | Net Realized Gains (Losses) on Sales | Total Realized Gains (Losses) | Impairments Recognized in Earnings | Net Realized Gains (Losses) on Sales | Total Realized Gains (Losses) |
| Fixed maturities | \$(371)                            | \$4,329                              | \$3,958                       | \$(1,065)                          | \$3,470                              | \$2,405                       |
| Equities         | 0                                  | 660                                  | 660                           | 0                                  | 0                                    | 0                             |
| Total            | \$(371)                            | \$4,988                              | \$4,617                       | \$(1,065)                          | \$3,470                              | \$2,405                       |

For our securities held with unrealized losses, we believe, based on our analysis, that (i) we will recover our cost basis in these securities and (ii) we do not intend to sell the securities nor is it more likely than not that there will be a requirement to sell the securities before they recover in value. Should either of these beliefs change with regard to a particular security, a charge for

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impairment would likely be required. While it is not possible to predict accurately if or when a specific security will become impaired, charges for other-than-temporary impairments could be material to results of operations in a future period.

Interest Expense

At June 30, 2013 we had outstanding \$275.0 million of Senior Notes that accrue interest at 5.0% (the "5.0% Senior Notes"). At June 30, 2012 we had outstanding \$195.0 million of Senior Notes that accrued interest at an effective yield of 5.55% (the "5.5% Senior Notes"). On October 17, 2012, we fully redeemed the 5.5% Senior Notes with proceeds from the issuance of the 5.0% Senior Notes. We recognized \$3.5 million and \$7.0 million of interest expense on the Senior Notes in the Consolidated Statements of Earnings for the three and six months ended June 30, 2013, respectively, compared to \$2.7 million and \$5.4 million for the same periods of 2012. Refer to Note 5 to the Consolidated Financial Statements for additional information on the Senior Notes.

Income Taxes

Our GAAP effective tax rates for the three and six months ended June 30, 2013 was 26.9% and 27.7% compared to 25.4% and 24.2% for the same periods of 2012. See Note 6 to the Consolidated Financial Statements for additional information on income taxes.

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LIQUIDITY AND CAPITAL RESOURCES

Sources of Funds

We are a holding company and our insurance subsidiaries conduct our operations. Accordingly, we will have continuing cash needs for administrative expenses, the payment of interest on borrowings, shareholder dividends, share repurchases and taxes.

Funds to meet expenditures at the holding company level come primarily from dividends and tax payments from the insurance subsidiaries as well as cash and investments held by the holding company. As of June 30, 2013, the holding company had \$123.2 million of unrestricted cash and investments. In 2013, our insurance subsidiaries may pay us up to \$60.8 million in ordinary dividends without prior regulatory approval.

Our insurance subsidiaries generate liquidity to satisfy their obligations primarily by collecting and investing premium in advance of paying claims and generating investment income on their \$1.3 billion investment portfolio. Our insurance subsidiaries generated positive cash flows from operations of \$28.9 million and \$81.2 million during the three and six months ended June 30, 2013, respectively, compared to positive operating cash flows of \$31.4 million and \$55.1 million during the three and six months ended June 30, 2012, respectively.

At June 30, 2013, we had outstanding \$275 million principal of the 5.0% Senior Notes. The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually each March and September. Refer to Note 5 to the Consolidated Financial Statements for more information on our long-term debt.

In August 2011, we renewed our agreement for a \$50 million three-year revolving credit facility (the "Credit Agreement") that requires us to meet certain financial and other covenants. We are currently in compliance with all covenants under the Credit Agreement. At June 30, 2013 there were no borrowings outstanding under the credit agreement.

In June 2013, we filed a "shelf" registration statement with the Securities and Exchange Commission registering \$300.0 million of our securities, which will allow us to sell any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depositary shares and units in one or more offerings should we choose to do so in the future.

Uses of Funds

In February 2013, we increased our quarterly dividend to \$0.300 per share from \$0.225 per share. At this current amount, our 2013 annualized dividend payments would be approximately \$13.8 million.

On August 3, 2010 our Board of Directors adopted a share and debt repurchase program set to expire on December 31, 2011. On August 2, 2011, our Board of Directors increased the authority under this program by \$50.0 million and extended the date to execute the program to December 31, 2012. On November 6, 2012, our Board of Directors again increased the authority under

this share and debt repurchase plan by \$25.0 million and extended the date to execute the program to December 31, 2014. During the first quarter of 2013, we repurchased 67,400 shares at an average cost, excluding commissions, of \$57.41. During the second quarter of 2013, we repurchased 79,500 shares at an average cost, excluding commissions, of 56.95. As of June 30, 2013, we had \$46.1 million of authority remaining under this program.

We believe that cash balances, cash flows generated from operations or borrowings, and maturities and sales of investments are adequate to meet our future liquidity needs and those of our insurance subsidiaries.

Reinsurance

We use excess of loss, catastrophe and extra-contractual loss reinsurance to mitigate the financial impact of large or catastrophic losses. During 2013, our catastrophe reinsurance protection covers 100% of \$45 million in excess of \$5 million. Our excess of loss reinsurance provides protection for commercial auto losses up to \$700,000 for claims in excess of \$300,000 per occurrence. Our extra-contractual loss reinsurance provides protection for losses up to \$10 million in excess of \$5 million for any single extra-contractual loss. We also use reinsurance to mitigate losses on our Classic Collector business.

Premium ceded under all reinsurance agreements for the three and six months ended June 30, 2013 was \$2.5 million and \$4.9 million, respectively, compared to \$2.0 million and \$3.7 million for the same periods of 2012.

#### Investments

Our consolidated investment portfolio at June 30, 2013 contained approximately \$1.3 billion in fixed maturity securities, \$70.1 million in equity securities and \$3.6 million in short-term investments, all carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income, a separate component of shareholders' equity, on an after-tax basis. At

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June 30, 2013, we had pre-tax net unrealized gains of \$9.5 million on fixed maturities and pre-tax net unrealized gains of \$5.5 million on equity securities. Combined, the pre-tax net unrealized gain declined by \$31.9 million for the six months ended June 30, 2013. Substantially all of this decline occurred in the fixed portfolio, where the unrealized gain declined by \$34.3 million due to a decline in market interest rates. The average option adjusted duration of our fixed maturity portfolio was 3.5 years at June 30, 2013.

Since we carry all of these securities at fair value in our balance sheet, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses.

Approximately 90.9% of our fixed maturity investments at June 30, 2013 were rated "investment grade," and as of the same date, the average credit rating of our fixed maturity portfolio was AA-. Investment grade securities generally bear lower yields and have lower degrees of risk than those that are unrated or non-investment grade. We believe that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

Level 1 securities are U.S. Treasury securities, an exchange-traded fund and equity securities held in a rabbi trust.

Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Level

3 securities are comprised of (i) securities for which there is no active or inactive market for similar instruments,

(ii) securities whose fair value is determined based on unobservable inputs and (iii) securities that nationally recognized statistical rating organizations do not rate.

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Management's Discussion and Analysis of Financial Condition and Results of Operations

Summarized information for our investment portfolio at June 30, 2013 was as follows (in thousands):

|                                              | Amortized<br>Cost | Fair Value  | % of<br>Total Fair<br>Value |   |
|----------------------------------------------|-------------------|-------------|-----------------------------|---|
| U.S. government and agencies:                |                   |             |                             |   |
| U.S. government                              | \$78,253          | \$79,248    | 5.7                         | % |
| Government-sponsored entities                | 13,332            | 13,613      | 1.0                         | % |
| Total U.S. government and agencies           | 91,586            | 92,861      | 6.6                         | % |
| State and municipal                          | 449,547           | 458,522     | 32.8                        | % |
| Mortgage-backed, CMOs and asset-backed:      |                   |             |                             |   |
| Residential mortgage-backed securities       | 287,232           | 284,338     | 20.4                        | % |
| Commercial mortgage-backed securities        | 39,136            | 38,828      | 2.8                         | % |
| Collateralized mortgage obligations:         |                   |             |                             |   |
| PAC                                          | 6,784             | 6,960       | 0.5                         | % |
| Sequentials                                  | 3,601             | 3,706       | 0.3                         | % |
| Whole loan                                   | 941               | 980         | 0.1                         | % |
| Total CMO                                    | 11,326            | 11,647      | 0.8                         | % |
| Asset-backed securities:                     |                   |             |                             |   |
| Auto loans                                   | 47,333            | 47,279      | 3.4                         | % |
| Equipment leases                             | 5,850             | 5,845       | 0.4                         | % |
| Home equity                                  | 505               | 498         | 0.0                         | % |
| Credit card receivables                      | 10,195            | 10,092      | 0.7                         | % |
| Miscellaneous                                | 110               | 118         | 0.0                         | % |
| Total ABS                                    | 63,993            | 63,833      | 4.6                         | % |
| Total mortgage-backed, CMOs and asset-backed | 401,687           | 398,645     | 28.5                        | % |
| Corporates                                   |                   |             |                             |   |
| Investment grade                             | 251,682           | 253,053     | 18.1                        | % |
| Non-investment grade                         | 119,343           | 120,256     | 8.6                         | % |
| Total corporates                             | 371,025           | 373,308     | 26.7                        | % |
| Total fixed maturities                       | 1,313,845         | 1,323,336   | 94.7                        | % |
| Equity securities                            | 64,604            | 70,077      | 5.0                         | % |
| Short-term investments                       | 3,617             | 3,616       | 0.3                         | % |
| Total investments                            | \$1,382,065       | \$1,397,029 | 100.0                       | % |

We categorize securities by rating based upon ratings issued by Moody's, Standard & Poor's or Fitch, where available. If all three ratings are available but not equivalent, we exclude the lowest rating and the lower of the remaining ratings is used. If ratings are only available from two agencies, the lowest is used. This methodology is consistent with that used by the major bond indices. The following table presents the credit rating and fair value (in thousands) of our fixed maturity portfolio by major security type at June 30, 2013:

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Management's Discussion and Analysis of Financial Condition and Results of Operations

|                                       | Rating    |           |           |           | Non-investment<br>Grade | Total Fair<br>Value | % of<br>Total<br>Exposure |   |
|---------------------------------------|-----------|-----------|-----------|-----------|-------------------------|---------------------|---------------------------|---|
|                                       | AAA       | AA        | A         | BBB       |                         |                     |                           |   |
| U.S. government and agencies          | \$92,861  | \$0       | \$0       | \$0       | \$0                     | \$92,861            | 7.0                       | % |
| State and municipal                   | 70,824    | 281,038   | 106,660   | 0         | 0                       | 458,522             | 34.6                      | % |
| Mortgage-backed, asset-backed and CMO | 380,064   | 14,758    | 3,823     | 0         | 0                       | 398,645             | 30.1                      | % |
| Corporates                            | 0         | 15,866    | 126,050   | 111,137   | 120,256                 | 373,308             | 28.2                      | % |
| Total fair value                      | \$543,749 | \$311,662 | \$236,532 | \$111,137 | \$120,256               | \$1,323,336         | 100.0                     | % |
| % of total fair value                 | 41.1      | % 23.6    | % 17.9    | % 8.4     | % 9.1                   | % 100.0             | %                         |   |

Other than securities backed by the U.S. government or issued by its agencies, our fixed income portfolio contains no securities issued by any single issuer that exceed 1% of the fair value of the fixed income portfolio.

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table presents the credit rating and fair value of our state and municipal bond portfolio, by state, at June 30, 2013 (in thousands):

| State                 | Rating   |           |           | Total Fair Value | % of Total Exposure |   |
|-----------------------|----------|-----------|-----------|------------------|---------------------|---|
|                       | AAA      | AA        | A         |                  |                     |   |
| NY                    | \$239    | \$39,477  | \$0       | \$39,716         | 8.7                 | % |
| CA                    | 0        | 27,023    | 8,809     | \$35,833         | 7.8                 | % |
| TX                    | 11,250   | 13,882    | 7,827     | \$32,959         | 7.2                 | % |
| GA                    | 7,213    | 9,328     | 8,301     | \$24,843         | 5.4                 | % |
| FL                    | 0        | 15,051    | 9,141     | \$24,192         | 5.3                 | % |
| WA                    | 1,008    | 19,378    | 1,750     | \$22,135         | 4.8                 | % |
| MD                    | 14,195   | 7,550     | 0         | \$21,745         | 4.7                 | % |
| VA                    | 4,436    | 14,846    | 0         | \$19,282         | 4.2                 | % |
| UT                    | 4,878    | 4,609     | 7,594     | \$17,081         | 3.7                 | % |
| PA                    | 1,297    | 8,490     | 5,975     | \$15,762         | 3.4                 | % |
| All other states      | 26,306   | 121,404   | 57,263    | \$204,973        | 44.7                | % |
| Total fair value      | \$70,824 | \$281,038 | \$106,660 | \$458,522        | 100.0               | % |
| % of total fair value | 15.4     | % 61.3    | % 23.3    | % 100.0          | %                   |   |

The following table presents the fair value of our state and municipal bond portfolio, by state and type of bond, at June 30, 2013 (in thousands):

| State                 | Type<br>General Obligation |          |           |         | Total Fair Value | % of Total Exposure |   |
|-----------------------|----------------------------|----------|-----------|---------|------------------|---------------------|---|
|                       | State                      | Local    | Revenue   | Other   |                  |                     |   |
| NY                    | \$0                        | \$8,473  | \$31,243  | \$0     | \$39,716         | 8.7                 | % |
| CA                    | 8,995                      | 4,041    | 22,797    | 0       | \$35,833         | 7.8                 | % |
| TX                    | 0                          | 12,262   | 20,698    | 0       | \$32,959         | 7.2                 | % |
| GA                    | 7,213                      | 1,137    | 16,493    | 0       | \$24,843         | 5.4                 | % |
| FL                    | 2,919                      | 0        | 14,367    | 6,906   | \$24,192         | 5.3                 | % |
| WA                    | 4,096                      | 3,124    | 14,915    | 0       | \$22,135         | 4.8                 | % |
| MD                    | 7,854                      | 6,341    | 7,550     | 0       | \$21,745         | 4.7                 | % |
| VA                    | 1,065                      | 6,819    | 11,398    | 0       | \$19,282         | 4.2                 | % |
| UT                    | 4,878                      | 0        | 12,203    | 0       | \$17,081         | 3.7                 | % |
| PA                    | 2,722                      | 1,358    | 11,682    | 0       | \$15,762         | 3.4                 | % |
| All other states      | 34,037                     | 33,102   | 135,838   | 1,995   | \$204,973        | 44.7                | % |
| Total fair value      | \$73,780                   | \$76,657 | \$299,184 | \$8,901 | \$458,522        | 100.0               | % |
| % of total fair value | 16.1                       | % 16.7   | % 65.2    | % 1.9   | % 100.0          | %                   |   |



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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table presents the fair value of the revenue category of our state and municipal bond portfolio, by state and further classification, at June 30, 2013 (in thousands):

| State                 | Revenue Bonds  |           |           |          | Total Fair Value | % of Total Exposure |   |
|-----------------------|----------------|-----------|-----------|----------|------------------|---------------------|---|
|                       | Transportation | Utilities | Education | Other    |                  |                     |   |
| NY                    | \$10,991       | \$0       | \$7,655   | \$12,596 | \$31,243         | 10.4                | % |
| CA                    | 7,404          | 9,733     | 0         | 5,659    | \$22,797         | 7.6                 | % |
| TX                    | 14,821         | 1,070     | 2,869     | 1,938    | \$20,698         | 6.9                 | % |
| GA                    | 7,389          | 4,587     | 1,346     | 3,170    | \$16,493         | 5.5                 | % |
| WA                    | 1,279          | 10,878    | 0         | 2,758    | \$14,915         | 5.0                 | % |
| FL                    | 11,570         | 0         | 0         | 2,797    | \$14,367         | 4.8                 | % |
| CO                    | 5,606          | 0         | 7,185     | 0        | \$12,791         | 4.3                 | % |
| IL                    | 7,963          | 0         | 0         | 4,252    | \$12,214         | 4.1                 | % |
| UT                    | 0              | 7,594     | 0         | 4,609    | \$12,203         | 4.1                 | % |
| PA                    | 5,975          | 0         | 4,410     | 1,297    | \$11,682         | 3.9                 | % |
| All other states      | 36,709         | 18,219    | 32,501    | 42,354   | \$129,782        | 43.4                | % |
| Total fair value      | \$109,708      | \$52,081  | \$55,966  | \$81,429 | \$299,184        | 100.0               | % |
| % of total fair value | 36.7           | % 17.4    | % 18.7    | % 27.2   | % 100.0          | %                   |   |

The following table presents the credit rating and fair value of our residential mortgage-backed securities at June 30, 2013 by deal origination year (in thousands):

| Deal Origination Year | Rating    |   | Total Fair Value | % of Total Exposure |   |
|-----------------------|-----------|---|------------------|---------------------|---|
|                       | AAA       |   |                  |                     |   |
| 2002                  | \$272     |   | \$272            | 0.1                 | % |
| 2003                  | 2,419     |   | 2,419            | 0.9                 | % |
| 2004                  | 2,896     |   | 2,896            | 1.0                 | % |
| 2005                  | 5,811     |   | 5,811            | 2.0                 | % |
| 2006                  | 3,997     |   | 3,997            | 1.4                 | % |
| 2007                  | 4,913     |   | 4,913            | 1.7                 | % |
| 2008                  | 10,820    |   | 10,820           | 3.8                 | % |
| 2009                  | 39,553    |   | 39,553           | 13.9                | % |
| 2010                  | 51,213    |   | 51,213           | 18.0                | % |
| 2011                  | 36,221    |   | 36,221           | 12.7                | % |
| 2012                  | 96,912    |   | 96,912           | 34.1                | % |
| 2013                  | 29,311    |   | 29,311           | 10.3                | % |
| Total fair value      | \$284,338 |   | \$284,338        | 100.0               | % |
| % of total fair value | 100.0     | % | 100.0            | %                   |   |

All of the \$284.3 million of residential mortgage-backed securities were issued by government-sponsored enterprises ("GSE").

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table presents the credit rating and fair value of our commercial mortgage-backed securities at June 30, 2013 by deal origination year (in thousands):

| Deal Origination Year | Rating   |       | Total Fair Value | % of Total Exposure |   |
|-----------------------|----------|-------|------------------|---------------------|---|
|                       | AAA      | AA    |                  |                     |   |
| 2004                  | \$3,322  | \$0   | \$3,322          | 8.6                 | % |
| 2005                  | 12,179   | 0     | 12,179           | 31.4                | % |
| 2006                  | 15,167   | 0     | 15,167           | 39.1                | % |
| 2007                  | 3,884    | 0     | 3,884            | 10.0                | % |
| 2008                  | 0        | 761   | 761              | 2.0                 | % |
| 2010                  | 1,936    | 0     | 1,936            | 5.0                 | % |
| 2012                  | 1,579    | 0     | 1,579            | 4.1                 | % |
| Total fair value      | \$38,067 | \$761 | \$38,828         | 100.0               | % |
| % of total fair value | 98.0     | % 2.0 | % 100.0          | %                   |   |

Of the \$38.8 million of commercial mortgage-backed securities, \$0.6 million were issued by GSEs.

The following table presents the credit rating and fair value of our collateralized mortgage obligation portfolio at June 30, 2013 by deal origination year (in thousands):

| Deal Origination Year | Rating   |         | Total Fair Value | % of Total Exposure |   |
|-----------------------|----------|---------|------------------|---------------------|---|
|                       | AAA      | AA      |                  |                     |   |
| 2002                  | \$657    | \$980   | \$1,638          | 14.1                | % |
| 2003                  | 753      | 605     | 1,358            | 11.7                | % |
| 2004                  | 1,238    | 0       | 1,238            | 10.6                | % |
| 2009                  | 2,748    | 0       | 2,748            | 23.6                | % |
| 2010                  | 3,533    | 0       | 3,533            | 30.3                | % |
| 2011                  | 1,132    | 0       | 1,132            | 9.7                 | % |
| Total fair value      | \$10,061 | \$1,585 | \$11,647         | 100.0               | % |
| % of total fair value | 86.4     | % 13.6  | % 100.0          | %                   |   |

Of the \$11.6 million of collateralized mortgage obligations, \$10.1 million were issued by GSEs.

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table presents the credit rating and fair value of our ABS portfolio at June 30, 2013 by deal origination year (in thousands):

| Deal Origination Year | Rating   |          |         | Total Fair Value | % of Total Exposure |   |
|-----------------------|----------|----------|---------|------------------|---------------------|---|
|                       | AAA      | AA       | A       |                  |                     |   |
| 2001                  | \$70     | \$0      | \$0     | \$70             | 0.1                 | % |
| 2003                  | 5,522    | 0        | 0       | 5,522            | 8.7                 | % |
| 2004                  | 4,998    | 0        | 0       | 4,998            | 7.8                 | % |
| 2010                  | 742      | 836      | 0       | 1,578            | 2.5                 | % |
| 2011                  | 8,022    | 0        | 0       | 8,022            | 12.6                | % |
| 2012                  | 24,535   | 6,454    | 3,496   | 34,485           | 54.0                | % |
| 2013                  | 3,709    | 5,121    | 327     | 9,158            | 14.3                | % |
| Total fair value      | \$47,598 | \$12,412 | \$3,823 | \$63,833         | 100.0               | % |
| % of total fair value | 74.6     | % 19.4   | % 6.0   | % 100.0          | %                   |   |

The following table presents the fair value of our corporate bond portfolio, by industry sector and rating of bond, at June 30, 2013 (in thousands):

| Industry Sector        | Rating   |           |           | Non-investment Grade | Total Fair Value | % of Total Exposure |   |
|------------------------|----------|-----------|-----------|----------------------|------------------|---------------------|---|
|                        | AA       | A         | BBB       |                      |                  |                     |   |
| Basic Materials        | \$0      | \$0       | \$8,844   | \$5,547              | \$14,390         | 3.9                 | % |
| Communications         | 0        | 0         | 13,654    | 14,701               | \$28,355         | 7.6                 | % |
| Consumer, Cyclical     | 1,269    | 1,610     | 6,394     | 14,533               | \$23,806         | 6.4                 | % |
| Consumer, Non-cyclical | 2,526    | 16,972    | 13,560    | 17,031               | \$50,089         | 13.4                | % |
| Energy                 | 1,684    | 16,527    | 9,522     | 17,718               | \$45,451         | 12.2                | % |
| Financial              | 10,386   | 77,835    | 38,488    | 17,450               | \$144,159        | 38.6                | % |
| Industrial             | 0        | 4,683     | 7,689     | 17,807               | \$30,178         | 8.1                 | % |
| Technology             | 0        | 1,705     | 6,652     | 7,791                | \$16,149         | 4.3                 | % |
| Utilities              | 0        | 6,718     | 6,334     | 7,679                | \$20,731         | 5.6                 | % |
| Total fair value       | \$15,866 | \$126,050 | \$111,137 | \$120,256            | \$373,308        | 100.0               | % |
| % of total fair value  | 4.3      | % 33.8    | % 29.8    | % 32.2               | % 100.0          | %                   |   |

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Management's Discussion and Analysis of Financial Condition and Results of Operations

Included in our investments in corporate fixed income securities at June 30, 2013 are \$39.8 million of dollar-denominated investments with issues or guarantors in foreign countries, as follows (in thousands):

| Issuer or Guarantor   | Rating  |          |         | Non-investment Grade | Total Fair Value | % of Total Exposure |   |
|-----------------------|---------|----------|---------|----------------------|------------------|---------------------|---|
|                       | AA      | A        | BBB     |                      |                  |                     |   |
| Aruba                 | \$0     | \$752    | \$0     | \$0                  | \$752            | 1.9                 | % |
| Australia             | 0       | 964      | 0       | 0                    | \$964            | 2.4                 | % |
| Britain               | 4,719   | 9,154    | 0       | 0                    | \$13,872         | 34.8                | % |
| Canada                | 0       | 10,171   | 3,041   | 2,657                | \$15,868         | 39.8                | % |
| Cayman Islands        | 0       | 0        | 0       | 650                  | \$650            | 1.6                 | % |
| France                | 2,083   | 985      | 0       | 0                    | \$3,067          | 7.7                 | % |
| Switzerland           | 0       | 4,651    | 0       | 0                    | \$4,651          | 11.7                | % |
| Total fair value      | \$6,801 | \$26,676 | \$3,041 | \$3,307              | \$39,824         | 100.0               | % |
| % of total fair value | 17.1    | % 67.0   | % 7.6   | % 8.3                | % 100.0          | %                   |   |

We own no investments that are denominated in a currency other than the U.S. dollar.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

ITEM 3

Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2013, there were no material changes to the information provided in our Form 10-K for the year ended December 31, 2012 under the caption “Exposure to Market Risk” in Management’s Discussion and Analysis of Financial Condition and Results of Operations. Refer to Item 2 Management’s Discussion and Analysis under the caption “Investments” for updates to disclosures made under the sub caption “Credit Risk” in our Form 10-K for the year ended December 31, 2012.

ITEM 4

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of the Company’s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of Infinity’s disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2013. Based on that evaluation, we concluded that the controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended June 30, 2013, there have been no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

PART II  
OTHER INFORMATION

## ITEM 1

## Legal Proceedings

We have not become a party to any material legal proceedings nor have there been any material developments in our legal proceedings disclosed in our Form 10-K for the year ended December 31, 2012. For a description of our previously reported legal proceedings, refer to Part I, Item 3, Legal Proceedings, in the Form 10-K for the year ended December 31, 2012.

## ITEM 1A

## Risk Factors

There have been no material changes in our risk factors as disclosed in our Form 10-K for the year ended December 31, 2012. For a description of our previously reported risk factors, refer to Part I, Item 1A, Risk Factors, in the Form 10-K for the year ended December 31, 2012.

## ITEM 2

## Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

| Period                         | Total Number of Shares Purchased | Average Price Paid per Share (a) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b) | Maximum Number (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs (b) |
|--------------------------------|----------------------------------|----------------------------------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| April 1, 2013 - April 30, 2013 | 52,135                           | \$56.25                          | 44,500                                                                               | \$ 48,146,077                                                                                          |
| May 1, 2013 - May 31, 2013     | 12,300                           | \$58.50                          | 12,300                                                                               | 47,426,112                                                                                             |
| June 1, 2013 - June 30, 2013   | 22,857                           | \$57.53                          | 22,700                                                                               | 46,119,523                                                                                             |
| Total                          | 87,292                           | \$56.91                          | 79,500                                                                               | \$ 46,119,523                                                                                          |

(a) Average price paid per share excludes commissions.

On November 6, 2012, our Board of Directors increased the authority under our current share and debt repurchase (b) plan by \$25.0 million and extended the date to execute the program to December 31, 2014 from December 31, 2012.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

ITEM 6

Exhibits

Exhibit 31.1 - Certification of the Chief Executive Officer under Exchange Act Rule 13a-14(a)

Exhibit 31.2 - Certification of the Chief Financial Officer under Exchange Act Rule 13a-14(a)

Exhibit 32 - Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350

Exhibit 101.INS - XBRL Instance Document

Exhibit 101.SCH - XBRL Taxonomy Extension Schema Document (1)

Exhibit 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document (1)

Exhibit 101.DEF - XBRL Taxonomy Extension Definition Linkbase Document (1)

Exhibit 101.LAB - XBRL Taxonomy Extension Label Linkbase Document (1)

Exhibit 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document (1)

(1) Furnished with this report, in accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, Infinity Property and Casualty Corporation has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Infinity Property and Casualty Corporation

BY: /s/ ROGER SMITH

Roger Smith

Executive Vice President, Chief Financial Officer and Treasurer  
(principal financial and accounting officer)

August 8, 2013