

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

May 07, 2010

[Table of Contents](#)

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 March 31, 2010

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
(State or other jurisdiction of

03-0483872
(I.R.S. Employer

incorporation or organization)

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 April 30, 2010, there were 13,225,159 shares of the registrant's common stock outstanding.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

INDEX

		Page
<u>Part I FINANCIAL INFORMATION</u>		
Item 1	<u>Financial Statements</u>	
	<u>Consolidated Statements of Earnings</u>	3
	<u>Consolidated Balance Sheets</u>	4
	<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
	<u>Consolidated Statements of Cash Flows</u>	6
	<u>Condensed Notes to Consolidated Financial Statements</u>	7
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
Item 4	<u>Controls and Procedures</u>	33
<u>Part II OTHER INFORMATION</u>		
Item 1	<u>Legal Proceedings</u>	33
Item 1A	<u>Risk Factors</u>	33
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 6	<u>Exhibits</u>	35
	<u>Signature</u>	35
EXHIBIT INDEX		
Exhibit 31.1	<u>Certification of the Chief Executive Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002</u>	
Exhibit 31.2	<u>Certification of the Chief Financial Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002</u>	
Exhibit 32	<u>Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	
Exhibit 101	<u>XBRL Instance Document</u>	

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 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 March 31		
	2010	2009	% Change
Revenues:			
Earned premium	\$ 212,066	\$ 214,667	(1.2)%
Net investment income	11,295	13,644	(17.2)%
Realized losses on investments*	(455)	(6,127)	(92.6)%
Other income	23	48	(52.1)%
Total revenues	222,929	222,233	0.3%
Costs and Expenses:			
Losses and loss adjustment expenses	146,643	151,269	(3.1)%
Commissions and other underwriting expenses	48,154	47,100	2.2%
Interest expense	2,700	2,768	(2.5)%
Corporate general and administrative expenses	1,872	1,671	12.0%
Restructuring charges	0	10	(100.0)%
Other expenses	732	628	16.6%
Total costs and expenses	200,101	203,446	(1.6)%
Earnings before income taxes	22,828	18,787	21.5%
Provision for income taxes	7,206	7,964	(9.5)%
Net Earnings	\$ 15,621	\$ 10,823	44.3%
Earnings per Common Share:			
Basic	\$ 1.17	\$ 0.77	51.9%
Diluted	1.15	0.76	51.3%
Average number of Common Shares:			

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Basic	13,319	13,976	(4.7)%
Diluted	13,620	14,185	(4.0)%
Cash dividends per Common Share	\$0.14	\$ 0.12	16.7%
* Realized gains before impairment losses	\$1,078	\$ 1,389	(22.4)%
Total other-than-temporary impairment (OTTI) losses	(99)	(7,516)	(98.7)%
OTTI losses reclassified from other comprehensive income	(1,434)	0	0.0%
Net impairment losses recognized in earnings	(1,533)	(7,516)	(79.6)%
Total realized losses on investments	\$ (455)	\$ (6,127)	(92.6)%

See Notes to Consolidated Financial Statements.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Investments:		
Fixed maturities - at fair value (amortized cost \$1,155,517 and \$1,125,776)	\$ 1,182,586	\$ 1,146,692
Equity securities - at fair value (cost \$31,331 and \$31,331)	41,691	39,438
Total investments	1,224,277	1,186,131
Cash and cash equivalents	57,589	99,700
Accrued investment income	12,219	11,237
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$10,133 and \$10,853	330,384	295,691
Property, plant and equipment, net of accumulated depreciation of \$44,772 and \$42,092	27,351	27,916
Prepaid reinsurance premium	1,861	1,536
Recoverables from reinsurers (includes \$479 and \$316 on paid losses and loss adjustment expenses)	19,214	18,031
Deferred policy acquisition costs	75,757	68,839
Current and deferred income taxes	5,670	10,258
Receivable for securities sold	525	0
Other assets	9,664	9,057
Goodwill	75,275	75,275
Total assets	\$ 1,839,786	\$ 1,803,671
Liabilities and shareholders' equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 505,225	\$ 509,114
Unearned premium	419,258	376,068
Payable to reinsurers	0	58
Long-term debt (fair value \$192,740 and \$192,309)	194,670	194,651
Commissions payable	19,937	18,012
Payable for securities purchased	5,909	17,576
Other liabilities	66,526	70,032
Total liabilities	1,211,526	1,185,511
Commitments and contingencies (See Note 10)		
Shareholders' equity:		
Common stock, no par value 50,000,000 shares authorized 21,110,026 and 21,082,139 shares issued	21,108	21,064
Additional paid-in capital	345,296	344,031
Retained earnings	554,925	541,167
Accumulated other comprehensive income, net of tax	24,945	19,500
Treasury stock, at cost (7,836,662 and 7,584,762 shares)	(318,014)	(307,602)
Total shareholders' equity	628,260	618,160

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Total liabilities and shareholders' equity	\$ 1,839,786	\$ 1,803,671
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See Notes to Consolidated Financial Statements.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Treasury Stock	Total
Balance at December 31, 2008	\$ 20,999	\$ 341,889	\$ 439,051	\$ 5,987	\$(282,594)	\$ 525,331
Net earnings	\$	\$	\$ 10,823	\$	\$	\$ 10,823
Net change in postretirement benefit liability				(24)		(24)
Change in unrealized gain on investments				5,225		5,225
Comprehensive income						\$ 16,024
Dividends paid to common shareholders			(1,687)			(1,687)
Shares issued and share-based compensation expense	10	364				374
Acquisition of treasury stock					(10,403)	(10,403)
Balance at March 31, 2009	\$ 21,009	\$ 342,254	\$ 448,186	\$ 11,187	\$(292,998)	\$ 529,638
Net earnings	\$	\$	\$ 59,771	\$	\$	\$ 59,771
Net change in postretirement benefit liability				(53)		(53)
Change in unrealized gain on investments				16,300		16,300
Change in non-credit component of impairment losses on fixed maturities				16,834		16,834
Comprehensive income						\$ 92,852
Reclassification of non-credit component of previously recognized impairment losses on fixed maturities			38,107	(38,107)		0
Tax benefit on reclassification				13,338		13,338
Dividends paid to common shareholders			(4,898)			(4,898)
Shares issued and share-based compensation expense	55	1,778				1,833
Acquisition of treasury stock					(14,605)	(14,605)
Balance at December 31, 2009	\$ 21,064	\$ 344,031	\$ 541,167	\$ 19,500	\$(307,602)	\$ 618,160
Net earnings	\$	\$	\$ 15,621	\$	\$	\$ 15,621
Net change in postretirement benefit liability				(17)		(17)
Change in unrealized gain on investments				3,702		3,702
Change in non-credit component of impairment losses on fixed maturities				1,761		1,761
Comprehensive income						\$ 21,067
Dividends paid to common shareholders			(1,864)			(1,864)
Shares issued and share-based compensation expense	45	1,264				1,309

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Acquisition of treasury stock					(10,412)	(10,412)
Balance at March 31, 2010	\$ 21,108	\$ 345,296	\$ 554,925	\$ 24,945	\$ (318,014)	\$ 628,260

See Notes to Consolidated Financial Statements.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Three months ended March 31,	
	2010	2009
Operating activities:		
Net earnings	\$ 15,621	\$ 10,823
Adjustments:		
Depreciation and amortization	4,255	1,748
Net realized losses on investing activities	455	6,127
Share-based compensation expense	672	318
(Increase) decrease in accrued investment income	(982)	496
Increase in agents' balances and premium receivable	(34,693)	(12,874)
(Increase) decrease in reinsurance receivables	(1,508)	3,192
Increase in deferred policy acquisition costs	(6,918)	(3,277)
Decrease in other assets	1,040	10,814
Increase in insurance claims and reserves	39,301	3,752
Decrease in payable to reinsurers	(58)	(675)
(Decrease) increase in other liabilities	(1,581)	15,129
Net cash provided by operating activities	15,605	35,572
Investing activities:		
Purchases of and additional investments in:		
Fixed maturities	(95,514)	(126,973)
Equity securities	0	(117)
Property and equipment	(2,115)	(1,437)
Maturities and redemptions of fixed maturity investments	39,752	31,519
Sales of fixed maturity investments	11,717	75,007
Net cash used in investing activities	(46,161)	(22,001)
Financing activities:		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	637	57
Acquisition of treasury stock	(10,328)	(10,032)
Dividends paid to shareholders	(1,864)	(1,687)
Net cash used in financing activities	(11,555)	(11,662)
Net (decrease) increase in cash and cash equivalents	(42,111)	1,910
Cash and cash equivalents at beginning of period	99,700	127,568
Cash and cash equivalents at end of period	\$ 57,589	\$ 129,478

See Notes to Consolidated Financial Statements.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

INDEX TO NOTES

- | | |
|--------------------------------------|-----------------------------------|
| 1. Reporting and Accounting Policies | 7. Income Taxes |
| 2. Share-Based Compensation | 8. Additional Information |
| 3. Computation of Earnings Per Share | 9. Insurance Reserves |
| 4. Fair Value | 10. Commitments and Contingencies |
| 5. Investments | |
| 6. Long-term Debt | |

Note 1 *Reporting and Accounting Policies*

Nature of Operations

Infinity Property and Casualty Corporation (Infinity or the Company) is 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, Infinity focuses on select states that management believes 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 Infinity Property and Casualty Corporation's Annual Report on Form 10-K for the year ended December 31, 2009. This Quarterly Report on Form 10-Q, including the Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on Infinity's financial performance since the beginning of the year.

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

In the first quarter of 2010, management determined that the percentage of salaries deferrable as deferred acquisition costs had been incorrectly calculated in prior years resulting in an overstatement of the asset. As a result, the Company recorded a pre-tax charge of \$1.3 million in its Consolidated Statement of Earnings to correct the deferred acquisition cost balance. Infinity concluded that this error was not material to any prior periods.

Infinity has evaluated events that occurred subsequent to March 31, 2010 for recognition or disclosure in the Company's financial statements and the notes to the financial statements.

Schedules may not foot due to rounding.

Estimates

Certain accounts and balances within these financial statements are based upon management's estimates and assumptions. The amount of reserves for claims not yet paid, for example, is an item that can only be recorded by estimation. Unrealized capital gains and losses on investments are subject to market fluctuations, and management uses 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 Infinity's results of operations could be material. The results of operations for the periods presented may not be indicative of the Company's results for the entire

year.

New Accounting Standards Adopted

In January 2010 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update Number 2010-06. This update requires new disclosures regarding fair value measurements and clarifies existing fair value disclosures. Infinity adopted the provisions of this update for all periods ending after December 15, 2009. The disclosures required by this update can be found in Note 4 of the Consolidated Financial Statements.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

Condensed Notes to Consolidated Financial Statements

Note 2 Share-Based Compensation

Restricted Stock Plan

Infinity's Amended Restricted Stock Plan was established in 2002 and amended on July 31, 2007. There were 500,000 shares of Infinity common stock reserved for issuance under the Restricted Stock Plan, of which 206,609 shares have been issued through March 31, 2010. The fair value of shares issued under Infinity's Restricted Stock Plan is expensed over the vesting periods of the awards based on the market value of Infinity's stock on the date of grant.

On July 31, 2007, Infinity's Compensation Committee approved the grant of 72,234 shares of restricted stock to certain officers under the Amended 2002 Restricted Stock Plan. These shares will vest in full on July 31, 2011. During the vesting period, the shares will not have voting rights but will accrue dividends, which will not be paid until the shares have vested. The shares are treated as issued and outstanding for calculation of diluted earnings per share only. Until fully vested, the shares will not be considered issued and outstanding for purposes of the basic earnings per share calculation. During each of the three month periods ended March 31, 2010 and 2009, \$0.2 million of expense was recorded in the Consolidated Statements of Earnings related to the grant of restricted stock.

Non-Employee Directors' Stock Ownership Plan

In May 2005, Infinity's shareholders approved the Non-Employee Directors' Stock Ownership Plan (the Directors' Plan). The purpose of the Directors' Plan is to include Infinity common stock as part of the compensation provided to its non-employee directors and to provide for stock ownership requirements for Infinity's non-employee directors. There are 200,000 shares of Infinity common stock reserved for issuance under the Directors' Plan, of which 29,630 shares have been issued through March 31, 2010. Under the terms of the Directors' Plan, shares are granted on or about June 1 of each year and the recipient may not sell or transfer the shares for six months from the date of grant. On June 1, 2009, a total of 9,583 shares of common stock, determined pursuant to the Directors' Plan and valued at \$350,000, were issued to Infinity's non-employee directors.

Employee Stock Purchase Plan

Infinity established the Employee Stock Purchase Plan (the ESPP) in 2004. Under this plan, all eligible full-time employees may purchase shares of Infinity common stock at a 15% discount to the current market price. Employees may allocate up to 25% of their base salary with a maximum annual participation amount of \$25,000. The source of shares issued to participants is treasury shares or authorized but previously unissued shares. The maximum number of shares which may be issued under the ESPP is 1,000,000, of which 38,885 have been issued through March 31, 2010. Infinity's ESPP is qualified under Section 423 of the Internal Revenue Code of 1986, as amended. The 15% market discount for shares purchased during the three-month periods ended March 31, 2010 and 2009 approximated \$8,000 and \$9,000, respectively. The discounts were recognized as compensation expense in the Consolidated Statements of Earnings in each period. Participants' shares are treated as issued and outstanding for earnings per share calculations.

Performance Share Plan

On May 20, 2008, Infinity's shareholders approved the Performance Share Plan (the Plan). The purpose of the Plan is to further align the interest of management with the long-term shareholders of the company by including performance-based compensation, payable in shares of common stock, as a component of an executive's annual compensation. The Plan is administered by the Compensation Committee (Committee), which is composed solely of three outside directors as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. No member of the Committee, while serving as such, is eligible to be granted performance share units. The Committee will (i) establish the performance goals, which may include but are not limited to, combined ratio, premium growth, growth within certain specific geographic areas and earnings per share or return on equity over the course of the upcoming three year period (a Performance Measurement Cycle), (ii) determine the Plan participants, (iii) set the performance share units to be awarded to such participants, and (iv) set the rate at which performance share units will convert to shares of common stock based upon attainment of the performance goals. The number of shares of common stock that may be issued under the Plan is limited to 500,000 shares. No shares have been issued under this plan. During the first three months of 2010 and 2009, approximately \$0.5 million and \$0.2 million of expense, respectively, was recognized in the Consolidated Statements of Earnings for the

Performance Share Plan.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Stock Option Plan**

Infinity's Stock Option Plan (SOP) was amended in May 2008 to prohibit any future grant of stock options from the plan after May 20, 2008. No options have been granted since 2004. Options were generally granted with an exercise price equal to the closing price of Infinity's stock at the date of grant and have a 10-year contractual life. All of the options under this plan have fully vested. Subject to specific limitations contained in the SOP, Infinity's Board of Directors has the ability to amend, suspend or terminate the plan at any time without shareholder approval. The SOP will continue in effect until the exercise or expiration of all options granted under the plan.

As permitted by the Stock Compensation topic of the FASB Accounting Standards Codification, Infinity used the modified Black-Scholes model with the assumptions noted below to estimate the value of employee stock options on the date of grant. Expected volatilities are based on historical volatilities of Infinity's stock. Infinity selected the expected option life to be 7.5 years, which represents the midpoint between the last vesting date and the end of the contractual term. The risk-free rate for periods within the contractual life of the options is based on the yield on 10-year Treasury notes in effect at the time of grant. The dividend yield was based on expected dividends at the time of grant.

The weighted-average grant date fair values of options granted during 2004 and 2003 were estimated using the modified Black-Scholes valuation model and the following weighted-average assumptions:

	2004 Grants	2003 Grants
Weighted-average grant date fair value	\$ 13.87	\$ 5.97
Dividend yield	0.7%	1.4%
Expected volatility	33.0%	33.0%
Risk-free interest rate	4.3%	4.0%
Expected life	7.5 years	7.5 years
Weighted-average grant exercise price	\$ 33.56	\$ 16.11
Outstanding as of March 31, 2010	116,050	169,340

The following chart describes activity for Infinity's Stock Option Plan for the three months ended March 31, 2010:

	Number of Options	Weighted-average Exercise Price	Weighted-average Remaining Term (in years)	Aggregate Intrinsic Value (a) (in millions)
Outstanding at December 31, 2009	312,840	\$ 23.05		
Granted	0	0		
Exercised	(26,450)	\$ 19.95		
Forfeited	(1,000)	\$ 33.58		
Outstanding at March 31, 2010	285,390	\$ 23.30	3.29	\$ 6.3
Vested as of March 31, 2010	285,390	\$ 23.30	3.29	\$ 6.3
Exercisable as of March 31, 2010	285,390	\$ 23.30	3.29	\$ 6.3

(a) The intrinsic value for the stock options is calculated based on the difference between the exercise price of the underlying awards and Infinity's closing stock price as of the reporting date.

The Stock Compensation topic of the FASB Accounting Standards codification requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As of March 31, 2010, Infinity used an estimated forfeiture rate of 0%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

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Cash received from option exercises for the three months ended March 31, 2010 was approximately \$0.5 million. The actual tax benefit realized for the tax deductions from options exercised of share-based payment arrangements was approximately \$0.1 million for the three months ended March 31, 2010. The total intrinsic value of options exercised during the three months ended March 31, 2010 was approximately \$0.7 million. There were no options exercised in the three months ended March 31, 2009. The total fair value of stock options which vested during the three months ended March 31, 2009 was less than \$0.5 million. All stock options were completely vested at March 31, 2009. Infinity has a policy of issuing new stock for the exercise of stock options.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Note 3 Computation of Earnings Per Share**

The following table illustrates the computation of Infinity's basic and diluted earnings per common share (in thousands, except per share figures):

	For the three months ended March 31,	
	2010	2009
Net earnings for basic and diluted earnings per share	\$ 15,621	\$ 10,823
Average basic shares outstanding	13,319	13,976
Basic earnings per share	\$ 1.17	\$ 0.77
Average basic shares outstanding	13,319	13,976
Restricted stock not yet vested	72	72
Dilutive effect of assumed option exercises	136	138
Dilutive effect of Performance Share Plan	93	0
Average diluted shares outstanding	13,620	14,185
Diluted earnings per share	\$ 1.15	\$ 0.76

Note 4 Fair Value

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).

The following table presents for each of the fair value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2010 (in thousands):

	Fair Value			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 57,589	\$ 0	\$ 0	\$ 57,589
Fixed maturity securities:				
U.S. government	215,969	0	0	215,969
Government-sponsored entities	0	40,510	4,062	44,572
State and municipal	0	349,898	0	349,898
Mortgage-backed securities:				
Residential	0	175,032	0	175,032
Commercial	0	43,437	0	43,437
Total mortgage-backed securities	\$ 0	\$ 218,469	\$ 0	\$ 218,469
Collateralized mortgage obligations	0	60,191	1,831	62,023
Asset-backed securities	0	22,772	645	23,417
Corporates	0	255,208	13,031	268,238

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Total fixed maturities	\$ 215,969	\$ 947,048	\$ 19,568	\$ 1,182,586
Equity securities	41,691	1	0	41,691
Total	\$ 315,249	\$ 947,049	\$ 19,568	\$ 1,281,866
Percentage of total	24.6%	73.9%	1.5%	100.0%

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements**

Level 1 includes cash and cash equivalents, U.S. Treasury securities and an exchange-traded fund. 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, other than securities backed by the U.S. Government, that are not rated by a nationally recognized statistical rating organization. Transfers between levels are recognized at the end of the reporting period.

The fair value of securities in Level 2 is provided by a third-party, nationally recognized pricing service. Infinity attempts to validate market prices obtained from third parties through periodic review of model pricing methodologies and periodic testing of sales activity to determine if there are any significant differences between the market price used to value the security as of the balance sheet date and the sales price of the security for sales that occurred around the balance sheet date.

The following table presents the changes in the Level 3 fair value category at March 31, 2010 (in thousands):

	For the three months ended March 31, 2010						
	Government-sponsored entities	State and municipal	Mortgage-backed securities	Collateralized mortgage obligations	Asset-backed securities	Corporates	Total
Balance at beginning of period	\$ 4,392	\$ 3,810	\$ 6,169	\$ 8,888	\$ 576	\$ 13,469	\$ 37,302
Total gains or losses (realized or unrealized)							
Included in net earnings	0	0	0	(7)	0	(1,497)	(1,504)
Included in other comprehensive income	(53)	0	0	58	0	1,277	1,282
Purchases	0	0	0	0	645	611	1,256
Sales	0	0	0	0	0	(215)	(215)
Settlements	(277)	0	0	(240)	0	(614)	(1,131)
Transfers in	0	0	0	0	0	0	0
Transfers out	0	(3,810)	(6,169)	(6,867)	(576)	0	(17,422)
Balance at end of period	\$ 4,062	\$ 0	\$ 0	\$ 1,831	\$ 645	\$ 13,031	\$ 19,568

Of the \$19.6 million fair value of securities in Level 3, which consists of 17 securities, 14 are priced based on non-binding broker quotes or prices from various outside sources. When there are multiple prices obtained for the same security, a hierarchy is used that determines the best price, which is used as the basis for the fair value presented in the financial statements. The remaining three securities, which have a fair value of \$3.3 million, are manually calculated based on expected principal repayments from Bloomberg, the zero spot Treasury curve at March 31, 2010 and the average spreads to Treasury for the type and rating of the security being priced.

Approximately \$17.4 million of securities in Level 3 at the beginning of the quarter were transferred to Level 2 at March 31, 2010 because a price for those securities was obtained from a third-party, nationally recognized pricing service. No securities were transferred in to Level 3 during the quarter.

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

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements**

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

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$ 57,589	\$ 57,589	\$ 99,700	\$ 99,700
Available-for-sale securities				
Fixed maturities	1,182,586	1,182,586	1,146,692	1,146,692
Equity securities	41,691	41,691	39,438	39,438
Total cash and investments	\$ 1,281,866	\$ 1,281,866	\$ 1,285,831	\$ 1,285,831
Liabilities:				
Long-term debt	\$ 194,670	\$ 192,740	\$ 194,651	\$ 192,309

See Note 5 of the Consolidated Financial Statements for additional information on investments and Note 6 for additional information on long-term debt.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Note 5 Investments**

All fixed maturity and equity securities are considered available-for-sale and reported 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 months ended March 31, 2010 were \$11.7 million. Proceeds from sales of securities for the three months ended March 31, 2009 were \$75.0 million.

Summarized information for the major categories of Infinity's investment portfolio follows (in thousands):

	March 31, 2010				
	Amortized Cost or	Gross	Gross	OTTI	Fair Value
	Cost	Unrealized	Unrealized	Recognized in	
		Gains	Losses	Accumulated	
				OCI	
Fixed maturities:					
U.S. government	\$ 212,261	\$ 4,199	\$ (491)	\$ 0	\$ 215,969
Government-sponsored entities	43,786	788	(3)	0	44,572
State and municipal	342,407	8,875	(1,385)	0	349,898
Mortgage-backed securities:					
Residential	170,613	4,455	(35)	0	175,032
Commercial	42,441	1,014	(17)	0	43,437
Total mortgage-backed securities	\$ 213,053	\$ 5,468	\$ (52)	\$ 0	\$ 218,469
Collateralized mortgage obligations	61,637	997	(330)	(281)	62,023
Asset-backed securities	23,449	87	(116)	(2)	23,417
Corporates	258,924	9,824	(156)	(354)	268,238
Total fixed maturities	\$ 1,155,517	\$ 30,239	\$ (2,534)	\$ (637)	\$ 1,182,586
Equity securities	31,331	10,361	0	0	41,691
Total	\$ 1,186,848	\$ 40,600	\$ (2,534)	\$ (637)	\$ 1,224,277

	December 31, 2009				
	Amortized Cost or	Gross	Gross	OTTI	Fair Value
	Cost	Unrealized	Unrealized	Recognized in	
		Gains	Losses	Accumulated	
				OCI	
Fixed maturities:					
U.S. government	\$ 187,915	\$ 4,063	\$ (717)	\$ 0	\$ 191,261
Government-sponsored entities	56,344	790	(118)	0	57,015
State and municipal	342,696	9,020	(1,640)	0	350,076
Mortgage-backed securities:					
Residential	149,354	3,549	(36)	0	152,867
Commercial	53,338	637	(49)	0	53,926
Total mortgage-backed securities	\$ 202,692	\$ 4,186	\$ (85)	\$ 0	\$ 206,793

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Collateralized mortgage obligations	65,249	619	(387)	(901)	64,580
Asset-backed securities	6,760	41	(71)	(5)	6,726
Corporates	264,120	8,190	(696)	(1,374)	270,241
Total fixed maturities	\$ 1,125,776	\$ 26,909	\$ (3,714)	\$ (2,279)	\$ 1,146,692
Equity securities	31,331	8,108	0	0	39,438
Total	\$ 1,157,107	\$ 35,017	\$ (3,714)	\$ (2,279)	\$ 1,186,131

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements**

The following table sets 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):

	Number of Securities with Unrealized Losses	Less than 12 Months			Unrealized Loss as % of Cost	12 Months or More			Unrealized Loss as % of Cost
		Fair Value	Gross Unrealized Losses			Fair Value	Gross Unrealized Losses		
March 31, 2010									
Fixed maturities:									
U.S. government	11	\$ 46,746	\$ (491)	1.0%	0	\$ 0	\$ 0	0.0%	
Government-sponsored entities	1	897	(3)	0.3%	0	0	0	0.0%	
State and municipal	44	109,928	(1,385)	1.2%	0	0	0	0.0%	
Mortgage-backed securities:									
Residential	5	23,947	(35)	0.1%	0	0	0	0.0%	
Commercial	5	3,979	(17)	0.4%	0	0	0	0.0%	
Total mortgage-backed securities	10	\$ 27,925	\$ (52)	0.2%	0	\$ 0	\$ 0	0.0%	
Collateralized mortgage obligations	1	1,517	(36)	2.3%	5	7,545	(576)	7.1%	
Asset-backed securities	6	20,644	(52)	0.3%	2	438	(67)	13.2%	
Corporate	14	19,505	(151)	0.8%	16	6,405	(358)	5.3%	
Total fixed maturities	87	\$ 227,163	\$ (2,170)	0.9%	23	\$ 14,388	\$ (1,001)	6.5%	
Equity securities	0	0	0	0.0%	0	0	0	0.0%	
Total	87	\$ 227,163	\$ (2,170)	0.9%	23	\$ 14,388	\$ (1,001)	6.5%	

	Number of Securities with Unrealized Losses	Less than 12 Months			Unrealized Loss as % of Cost	12 Months or More			Unrealized Loss as % of Cost
		Fair Value	Gross Unrealized Losses			Fair Value	Gross Unrealized Losses		
December 31, 2009									
Fixed maturities:									
U.S. government	11	\$ 46,288	\$ (717)	1.5%	0	\$ 0	\$ 0	0.0%	
Government-sponsored entities	2	23,440	(118)	0.5%	0	0	0	0.0%	
State and municipal	39	98,053	(1,640)	1.6%	0	0	0	0.0%	
Mortgage-backed securities:									
Residential	5	26,305	(36)	0.1%	0	0	0	0.0%	
Commercial	8	11,742	(49)	0.4%	0	0	0	0.0%	
Total mortgage-backed securities	13	\$ 38,047	\$ (85)	0.2%	0	\$ 0	\$ 0	0.0%	
Collateralized mortgage obligations	5	17,916	(131)	0.7%	7	14,133	(1,157)	7.6%	
Asset-backed securities	1	576	(1)	0.2%	3	536	(75)	12.2%	
Corporate	32	57,203	(768)	1.3%	18	8,117	(1,301)	13.8%	

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Total fixed maturities	103	\$ 281,523	\$ (3,460)	1.2%	28	\$ 22,786	\$ (2,533)	10.0%
Equity securities	0	0	0	0.0%	0	0	0	0.0%
Total	103	\$ 281,523	\$ (3,460)	1.2%	28	\$ 22,786	\$ (2,533)	10.0%

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

Condensed Notes to Consolidated Financial Statements

Gross unrealized losses at March 31, 2010 are primarily attributable to the following:

Unrealized losses in collateralized mortgage obligations, particularly in non-GSE Whole Loan securities which have declined in value due to widening credit spreads-to-Treasury securities for non-GSE collateralized mortgage obligations;

unrealized losses on municipal bonds, which have also declined in value due to widening credit spreads-to-Treasury securities;

unrealized losses on government securities and

unrealized losses on non-investment grade corporate bonds.

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

whether the unrealized loss is credit-driven or a result of changes in market interest rates;

the length of time the security's market value has been below its cost;

the extent to which fair value is less than cost basis;

the intent to sell the security;

whether it is more likely than not that there will be a requirement to sell the security before its anticipated recovery;

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.

Management regularly evaluates 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, management reviews positions held related to an issuer of a previously impaired security.

	March 31, 2010	December 31, 2009
Number of positions held with unrealized:		
Gains	455	413
Losses	110	131
Number of positions held that individually exceed unrealized:		
Gains of \$500,000	5	4
Losses of \$500,000	0	1
Percentage of positions held with unrealized:		
Gains that were investment grade	75%	76%
Losses that were investment grade	79%	78%
Percentage of fair value held with unrealized:		
Gains that were investment grade	94%	94%
Losses that were investment grade	96%	95%

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements**

The following table sets forth the amount of unrealized loss by age and severity at March 31, 2010 (in thousands):

Age of unrealized loss:	Fair Value of Securities with Unrealized Losses	Total Gross Unrealized Losses	Less than 5%*	5% - 10%*	Total Gross Greater than 10%*
Less than or equal to:					
Three months	191,564	(1,314)	(1,314)	0	0
Six months	27,840	(483)	(483)	0	0
Nine months	0	0	0	0	0
Twelve months	8,707	(552)	(372)	0	(180)
Greater than twelve months	13,440	(821)	(146)	(107)	(569)
Total	241,551	(3,171)	(2,315)	(107)	(748)

* As a percentage of amortized cost or cost.

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

	Pre-tax			Net
	Fixed Maturities	Equity Securities	Tax Effects	
Three months ended March 31, 2010				
Unrealized holding gains (losses) on securities arising during the period	\$ 5,697	\$ 2,253	\$ (2,782)	\$ 5,167
Realized (gains) losses on securities sold	(1,078)	0	377	(701)
Impairment loss recognized in earnings	1,533	0	(537)	997
Change in unrealized gains (losses) on marketable securities, net	\$ 6,152	\$ 2,253	\$ (2,942)	\$ 5,463
Three months ended March 31, 2009				
Unrealized holding gains (losses) on securities arising during the period	\$ 7,487	\$ (3,623)	\$ (2,620)	\$ 1,243
Realized (gains) losses on securities sold	(1,389)	0	486	(903)
Impairment loss recognized in earnings	7,516	0	(2,631)	4,885
Change in unrealized gains (losses) on marketable securities, net	\$ 13,613	\$ (3,623)	\$ (4,765)	\$ 5,225

For fixed maturity securities that are other-than-temporarily impaired, Infinity assesses its intent to sell and the likelihood that the company will be required to sell the security before recovery of its amortized cost. If a fixed maturity security is considered other-than-temporarily impaired but the company does not intend to and is not more than likely to be required to sell the security prior to its recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss component of an impairment charge on a fixed maturity security is determined by the excess of the amortized cost over the present value of the expected cash

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flows. 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 varies depending on the type of security. The credit loss component of an impairment charge is recognized in net earnings while the non-credit component is recognized in accumulated other comprehensive income.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

Condensed Notes to Consolidated Financial Statements

The following table is a progression of credit losses on fixed maturity securities for which a portion was recognized in other accumulated other comprehensive income (in thousands):

Balance at December 31, 2009	\$ 3,136
Additional credit impairments on:	