

INFINITY PROPERTY & CASUALTY CORP  
Form 10-Q  
May 08, 2014

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, 2014

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

incorporation or organization)

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)

03-0483872

(I.R.S. Employer

Identification No.)

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, 2014 there were 11,511,817 shares of the registrant's common stock outstanding.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

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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

## Condensed Notes to Consolidated Financial Statements

## 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,			
	2014	2013	% Change	
Revenues:				
Earned premium	\$327,679	\$318,589	2.9	%
Installment and other fee income	24,340	25,300	(3.8)	)%
Net investment income	8,798	8,337	5.5	%
Net realized gains on investments <sup>1</sup>	645	3,824	(83.1)	)%
Other income	151	51	194.0	%
Total revenues	361,613	356,102	1.5	%
Costs and Expenses:				
Losses and loss adjustment expenses	253,702	250,371	1.3	%
Commissions and other underwriting expenses	87,973	87,674	0.3	%
Interest expense	3,453	3,538	(2.4)	)%
Corporate general and administrative expenses	1,526	1,737	(12.2)	)%
Other expenses	312	677	(53.9)	)%
Total costs and expenses	346,966	343,997	0.9	%
Earnings before income taxes	14,647	12,105	21.0	%
Provision for income taxes	4,320	3,443	25.5	%
Net Earnings	\$10,327	\$8,662	19.2	%
Net Earnings per Common Share:				
Basic	\$0.90	\$0.75	20.0	%
Diluted	0.89	0.74	20.3	%
Average Number of Common Shares:				
Basic	11,429	11,522	(0.8)	)%
Diluted	11,580	11,753	(1.5)	)%
Cash Dividends per Common Share	\$0.36	\$0.30	20.0	%
<sup>1</sup> Net realized gains before impairment losses	\$672	\$3,896	(82.8)	)%
Total other-than-temporary impairment (OTTI) losses	(893)	(72)	NM	
Non-credit portion in other comprehensive income	885	0	NM	
OTTI losses reclassified from other comprehensive income	(19)	0	NM	
Net impairment losses recognized in earnings	(27)	(72)	(62.6)	)%
Total net realized gains on investments	\$645	\$3,824	(83.1)	)%

NM = Not Meaningful

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

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

(in thousands)

(unaudited)

	Three months ended March 31,	
	2014	2013
Net earnings	\$10,327	\$8,662
Other comprehensive income (loss) before tax:		
Net change in postretirement benefit liability	657	50
Unrealized gains (losses) on investments:		
Unrealized holding gains arising during the period	7,852	2,688
Less: Reclassification adjustments for gains included in net earnings	(645	) (3,824
Unrealized gains (losses) on investments, net	7,208	(1,136
Other comprehensive income (loss), before tax	7,865	(1,086
Income tax (expense) benefit related to components of other comprehensive income	(2,753	) 380
Other comprehensive income (loss), net of tax	5,112	(706
Comprehensive income	\$15,439	\$7,956

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

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts in line descriptions)

	March 31, 2014	December 31, 2013
	(unaudited)	
Assets		
Investments:		
Fixed maturities – at fair value (amortized cost \$ 1,394,055 and \$1,345,077)	\$1,410,033	\$1,354,305
Equity securities – at fair value (cost \$77,356 and \$74,718)	94,224	91,127
Short-term investments - at fair value (amortized cost \$1,400 and \$2,595)	1,400	2,596
Total investments	\$1,505,657	\$1,448,027
Cash and cash equivalents	84,892	134,211
Accrued investment income	12,386	12,772
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$14,552 and \$15,884	492,997	451,339
Property and equipment, net of accumulated depreciation of \$55,801 and \$53,368	50,766	48,061
Prepaid reinsurance premium	4,167	3,133
Recoverables from reinsurers (includes \$76 and \$77 on paid losses and LAE)	14,620	14,508
Deferred policy acquisition costs	94,707	88,258
Current and deferred income taxes	21,632	28,648
Receivable for securities sold	209	2,791
Other assets	12,237	10,242
Goodwill	75,275	75,275
Total assets	\$2,369,544	\$2,317,265
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$662,890	\$646,577
Unearned premium	613,012	566,004
Payable to reinsurers	0	2
Long-term debt (fair value \$282,266 and \$272,632)	275,000	275,000
Commissions payable	18,272	19,100
Payable for securities purchased	13,641	39,887
Other liabilities	120,242	113,936
Total liabilities	\$1,703,057	\$1,660,507
Commitments and contingencies (See Note 9)		
Shareholders' equity:		
Common stock, no par value (50,000,000 shares authorized; 21,614,200 and 21,599,047 shares issued)	\$21,696	\$21,684
Additional paid-in capital	369,319	368,902
Retained earnings	691,199	685,011
Accumulated other comprehensive income, net of tax	21,737	16,624
Treasury stock, at cost (10,122,977 and 10,095,416 shares)	(437,463	) (435,463
Total shareholders' equity	\$666,488	\$656,758
Total liabilities and shareholders' equity	\$2,369,544	\$2,317,265

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

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, 2012	\$21,529	\$361,845	\$666,199	\$29,851	\$(423,181)	\$656,242
Net earnings	—	—	8,662	—	—	8,662
Net change in postretirement benefit liability	—	—	—	32	—	32
Change in unrealized gain on investments	—	—	—	(939)	—	(939)
Change in non-credit component of impairment losses on fixed maturities	—	—	—	200	—	200
Comprehensive income	—	—	—	—	—	7,956
Dividends paid to common shareholders	—	—	(3,474)	—	—	(3,474)
Shares issued and share-based compensation expense, including tax benefit	32	1,136	—	—	—	1,168
Acquisition of treasury stock	—	—	—	—	(3,871)	(3,871)
Balance at March 31, 2013	\$21,562	\$362,980	\$671,387	\$29,145	\$(427,053)	\$658,021
Net earnings	—	—	23,971	—	—	23,971
Net change in postretirement benefit liability	—	—	—	556	—	556
Change in unrealized gain on investments	—	—	—	(11,786)	—	(11,786)
Change in non-credit component of impairment losses on fixed maturities	—	—	—	(1,291)	—	(1,291)
Comprehensive income	—	—	—	—	—	11,450
Dividends paid to common shareholders	—	—	(10,346)	—	—	(10,346)
Shares issued and share-based compensation expense, including tax benefit	122	5,922	—	—	—	6,044
Acquisition of treasury stock	—	—	—	—	(8,410)	(8,410)
Balance at December 31, 2013	\$21,684	\$368,902	\$685,011	\$16,624	\$(435,463)	\$656,758
Net earnings	—	—	10,327	—	—	10,327
Net change in postretirement benefit liability	—	—	—	427	—	427
Change in unrealized gain on investments	—	—	—	5,055	—	5,055
Change in non-credit component of impairment losses on fixed maturities	—	—	—	(370)	—	(370)
Comprehensive income	—	—	—	—	—	15,439
Dividends paid to common shareholders	—	—	(4,139)	—	—	(4,139)
	12	417	—	—	—	429

Shares issued and share-based  
 compensation expense, including tax  
 benefit

Acquisition of treasury stock	—	—	—	—	(2,000 )	(2,000 )
Balance at March 31, 2014	\$21,696	\$369,319	\$691,199	\$21,737	\$(437,463)	\$666,488

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

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

(in thousands)

(unaudited)

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

	Three months ended March 31,		
	2014	2013	
Operating Activities:			
Net earnings	\$10,327	\$8,662	
Adjustments:			
Depreciation	2,540	2,022	
Amortization	5,767	4,623	
Net realized gains on investments	(645	) (3,824	)
(Gain) loss on disposal of property and equipment	(27	) 1	)
Share-based compensation expense	(168	) 641	)
Excess tax benefits from share-based payment arrangements	(56	) (50	)
Activity related to rabbi trust	18	37	)
Decrease (increase) in accrued investment income	386	100	)
Decrease (increase) in agents' balances and premium receivable	(41,657	) (38,967	)
Decrease (increase) in reinsurance receivables	(1,146	) (1,329	)
Decrease (increase) in deferred policy acquisition costs	(6,449	) (7,841	)
Decrease (increase) in other assets	2,555	1,847	)
Increase (decrease) in unpaid losses and loss adjustment expenses	16,313	23,906	)
Increase (decrease) in unearned premium	47,008	54,514	)
Increase (decrease) in payable to reinsurers	(2	) (137	)
Increase (decrease) in other liabilities	5,555	(2,708	)
Net cash provided by operating activities	40,318	41,497	)
Investing Activities:			
Purchases of fixed maturities	(183,528	) (306,431	)
Purchases of equity securities	(2,600	) 0	)
Purchases of short-term investments	(200	) 0	)
Purchases of property and equipment	(5,249	) (1,768	)
Maturities and redemptions of fixed maturities	41,201	46,154	)
Maturities and redemptions of short-term investments	1,400	0	)
Proceeds from sale of fixed maturities	64,959	192,730	)
Proceeds from sale of equity securities	0	3,519	)
Proceeds from sale of property and equipment	30	0	)
Net cash used in investing activities	(83,986	) (65,796	)
Financing Activities:			
Proceeds from stock options exercised and employee stock purchases	541	477	)
Excess tax benefits from share-based payment arrangements	56	50	)
Principal payments under capital lease obligation	(134	) (305	)
Acquisition of treasury stock	(1,975	) (3,990	)
Dividends paid to shareholders	(4,139	) (3,474	)
Net cash used in financing activities	(5,650	) (7,242	)
Net decrease in cash and cash equivalents	(49,319	) (31,541	)
Cash and cash equivalents at beginning of period	134,211	165,182	)
Cash and cash equivalents at end of period	\$84,892	\$133,641	)

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

March 31, 2014

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| 3. <u>Fair Value</u>                            | 9. <u>Commitments and Contingencies</u>           |
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| 5. <u>Long-Term Debt</u>                        | 11. <u>Subsequent Events</u>                      |
| 6. <u>Income Taxes</u>                          |   |

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, 2013. 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 revised the presentation of our Consolidated Statements of Earnings for the three months ended March 31, 2013 to correctly classify \$25.3 million of installment and other fee income as a component of total revenues and to conform to our current-year presentation. Previously, installment and other fee income was presented net within our commissions and other underwriting expenses, which was not in compliance with GAAP, thereby understating both total revenues and total expenses by an equivalent amount. This revision is not considered to be material to previously issued financial statements since it has no effect on the results of operations, financial condition or cash flows in any period presented or in any previously issued financial statements.

We have evaluated events that occurred after March 31, 2014 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.

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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 March 31,	
	2014	2013
Net earnings	\$10,327	\$8,662
Average basic shares outstanding	11,429	11,522
Basic net earnings per share	\$0.90	\$0.75
Average basic shares outstanding	11,429	11,522
Restricted stock not yet vested	57	42
Dilutive effect of assumed option exercises	2	36
Dilutive effect of Performance Share Plan	92	152
Average diluted shares outstanding	11,580	11,753
Diluted net earnings per share	\$0.89	\$0.74



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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).

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):

March 31, 2014	Fair Value			Total		
	Level 1	Level 2	Level 3			
Cash and cash equivalents	\$84,892	\$0	\$0	\$84,892		
Fixed maturity securities:						
U.S. government	65,081	129	0	65,210		
State and municipal	0	499,088	0	499,088		
Mortgage-backed securities:						
Residential	0	347,260	0	347,260		
Commercial	0	34,487	0	34,487		
Total mortgage-backed securities	\$0	\$381,747	\$0	\$381,747		
Asset-backed securities	0	67,352	530	67,882		
Corporates	0	391,053	5,054	396,107		
Total fixed maturities	\$65,081	\$1,339,369	\$5,583	\$1,410,033		
Equity securities	94,224	0	0	94,224		
Short-term investments	1,400	0	0	1,400		
Total cash and investments	\$245,597	\$1,339,369	\$5,583	\$1,590,549		
Percentage of total cash and investments	15.4	% 84.2	% 0.4	% 100.0		%

December 31, 2013	Fair Value			Total		
	Level 1	Level 2	Level 3			
Cash and cash equivalents	\$134,211	\$0	\$0	\$134,211		
Fixed maturity securities:						
U.S. government	64,496	171	0	64,666		
State and municipal	0	487,111	0	487,111		
Mortgage-backed securities:						
Residential	0	323,346	0	323,346		
Commercial	0	35,816	0	35,816		
Total mortgage-backed securities	\$0	\$359,162	\$0	\$359,162		
Collateralized mortgage obligations	0	1,291	0	1,291		
Asset-backed securities	0	70,573	686	71,259		
Corporates	0	365,642	5,175	370,816		
Total fixed maturities	\$64,496	\$1,283,949	\$5,860	\$1,354,305		
Equity securities	91,127	0	0	91,127		
Short-term investments	1,200	1,396	0	2,596		
Total cash and investments	\$291,033	\$1,285,345	\$5,860	\$1,582,238		
Percentage of total cash and investments	18.4	% 81.2	% 0.4	% 100.0		%



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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

We do not report our long-term debt at fair value in the Consolidated Balance Sheets. The \$282.3 million and \$272.6 million fair value of our long-term debt at March 31, 2014 and December 31, 2013, 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 which funds our Supplemental Employee Retirement Plan ("SERP"). Level 2 includes 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 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 progression in the Level 3 fair value category (in thousands):

	Three months ended March 31, 2014			
	U.S. Government	Corporates	Asset-Backed Securities	Total
Balance at beginning of period	\$0	\$ 5,175	\$ 686	\$ 5,860
Total gains or (losses), unrealized or realized				
Included in net earnings	0	9	0	9
Included in other comprehensive income	0	(56 )	0	(56 )
Settlements	0	(74 )	(156 )	(230 )
Balance at end of period	\$0	\$ 5,054	\$ 530	\$ 5,583

	Three months ended March 31, 2013			
	U.S. Government	Corporates	Asset-Backed Securities	Total
Balance at beginning of period	\$3,712	\$ 9,101	\$ 0	\$ 12,813
Total gains or (losses), unrealized or realized				
Included in net earnings	(23 )	122	0	99
Included in other comprehensive income	(89 )	(113 )	0	(202 )
Settlements	(485 )	(211 )	0	(697 )
Balance at end of period	\$ 3,115	\$ 8,899	\$ 0	\$ 12,014

Of the \$5.6 million fair value of securities in Level 3 at March 31, 2014, which consists of nine securities, we priced six based on non-binding broker quotes, one price was provided by our unaffiliated money manager and one security, which was included in Level 3 because it was not rated by a nationally recognized statistical rating organization, was priced by a nationally recognized pricing service. We manually calculated the remaining one security, which had a fair value of \$0.1 million.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

Quantitative information about the significant unobservable inputs used in the fair value measurement of the manually priced security at March 31, 2014 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%

<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, 1920-2013.

The significant unobservable inputs used in the fair value measurement of our manually-priced corporate bond 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 this corporate bond. Generally, a reduction in probability of 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 either the three months ended March 31, 2014 or the three months ended March 31, 2013.

The gains or losses included in net earnings are included in the line item "Net realized (losses) 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):

	March 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$84,892	\$84,892	\$134,211	\$134,211
Investments				
Fixed maturities	1,410,033	1,410,033	1,354,305	1,354,305
Equity securities	94,224	94,224	91,127	91,127
Short-term	1,400	1,400	2,596	2,596
Total cash and investments	\$1,590,549	\$1,590,549	\$1,582,238	\$1,582,238
Liabilities:				
Long-term debt	\$275,000	\$282,266	\$275,000	\$272,632

See Note 4 to the Consolidated Financial Statements for additional information on investments and Note 5 to the Consolidated Financial Statements 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 months ended March 31, 2014 and the three months ended March 31, 2013 were \$65.0 million and \$196.2 million, respectively. The proceeds for the three months ended March 31, 2014 were net of \$0.2 million of receivable for securities sold during the first quarter of 2014 that had not settled at March 31, 2014. The proceeds for the three months ended March 31, 2013 were net of \$2.8 million of receivable for securities sold during the first quarter of 2013 that had not settled at March 31, 2013.

Gross gains of \$0.8 million and gross losses of \$0.1 million were realized on sales of available for sale securities during the three months ended March 31, 2014 compared with gross gains of \$4.3 million and gross losses of \$0.4 million realized on sales during the three months ended March 31, 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):

	March 31, 2014				
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Recognized in Accumulated OCI <sup>(1)</sup>
Fixed maturities:					
U.S. government	\$64,771	\$820	\$(381)	) \$65,210	\$0
State and municipal	488,609	11,220	(741)	) 499,088	(87)
Mortgage-backed securities:					
Residential	350,772	2,693	(6,205)	) 347,260	(3,232)
Commercial	34,421	297	(230)	) 34,487	0
Total mortgage-backed securities	\$385,193	\$2,990	\$(6,435)	) \$381,747	\$(3,232)
Asset-backed securities	67,737	221	(76)	) 67,882	(8)
Corporates	387,745	9,713	(1,352)	) 396,107	(531)
Total fixed maturities	\$1,394,055	\$24,963	\$(8,986)	) \$1,410,033	\$(3,858)
Equity securities	77,356	16,868	0	94,224	0
Short-term investments	1,400	0	0	1,400	0
Total	\$1,472,812	\$41,831	\$(8,986)	) \$1,505,657	\$(3,858)
	December 31, 2013				
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Recognized in Accumulated OCI <sup>(1)</sup>
Fixed maturities:					
U.S. government	\$64,194	\$900	\$(427)	) \$64,666	\$0
State and municipal	478,092	10,789	(1,771)	) 487,111	(73)
Mortgage-backed securities:					
Residential	330,169	1,985	(8,809)	) 323,346	(2,435)
Commercial	35,781	339	(304)	) 35,816	0
Total mortgage-backed securities	\$365,950	\$2,324	\$(9,113)	) \$359,162	\$(2,435)
Collateralized mortgage obligations	1,228	63	0	1,291	(161)
Asset-backed securities	71,183	178	(103)	) 71,259	(8)
Corporates	364,430	9,086	(2,700)	) 370,816	(612)
Total fixed maturities	\$1,345,077	\$23,340	\$(14,112)	) \$1,354,305	\$(3,290)
Equity securities	74,718	16,409	0	91,127	0
Short-term investments	2,595	1	0	2,596	0
Total	\$1,422,390	\$39,750	\$(14,112)	) \$1,448,027	\$(3,290)

(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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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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):

	Less than 12 Months				12 Months or More				
	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses as % of Cost	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses as % of Cost	
March 31, 2014									
Fixed maturities:									
U.S. government	12	\$27,125	\$(381)	1.4 %	0	\$0	\$0	0.0 %	
State and municipal	34	71,836	(484)	0.7 %	5	10,469	(257)	2.4 %	
Mortgage-backed securities:									
Residential	187	173,264	(4,711)	2.6 %	46	46,299	(1,493)	3.1 %	
Commercial	6	9,192	(152)	1.6 %	5	9,773	(78)	0.8 %	
Total mortgage-backed securities	193	\$182,456	\$(4,864)	2.6 %	51	\$56,071	\$(1,571)	2.7 %	
Asset-backed securities	18	13,567	(76)	0.6 %	0	0	0	0.0 %	
Corporates	69	96,334	(1,263)	1.3 %	2	2,483	(89)	3.5 %	
Total fixed maturities	326	\$391,318	\$(7,068)	1.8 %	58	\$69,024	\$(1,917)	2.7 %	
Equity securities	0	0	0	0.0 %	0	0	0	0.0 %	
Short-term investments	0	0	0	0.0 %	0	0	0	0.0 %	
Total	326	\$391,318	\$(7,068)	1.8 %	58	\$69,024	\$(1,917)	2.7 %	

	Less than 12 Months				12 Months or More				
	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses as % of Cost	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses as % of Cost	
December 31, 2013									
Fixed maturities:									
U.S. government	11	\$26,396	\$(427)	1.6 %	0	\$0	\$0	0.0 %	
State and municipal	51	121,431	(1,425)	1.2 %	4	8,062	(346)	4.1 %	
Mortgage-backed securities:									
Residential	229	207,821	(7,064)	3.3 %	34	39,659	(1,744)	4.2 %	
Commercial	11	22,311	(290)	1.3 %	1	756	(14)	1.8 %	
Total mortgage-backed securities	240	\$230,133	\$(7,354)	3.1 %	35	\$40,415	\$(1,758)	4.2 %	
Asset-backed securities	18	14,738	(103)	0.7 %	0	0	0	0.0 %	
Corporates	90	115,735	(2,621)	2.2 %	1	1,212	(79)	6.1 %	
Total fixed maturities	410	\$508,432	\$(11,929)	2.3 %	40	\$49,688	\$(2,183)	4.2 %	
Equity securities	0	0	0	0.0 %	0	0	0	0.0 %	

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Short-term investments	0	0	0	0.0	% 0	0	0	0.0	%
Total	410	\$508,432	\$(11,929 )	2.3	% 40	\$49,688	\$(2,183 )	4.2	%



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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:

	March 31, 2014	December 31, 2013		
Number of positions held with unrealized:				
Gains	710	590		
Losses	384	450		
Number of positions held that individually exceed unrealized:				
Gains of \$500,000	2	1		
Losses of \$500,000	0	0		
Percentage of positions held with unrealized:				
Gains that were investment grade	85	% 81		%
Losses that were investment grade	94	% 93		%
Percentage of fair value held with unrealized:				
Gains that were investment grade	89	% 88		%
Losses that were investment grade	94	% 95		%

The following table sets forth the amount of unrealized loss, excluding the rabbi trust, by age and severity at March 31, 2014 (in thousands):

Age of Unrealized Losses:	Fair Value of Securities with Unrealized Losses	Total Gross Unrealized Losses	Less Than 5%*	5% - 10%*	Greater Than 10%*
Three months or less	\$141,568	\$ (468)	\$ (468)	\$ 0	\$ 0
Four months through six months	34,866	(423)	(423)	0	0
Seven months through nine months	1,307	(23)	(23)	0	0
Ten months through twelve months	222,096	(6,324)	(3,863)	(2,462)	0
Greater than twelve months	60,505	(1,747)	(1,229)	(518)	0
Total	\$460,341	\$ (8,986)	\$ (6,006)	\$ (2,980)	\$ 0

\* As a percentage of amortized cost or cost.

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

	Pre-tax Fixed Maturities	Equity Securities	Short-Term Investments	Tax Effects	Net
Three months ended March 31, 2014					
Unrealized holding gains (losses) on securities arising during the period	\$7,389	\$458	\$5	\$(2,748)	\$5,104
Realized (gains) losses on securities sold	(666)	0	(5)	235	(437)
Impairment loss recognized in earnings	27	0	0	(9)	17
Change in unrealized gains (losses) on marketable securities, net	\$6,750	\$458	\$(1)	\$(2,523)	\$4,685
Three months ended March 31, 2013					
Unrealized holding gains (losses) on securities arising during the period	\$(1,485)	\$4,173	\$0	\$(941)	\$1,747
Realized (gains) losses on securities sold	(3,522)	(373)	0	1,363	(2,532)
Impairment loss recognized in earnings	72	0	0	(25)	47
	\$(4,936)	\$3,800	\$0	\$398	\$(738)

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 ("non-credit component"). 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):

	Three months ended March 31,	
	2014	2013
Beginning balance	\$956	\$487
Additions for:		
Previously impaired securities	19	0
Newly impaired securities	8	0
Reductions for:		
Securities sold and paid down	(40	) (40
Ending balance	\$943	\$447

The table below sets forth the scheduled maturities of fixed maturity securities at March 31, 2014, 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.

Maturity	Fair Value			Amortized Cost	
	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	\$62,289	\$3,312	\$2,325	\$67,925	\$67,275
After one year through five years	486,673	122,265	1,670	610,608	597,570
After five years through ten years	184,061	80,145	60	264,265	259,349
After ten years	15,080	2,526	0	17,606	16,931
Mortgage-backed and asset-backed securities	197,535	252,094	0	449,629	452,930
Total	\$945,637	\$460,341	\$4,055	\$1,410,033	\$1,394,055

## 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 March 31, 2014 fair value of \$282.3 million using a 190 basis point spread to the ten-year U.S. Treasury Note of 2.72%.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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 March 31, 2014, there were no borrowings outstanding under the Credit Agreement.

## 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 March 31,		
	2014	2013	
Earnings before income taxes	\$ 14,647	\$ 12,105	
Income taxes at statutory rate	5,126	4,237	
Effect of:			
Dividends-received deduction	(107	) (49	)
Tax-exempt interest	(702	) (750	)
Other	3	5	
Provision for income taxes as shown on the Consolidated Statements of Earnings	\$ 4,320	\$ 3,443	
GAAP effective tax rate	29.5	% 28.4	%

## 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 March 31,	
	2014	2013
Income tax payments	\$ 0	\$ 0
Interest payments on debt	6,875	6,951
Negative Cash Book Balances		

Negative cash book balances, included in the line item “Other liabilities” in the Consolidated Balance Sheets, were \$58.7 million and \$50.5 million, respectively, at March 31, 2014 and December 31, 2013.

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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 March 31,	
	2014	2013
Balance at Beginning of Period		
Unpaid losses on known claims	\$221,447	\$205,589
IBNR losses	262,660	218,552
LAE	162,469	148,753
Total unpaid losses and LAE	646,577	572,894
Reinsurance recoverables	(14,431	) (13,678
Unpaid losses and LAE, net of reinsurance recoverables	632,146	559,215
Current Activity		
Loss and LAE incurred:		
Current accident year	256,776	250,499
Prior accident years	(3,074	) (128
Total loss and LAE incurred	253,702	250,371
Loss and LAE payments:		
Current accident year	(80,818	) (77,856
Prior accident years	(156,683	) (148,723
Total loss and LAE payments	(237,502	) (226,578
Balance at End of Period		
Unpaid losses and LAE, net of reinsurance recoverables	648,346	583,008
Add back reinsurance recoverables	14,544	13,793
Total unpaid losses and LAE	\$662,890	\$596,800
Unpaid losses on known claims	\$226,659	\$218,835
IBNR losses	272,159	223,898
LAE	164,072	154,068
Total unpaid losses and LAE	\$662,890	\$596,800

The \$3.1 million of favorable reserve development during the three months ended March 31, 2014 was primarily due to a decrease in frequency in accident year 2013 in Florida personal injury protection and material damage coverages in the states of California, Georgia and Pennsylvania.

## 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, 2013. 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, 2013.

## Contingencies

From time to time, we and our subsidiaries are named as defendants in various lawsuits incidental to our insurance operations. We consider legal actions relating to claims made in the ordinary course of seeking indemnification for a loss covered by the insurance policy in establishing loss and LAE reserves. We also face in the ordinary course of business lawsuits that seek damages beyond policy limits, commonly known as extra-contractual or “bad faith” claims, as well as class action and





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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

individual lawsuits that involve issues not unlike those facing other insurance companies and employers. We continually evaluate potential liabilities and reserves for litigation of these types using the criteria established by the Contingencies topic of the FASC. Under this guidance, we may only record reserves for a loss if the likelihood of occurrence is probable and we can reasonably estimate the amount. If a material loss, while not probable, is judged to be reasonably possible we will disclose the nature of the contingency and a possible range of loss if estimable. In Estate of Jorge Luis Arroyo, Jr., et al. v. Gustavo M. Rodriguez, et al (Circuit Court of Miami-Dade County, Florida), a third party claimant is attempting to recover from Infinity a \$30 million consent judgment obtained against an Infinity policyholder for personal injuries suffered by plaintiff. Infinity believes any claims of bad faith are unfounded and has denied any and all liability to plaintiff. While the outcome of this case, as with litigation generally, cannot be predicted with certainty, at this stage of the litigation we do not believe that the likelihood of a material loss is probable.

For a description of previously reported contingencies, refer to Note 14 Commitments and Contingencies in the Form 10-K for the year ended December 31, 2013.

## Note 10 Accumulated Other Comprehensive Income

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

	Three months ended March 31, 2014			2013		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
Accumulated change in postretirement benefit liability, beginning of period	\$(62 )	\$22	\$(40 )	\$(967 )	\$339	\$(629 )
Effect on other comprehensive income	657	(230 )	427	50	(17 )	32
Accumulated change in postretirement benefit liability, end of period	\$595	\$(208 )	\$387	\$(918 )	\$321	\$(596 )
Accumulated unrealized gains on investments, net, beginning of period	\$25,638	\$(8,973 )	\$16,665	\$46,892	\$(16,412 )	\$30,480
Other comprehensive income before reclassification	7,852	(2,748 )	5,104	2,688	(941 )	1,747
Reclassification adjustment for other-than-temporary impairments included in net income	27	(9 )	17	72	(25 )	47
Reclassification adjustment for realized gains included in net income	(672 )	235	(437 )	(3,896 )	1,363	(2,532 )
Effect on other comprehensive income	7,208	(2,523 )	4,685	(1,136 )	398	(738 )
Accumulated unrealized gains on investments, net, end of period	\$32,846	\$(11,496 )	\$21,350	\$45,756	\$(16,015 )	\$29,741
Accumulated other comprehensive income, beginning of period	\$25,576	\$(8,952 )	\$16,624	\$45,924	\$(16,073 )	\$29,851
Change in postretirement benefit liability	657	(230 )	427	50	(17 )	32
Change in unrealized gains on investments, net	7,208	(2,523 )	4,685	(1,136 )	398	(738 )

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Effect on other comprehensive income	7,865	(2,753	) 5,112	(1,086	) 380	(706	)
Accumulated other comprehensive income, end of period	\$33,441	\$(11,704	) \$21,737	\$44,838	\$(15,693	) \$29,145	

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Note 11 Subsequent Events

In April 2014, we purchased a 62,808 square foot warehouse and training facility building in Birmingham, Alabama for \$3.5 million to replace certain leased facilities.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

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), 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, 2013.

OVERVIEW

In the first quarter of 2014, our gross written premium grew 0.5%. Our strategy for 2014 is to grow our profitable business including California, Florida and Texas personal auto and countrywide Commercial Vehicle while addressing higher combined ratios in Arizona, Georgia, Nevada and Pennsylvania. We expect this strategy to reduce gross written premium in our remaining Focus States as well as runoff business in the remaining states. In the first quarter of 2014, gross written premium in California, Florida, Texas and Commercial Vehicle grew 6.3% compared with the first quarter of 2013 while the remaining Focus States declined 28.9%. 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 March 31, 2014 were \$10.3 million and \$0.89, respectively, compared with \$8.7 million and \$0.74, respectively, for the three months ended March 31, 2013. The increase in diluted earnings per share for the three months ended March 31, 2014 was primarily due to an improvement in underwriting profitability.

Included in net earnings for the three months ended March 31, 2014 was \$2.0 million (\$3.1 million pre-tax) of favorable development on prior accident year loss and LAE reserves. The development was primarily due to a decrease in frequency in accident year 2013 in Florida personal injury protection and material damage coverages in California, Georgia and Pennsylvania. Included in net earnings for the three months ended March 31, 2013 was \$0.1 million (\$0.1 million pre-tax) of favorable development on prior accident year loss and LAE reserves.

The following table displays combined ratio results by accident year developed through March 31, 2014.

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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	Accident Year Combined Ratio Developed Through			Prior Accident Year Favorable / (Unfavorable) Development Q1 2014	(\$ in millions) Prior Accident Year Favorable / (Unfavorable) Development Q1 2014
	Dec 2012	Dec 2013	Mar 2014		
Prior					\$0.8
2006	90.4	% 90.3	% 90.3	% 0.0	% (0.1 )
2007	92.3	% 92.2	% 92.2	% 0.0	% (0.1 )
2008	91.6	% 91.3	% 91.3	% 0.0	% 0.0
2009	92.6	% 92.3	% 92.3	% 0.0	% (0.1 )
2010	99.5	% 99.6	% 99.5	% 0.1	% 0.7
2011	100.0	% 100.3	% 100.2	% 0.1	% 0.6
2012	99.3	% 99.8	% 100.1	% (0.3	)% (3.5 )
2013		97.7	% 97.4	% 0.4	% 4.8
2014 YTD			97.8	%	\$3.1

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 March 31, 2014 was \$8.8 million compared with \$8.3 million for the three months ended March 31, 2013. The increase in pre-tax net investment income is a result of a 4.2% increase in average invested assets (at cost). Average investments have increased as a result of positive cashflow from operations due to growth in premiums and improved margins.

Our book value per share increased 1.6% from \$57.09 at December 31, 2013 to \$58.00 at March 31, 2014. This increase was primarily due to an increase in unrealized gains and earnings partially offset by dividends for the three months ended March 31, 2014.

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

## 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" – Includes nine states where we are currently running off our writings.

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.

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

	Three months ended March 31,				
	2014	2013	Change	% Change	
Net earned premium					
Gross written premium					
Personal Auto					
Focus States	\$346,978	\$343,121	\$3,857	1.1	%
Other States	1,832	8,242	(6,410)	(77.8)	)%
Total Personal Auto	348,811	351,364	(2,553)	(0.7)	)%
Commercial Vehicle	25,464	21,258	4,206	19.8	%
Classic Collector	2,906	2,721	185	6.8	%
Total gross written premium	377,181	375,343	1,838	0.5	%
Ceded reinsurance	(2,931)	(2,375)	(556)	23.4	)%
Net written premium	374,249	372,968	1,281	0.3	%
Change in unearned premium	(46,570)	(54,379)	7,809	(14.4)	)%
Net earned premium	\$327,679	\$318,589	\$9,090	2.9	%

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

The following table summarizes our policies in force: