

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

August 04, 2011

[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 June 30, 2011

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 July 29, 2011 there were 12,223,561 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> | 8 |
| Item 2 | 23 |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | |
| Item 3 | 38 |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | |
| Item 4 | 38 |
| <u>Controls and Procedures</u> | |
| <u>PART II OTHER INFORMATION</u> | |
| Item 1 | 39 |
| <u>Legal Proceedings</u> | |
| Item 1A | 39 |
| <u>Risk Factors</u> | |
| Item 2 | 40 |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | |
| Item 6 | 41 |
| <u>Exhibits</u> | |
| <u>Signature</u> | 41 |
| EXHIBIT INDEX | |
| Exhibit 31.1 | <u>Certification of the Chief Executive Officer under Exchange Act Rule 13a-14(a)</u> |
| Exhibit 31.2 | <u>Certification of the Chief Financial Officer under Exchange Act Rule 13a-14(a)</u> |
| Exhibit 32 | <u>Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.</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 June 30, | | | Six months ended June 30, | | |
|---|-----------------------------|------------------|----------------|---------------------------|------------------|----------------|
| | 2011 | 2010 | % Change | 2011 | 2010 | % Change |
| Revenues: | | | | | | |
| Earned premium | \$ 251,584 | \$ 225,590 | 11.5% | \$ 490,565 | \$ 437,656 | 12.1% |
| Net investment income | 10,619 | 11,583 | (8.3)% | 20,951 | 22,878 | (8.4)% |
| Net realized gains (losses) on investments* | 1,959 | 44 | NM | 4,882 | (411) | NM |
| Other income | 48 | 98 | (51.0)% | 100 | 121 | (17.4)% |
| Total revenues | 264,209 | 237,315 | 11.3% | 516,498 | 460,244 | 12.2% |
| Costs and Expenses: | | | | | | |
| Losses and loss adjustment expenses | 192,453 | 153,281 | 25.6% | 371,410 | 299,923 | 23.8% |
| Commissions and other underwriting expenses | 57,454 | 53,864 | 6.7% | 112,566 | 102,018 | 10.3% |
| Interest expense | 2,702 | 2,700 | 0.1% | 5,403 | 5,401 | 0.0% |
| Corporate general and administrative expenses | 2,186 | 2,225 | (1.8)% | 3,924 | 4,097 | (4.2)% |
| Other expenses | 379 | 1,815 | (79.1)% | 399 | 2,547 | (84.3)% |
| Total costs and expenses | 255,175 | 213,885 | 19.3% | 493,702 | 413,986 | 19.3% |
| Earnings before income taxes | 9,035 | 23,430 | (61.4)% | 22,795 | 46,258 | (50.7)% |
| Provision for income taxes | 1,423 | 7,152 | (80.1)% | 4,204 | 14,358 | (70.7)% |
| Net Earnings | \$ 7,611 | \$ 16,278 | (53.2)% | \$ 18,592 | \$ 31,900 | (41.7)% |
| Earnings per Common Share: | | | | | | |
| Basic | \$ 0.62 | \$ 1.25 | (50.4)% | \$ 1.51 | \$ 2.42 | (37.6)% |
| Diluted | 0.61 | 1.22 | (50.0)% | 1.48 | 2.37 | (37.6)% |
| Average Number of Common Shares: | | | | | | |
| Basic | 12,280 | 13,054 | (5.9)% | 12,312 | 13,186 | (6.6)% |
| Diluted | 12,541 | 13,347 | (6.0)% | 12,596 | 13,484 | (6.6)% |
| Cash Dividends per Common Share | \$ 0.18 | \$ 0.14 | 28.6% | \$ 0.36 | \$ 0.28 | 28.6% |

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| | | | | | | |
|--|----------|--------|---------|----------|----------|---------|
| * Net realized gains before impairment losses | \$ 2,181 | \$ 311 | 601.3% | \$ 5,728 | \$ 1,389 | 312.4% |
| Total other-than-temporary impairment (OTTI) losses | (71) | (43) | 65.1% | (1,679) | (142) | NM |
| Non-credit portion in other comprehensive income | 0 | 0 | 0.0% | 1,017 | 0 | 0.0% |
| OTTI losses reclassified from other comprehensive income | (151) | (224) | (32.6)% | (184) | (1,659) | (88.9)% |
| Net impairment losses recognized in earnings | (222) | (267) | (16.9)% | (846) | (1,800) | (53.0)% |
| Total net realized gains (losses) on investments | \$ 1,959 | \$ 44 | NM | \$ 4,882 | \$ (411) | NM |

NM = Not meaningful

See Condensed 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)

| | June 30, 2011 (unaudited) | December 31, 2010 |
|---|------------------------------|-------------------|
| Assets | | |
| Investments: | | |
| Fixed maturities at fair value (amortized cost \$1,157,232 and \$1,153,802) | \$ 1,190,486 | \$ 1,177,718 |
| Equity securities at fair value (cost \$24,299 and \$29,333) | 36,807 | 42,301 |
| Total investments | \$ 1,227,293 | \$ 1,220,019 |
| Cash and cash equivalents | 36,455 | 63,605 |
| Accrued investment income | 11,218 | 12,033 |
| Agents' balances and premium receivable, net of allowances for doubtful accounts of \$12,242 and \$12,323 | 374,772 | 336,676 |
| Property and equipment, net of accumulated depreciation of \$42,006 and \$43,731 | 38,280 | 25,132 |
| Prepaid reinsurance premium | 2,249 | 1,890 |
| Recoverables from reinsurers (includes \$160 and \$289 on paid losses and LAE) | 15,040 | 16,809 |
| Deferred policy acquisition costs | 90,514 | 79,398 |
| Current and deferred income taxes | 17,515 | 14,867 |
| Receivable for securities sold | 923 | 0 |
| Other assets | 10,060 | 6,653 |
| Goodwill | 75,275 | 75,275 |
| Total assets | \$ 1,899,594 | \$ 1,852,357 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses | \$ 483,108 | \$ 477,833 |
| Unearned premium | 466,332 | 417,371 |
| Payable to reinsurers | 0 | 42 |
| Long-term debt (fair value \$210,280 and \$199,132) | 194,769 | 194,729 |
| Commissions payable | 21,292 | 18,960 |
| Payable for securities purchased | 1,901 | 419 |
| Other liabilities | 65,116 | 81,819 |
| Total liabilities | \$ 1,232,518 | \$ 1,191,173 |
| Commitments and contingencies (See Note 10) | | |
| Shareholders' equity: | | |
| Common stock, no par value (50,000,000 shares authorized; 21,255,089 and 21,167,947 shares issued) | \$ 21,299 | \$ 21,228 |
| Additional paid-in capital | 352,816 | 349,742 |
| Retained earnings | 639,636 | 625,492 |
| Accumulated other comprehensive income, net of tax | 30,238 | 24,488 |
| Treasury stock, at cost (9,002,019 and 8,698,962 shares) | (376,913) | (359,766) |
| Total shareholders' equity | \$ 667,076 | \$ 661,184 |

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| | | |
|--|--------------|--------------|
| Total liabilities and shareholders' equity | \$ 1,899,594 | \$ 1,852,357 |
|--|--------------|--------------|

See Condensed 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, 2009 | \$ 21,064 | \$ 344,031 | \$ 541,167 | \$ 19,500 | \$ (307,602) | \$ 618,160 |
| Net earnings | \$ | \$ | \$ 31,900 | \$ | \$ | \$ 31,900 |
| Net change in postretirement benefit liability | | | | (35) | | (35) |
| Change in unrealized gain on investments | | | | 8,020 | | 8,020 |
| Change in non-credit component of impairment losses on fixed maturities | | | | 2,827 | | 2,827 |
| Comprehensive income | | | | | | \$ 42,713 |
| Dividends paid to common shareholders | | | (3,687) | | | (3,687) |
| Shares issued and share-based compensation expense | 79 | 2,658 | | | | 2,736 |
| Acquisition of treasury stock | | | | | (30,730) | (30,730) |
| Balance at June 30, 2010 | \$ 21,143 | \$ 346,689 | \$ 569,380 | \$ 30,313 | \$ (338,332) | \$ 629,192 |
| Net earnings | \$ | \$ | \$ 59,623 | \$ | \$ | \$ 59,623 |
| Net change in postretirement benefit liability | | | | (85) | | (85) |
| Change in unrealized gain on investments | | | | (7,149) | | (7,149) |
| Change in non-credit component of impairment losses on fixed maturities | | | | 1,410 | | 1,410 |
| Comprehensive income | | | | | | \$ 53,799 |
| Dividends paid to common shareholders | | | (3,511) | | | (3,511) |
| Shares issued and share-based compensation expense | 85 | 3,054 | | | | 3,139 |
| Acquisition of treasury stock | | | | | (21,434) | (21,434) |
| Balance at December 31, 2010 | \$ 21,228 | \$ 349,742 | \$ 625,492 | \$ 24,488 | \$ (359,766) | \$ 661,184 |
| Net earnings | \$ | \$ | \$ 18,592 | \$ | \$ | \$ 18,592 |
| Net change in postretirement benefit liability | | | | (21) | | (21) |
| Change in unrealized gain on investments | | | | 5,256 | | 5,256 |
| Change in non-credit component of impairment losses on fixed maturities | | | | 515 | | 515 |
| Comprehensive income | | | | | | \$ 24,342 |
| Dividends paid to common shareholders | | | (4,448) | | | (4,448) |

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| | | | | | | |
|--|-----------|------------|------------|-----------|--------------|------------|
| Shares issued and share-based compensation expense | 71 | 3,073 | | | | 3,145 |
| Acquisition of treasury stock | | | | | (17,146) | (17,146) |
| Balance at June 30, 2011 | \$ 21,299 | \$ 352,816 | \$ 639,636 | \$ 30,238 | \$ (376,913) | \$ 667,076 |

See Condensed 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 June 30, | |
|---|------------------------------------|-------------|
| | 2011 | 2010 |
| Operating Activities: | | |
| Net earnings | \$ 7,611 | \$ 16,278 |
| Adjustments: | | |
| Depreciation | 2,281 | 2,595 |
| Amortization | 1,757 | 1,430 |
| Net realized gains on investments | (1,959) | (44) |
| Loss on disposal of property and equipment | 1 | 3 |
| Share-based compensation expense | 776 | 1,371 |
| Non-cash activity related to rabbi trust | 3 | 0 |
| Decrease in accrued investment income | 177 | 366 |
| Increase in agents' balances and premium receivable | (5,428) | (6,294) |
| Decrease in reinsurance receivables | 1,713 | 468 |
| Increase in deferred policy acquisition costs | (2,251) | (2,386) |
| Increase in other assets | (10,071) | (12,419) |
| Increase (decrease) in unpaid losses and loss adjustment expenses | 9,581 | (2,958) |
| Increase in unearned premium | 6,245 | 8,764 |
| (Decrease) increase in other liabilities | (22,077) | 20,429 |
| Net cash (used in) provided by operating activities | (11,638) | 27,603 |
| Investing Activities: | | |
| Purchases of and additional investments in: | | |
| Fixed maturities | (53,251) | (97,534) |
| Property and equipment | (16,262) | (3,585) |
| Maturities and redemptions of fixed maturities | 23,312 | 31,384 |
| Sales of: | | |
| Fixed maturities | 48,016 | 68,467 |
| Equity securities | 2,994 | 0 |
| Net cash provided by (used in) investing activities | 4,809 | (1,268) |
| Financing Activities: | | |
| Proceeds from stock options exercised and employee stock purchases, including tax benefit | 278 | 56 |
| Acquisition of treasury stock | (10,298) | (19,010) |
| Dividends paid to shareholders | (2,216) | (1,823) |
| Net cash used in financing activities | (12,236) | (20,777) |
| Net (decrease) increase in cash and cash equivalents | (19,066) | 5,558 |
| Cash and cash equivalents at beginning of period | 55,521 | 57,589 |
| Cash and cash equivalents at end of period | \$ 36,455 | \$ 63,147 |

See Condensed 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)**

| | Six months ended June 30, | |
|---|----------------------------------|-------------|
| | 2011 | 2010 |
| Operating Activities: | | |
| Net earnings | \$ 18,592 | \$ 31,900 |
| Adjustments: | | |
| Depreciation | 4,826 | 5,274 |
| Amortization | 3,831 | 3,005 |
| Net realized (gains) losses on investments | (4,882) | 411 |
| Loss on disposal of property and equipment | 202 | 3 |
| Share-based compensation expense | 1,417 | 2,043 |
| Non-cash activity related to rabbi trust | 18 | 0 |
| Decrease (increase) in accrued investment income | 814 | (616) |
| Increase in agents' balances and premium receivable | (38,097) | (39,755) |
| Decrease (increase) in reinsurance receivables | 1,411 | (1,040) |
| Increase in deferred policy acquisition costs | (11,116) | (9,304) |
| Increase in other assets | (9,162) | (11,894) |
| Increase (decrease) in unpaid losses and loss adjustment expenses | 5,276 | (6,847) |
| Increase in unearned premium | 48,961 | 51,954 |
| Decrease in payable to reinsurers | (42) | (58) |
| (Decrease) increase in other liabilities | (14,480) | 18,131 |
| Net cash provided by operating activities | 7,569 | 43,208 |
| Investing Activities: | | |
| Purchases of and additional investments in: | | |
| Fixed maturities | (195,863) | (193,049) |
| Property and equipment | (18,176) | (5,701) |
| Maturities and redemptions of fixed maturities | 90,665 | 71,135 |
| Sales of: | | |
| Fixed maturities | 100,871 | 80,184 |
| Equity securities | 7,871 | 0 |
| Net cash used in investing activities | (14,632) | (47,430) |
| Financing Activities: | | |
| Proceeds from stock options exercised and employee stock purchases, including tax benefit | 1,728 | 693 |
| Acquisition of treasury stock | (17,367) | (29,338) |
| Dividends paid to shareholders | (4,448) | (3,687) |
| Net cash used in financing activities | (20,087) | (32,332) |
| Net decrease in cash and cash equivalents | (27,150) | (36,554) |
| Cash and cash equivalents at beginning of period | 63,605 | 99,700 |
| Cash and cash equivalents at end of period | \$ 36,455 | \$ 63,147 |

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

INDEX TO NOTES

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

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, 2010. This Quarterly Report on Form 10-Q, including the Condensed Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on our financial performance since the beginning of the year.

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

We have evaluated events that occurred after June 30, 2011 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.

Reclassifications

We have reclassified certain amounts in the prior period, consolidated financial statements to conform to the current period presentation. These reclassifications had no effect on total shareholders' equity, net cash flow or net earnings as previously reported.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

Condensed Notes to Consolidated Financial Statements

Note 2 Share-Based Compensation

Restricted Stock Plan

We established the Restricted Stock Plan in 2002 and amended it on July 31, 2007. There are 500,000 shares of our common stock reserved for issuance under the Restricted Stock Plan, of which we have issued 206,609 shares as of June 30, 2011. We expense the fair value of shares issued under the Restricted Stock Plan over the vesting periods of the awards based on the market value of our stock on the date of grant.

On July 31, 2007, our Compensation Committee (the Committee) approved the grant of 72,234 shares of restricted stock to certain officers under the Restricted Stock Plan. These shares of restricted stock vested in full on July 31, 2011. On August 2, 2011, the Committee approved the grant of an additional 72,234 shares of restricted stock to certain officers under the Restricted Stock Plan. These shares will vest in full on August 2, 2014. During the vesting period, the shares of restricted stock will not have voting rights and will accrue dividends, which we will not pay until the shares have vested. We treat the restricted shares as issued and outstanding for calculation of diluted earnings per share only. Until fully vested, we will not consider the shares issued and outstanding for purposes of the basic earnings per share calculation.

Non-employee Directors' Stock Ownership Plan

In May 2005, our shareholders approved the Non-employee Directors' Stock Ownership Plan (Directors' Plan). The purpose of the Directors' Plan is to include our common stock as part of the compensation provided to our non-employee directors and to provide for stock ownership requirements for our non-employee directors. There are 200,000 shares of our common stock reserved for issuance under the Directors' Plan, of which we have issued 43,959 shares as of June 30, 2011. Under the terms of the Directors' Plan, we grant shares on or about June 1 of each year and we restrict these shares from sale or transfer by any recipient for six months from the date of grant. In June 2011, we issued 6,657 shares of our common stock, valued pursuant to the plan at \$350,000, to our non-employee directors. In June 2010, we issued 7,672 shares of our common stock, valued pursuant to the plan at \$350,000, to our non-employee directors. We treat participants' shares as issued and outstanding for basic and diluted earnings per share calculations.

Employee Stock Purchase Plan

We established our Employee Stock Purchase Plan (ESPP) in 2004 and amended and restated it on August 3, 2010. Under the ESPP, all eligible full-time employees may purchase shares of our 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. If a participant sells any shares purchased under the plan within one year, we preclude that employee from participating in the plan for one year from the date of sale. The source of shares issued to participants is treasury shares or authorized but previously unissued shares. The maximum number of shares that we may issue under the ESPP may not exceed 1,000,000, of which we have issued 44,780 as of June 30, 2011. Our ESPP is qualified under Section 423 of the Internal Revenue Code of 1986, as amended. We treat participants' shares as issued and outstanding for basic and diluted earnings per share calculations.

Performance Share Plan

Our shareholders approved the Performance Share Plan (PSP) on May 20, 2008 and an amended and restated performance share plan on May 26, 2010. The purpose of the PSP is to align further the interest of management with our long-term shareholders by including performance-based compensation, payable in shares of common stock, as a component of an executive's annual compensation. The Committee administers the PSP and 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, (ii) determine the PSP 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 we may issue under the PSP is limited to 500,000 shares. In April 2011, we issued 32,957 shares under this plan.

Stock Option Plan

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We amended our Stock Option Plan (SOP) to prohibit any future grant of stock options from the plan after May 20, 2008. We have granted no options since 2004. We generally granted options with an exercise price equal to the closing price of our stock at the date of grant and these options have a 10-year contractual life. All of the options under the SOP have fully vested. Subject to specific limitations contained in the SOP, our 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.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

Condensed Notes to Consolidated Financial Statements

As permitted by the Stock Compensation topic of the FASB Accounting Standards Codification, we 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 our stock. We 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 interest 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.

We estimated the weighted-average grant date fair values of options granted during 2004 and 2003 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 June 30, 2011 | 79,050 | 114,458 |

The following table describes activity for our Stock Option Plan:

| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Term (in years) | Aggregate Intrinsic Value (a) (in millions) |
|----------------------------------|-------------------|---------------------------------|--|---|
| Outstanding at December 31, 2010 | 238,758 | \$ 22.52 | | |
| Granted | 0 | 0 | | |
| Exercised | (45,250) | \$ 18.72 | | |
| Forfeited | 0 | 0 | | |
| Outstanding at June 30, 2011 | 193,508 | \$ 23.41 | 2.05 | \$ 6.0 |
| Vested as of June 30, 2011 | 193,508 | \$ 23.41 | 2.05 | \$ 6.0 |
| Exercisable as of June 30, 2011 | 193,508 | \$ 23.41 | 2.05 | \$ 6.0 |

(a) We calculated the intrinsic value for the stock options based on the difference between the exercise price of the underlying awards and our closing stock price as of the reporting date.

The Stock Compensation topic of the FASB Accounting Standards Codification requires the recognition of share-based compensation for the number of awards that we ultimately expect to vest. As of June 30, 2011, we used an estimated forfeiture rate of 0%. We will reassess estimated forfeitures in subsequent periods and may change this rate based on new facts and circumstances.

Cash received from option exercises for the six months ended June 30, 2011 and 2010 was approximately \$0.8 million and \$0.5 million, respectively. The actual tax benefit realized for the tax deductions from options exercised totaled \$0.5 million and less than \$0.1 million for the six months ended June 30, 2011 and June 30, 2010, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2011 and 2010 was approximately \$1.8 million and \$0.7 million, respectively.

We have 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**

The amount of total compensation cost, by plan, for share-based compensation arrangements was as follows (in thousands):

| | For the three months ended June 30, | | | | For the six months ended June 30, | | | |
|-----------------------|---------------------------------------|----------------|---------------------------------------|----------------|---------------------------------------|----------------|---------------------------------------|----------------|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| | Expense Recognized in Income | Tax Benefit | Expense Recognized in Income | Tax Benefit | Expense Recognized in Income | Tax Benefit | Expense Recognized in Income | Tax Benefit |
| Restricted Stock Plan | \$ 199 | \$ 70 | \$ 199 | \$ 70 | \$ 398 | \$ 139 | \$ 398 | \$ 139 |
| Directors Plan | 350 | 123 | 350 | 123 | 350 | 123 | 350 | 123 |
| ESPP | 9 | 3 | 8 | 3 | 19 | 7 | 16 | 6 |
| PSP | 227 | 79 | 822 | 288 | 669 | 234 | 1,295 | 453 |
| Total | \$ 785 | \$ 275 | \$ 1,379 | \$ 484 | \$ 1,436 | \$ 503 | \$ 2,059 | \$ 721 |

Note 3 Computation of Earnings per Share

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

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|--|-----------|--------------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net earnings for basic and diluted earnings per share | \$ 7,611 | \$ 16,278 | \$ 18,592 | \$ 31,900 |
| Average basic shares outstanding | 12,280 | 13,054 | 12,312 | 13,186 |
| Basic earnings per share | \$ 0.62 | \$ 1.25 | \$ 1.51 | \$ 2.42 |
| Average basic shares outstanding | 12,280 | 13,054 | 12,312 | 13,186 |
| Restricted stock not yet vested | 72 | 72 | 72 | 72 |
| Dilutive effect of assumed option exercises | 112 | 142 | 127 | 140 |
| Dilutive effect of Performance Share Plan | 77 | 78 | 84 | 85 |
| Average diluted shares outstanding | 12,541 | 13,347 | 12,596 | 13,484 |
| Diluted earnings per share | \$ 0.61 | \$ 1.22 | \$ 1.48 | \$ 2.37 |

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****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 our assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011 (in thousands):

| | Fair Value | | | Total |
|-------------------------------------|------------|--------------|-----------|--------------|
| | Level 1 | Level 2 | Level 3 | |
| Cash and cash equivalents | \$ 36,455 | \$ 0 | \$ 0 | \$ 36,455 |
| Fixed maturity securities: | | | | |
| U.S. government | 150,012 | 557 | 4,572 | 155,142 |
| Government-sponsored entities | 0 | 30,231 | 0 | 30,231 |
| State and municipal | 0 | 390,109 | 2,186 | 392,296 |
| Mortgage-backed securities: | | | | |
| Residential | 0 | 244,896 | 1,767 | 246,664 |
| Commercial | 0 | 26,396 | 0 | 26,396 |
| Total mortgage-backed securities | \$ 0 | \$ 271,293 | \$ 1,767 | \$ 273,060 |
| Collateralized mortgage obligations | 0 | 37,194 | 589 | 37,783 |
| Asset-backed securities | 0 | 49,296 | 0 | 49,296 |
| Corporates | 0 | 242,132 | 10,545 | 252,677 |
| Total fixed maturities | \$ 150,012 | \$ 1,020,814 | \$ 19,660 | \$ 1,190,486 |
| Equity securities | 36,806 | 1 | 0 | 36,807 |
| Total | \$ 223,273 | \$ 1,020,815 | \$ 19,660 | \$ 1,263,748 |

Percentage of total 17.7% 80.8% 1.6% 100.0%

Level 1 includes cash and cash equivalents, U.S. Treasury securities, an exchange-traded fund and equities invested in a rabbi trust. Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Level 3 securities are comprised of (i) securities for which there is no active or inactive market for similar instruments, (ii) securities whose fair value is determined based on unobservable inputs and (iii) securities, other than those backed by the U.S. Government, that are not rated by a nationally recognized statistical rating organization. We recognize transfers between levels at the beginning of the reporting period.

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

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

The following table presents the changes in the Level 3 fair value category (in thousands):

| | For the three months ended June 30, 2011 | | | | | Total |
|---|---|------------------------|-----------------------------------|---|------------|-----------|
| | U.S. Government | State and Municipal | Mortgage- Backed Securities | Collateralized Mortgage Obligations | Corporates | |
| Balance at beginning of period | \$ 4,413 | \$ 0 | \$ 1,747 | \$ 741 | \$ 11,221 | \$ 18,123 |
| Total gains or (losses), unrealized or realized | | | | | | |
| Included in net earnings | 0 | 0 | 0 | 0 | (66) | (66) |
| Included in other comprehensive income | 159 | 24 | 31 | 4 | 63 | 281 |
| Purchases | 0 | 2,162 | 0 | 0 | 0 | 2,162 |
| Settlements | 0 | 0 | (11) | (156) | (673) | (841) |
| Balance at end of period | \$ 4,572 | \$ 2,186 | \$ 1,767 | \$ 589 | \$ 10,545 | \$ 19,660 |

| | For the six months ended June 30, 2011 | | | | | Total |
|---|---|------------------------|-----------------------------------|---|------------|-----------|
| | U.S. Government | State and Municipal | Mortgage- Backed Securities | Collateralized Mortgage Obligations | Corporates | |
| Balance at beginning of period | \$ 4,950 | \$ 0 | \$ 0 | \$ 1,043 | \$ 21,482 | \$ 27,476 |
| Total gains or (losses), unrealized or realized | | | | | | |
| Included in net earnings | 0 | 0 | 0 | (2) | (105) | (107) |
| Included in other comprehensive income | 45 | 24 | 39 | 13 | 900 | 1,020 |
| Purchases | 0 | 2,162 | 0 | 0 | 0 | 2,162 |
| Settlements | (423) | 0 | (19) | (466) | (1,055) | (1,962) |
| Transfers in | 0 | 0 | 1,747 | 0 | 0 | 1,747 |
| Transfers out | 0 | 0 | 0 | 0 | (10,677) | (10,677) |
| Balance at end of period | \$ 4,572 | \$ 2,186 | \$ 1,767 | \$ 589 | \$ 10,545 | \$ 19,660 |

Of the \$19.7 million fair value of securities in Level 3, which consists of 16 securities, we priced 14 based on non-binding broker quotes. We manually calculated the price of the remaining securities, which have a combined fair value of \$1.2 million, based on expected principal repayments from Bloomberg, the zero spot Treasury curve at June 30, 2011 and the average spreads to Treasury for the type and rating of the security being priced.

There were no transfers between Levels 1, 2 and 3 during the three months ended June 30, 2011. We transferred approximately \$10.7 million of securities in Level 3 at December 31, 2010 to Level 2 during the six months ended June 30, 2011 because we obtained a price for those securities from a third party nationally recognized pricing service. We transferred approximately \$1.7 million of securities into Level 3 from Level 2 during the six months ended June 30, 2011 because we could not obtain a price from a third party nationally recognized pricing service. There were no transfers between Levels 1 and 2 during the six months ended June 30, 2011.

The gains or losses included in net earnings are included in the line item net realized gains (losses) on investments in the Consolidated Statements of Earnings. We recognize the net gains or losses included in other comprehensive income in 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.

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 our financial instruments (in thousands):

| | June 30, 2011 | | December 31, 2010 | |
|--------------------------------------|------------------|------------------|-------------------|------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$ 36,455 | \$ 36,455 | \$ 63,605 | \$ 63,605 |
| Available-for-sale securities | | | | |
| Fixed maturities | 1,190,486 | 1,190,486 | 1,177,718 | 1,177,718 |
| Equity securities | 36,807 | 36,807 | 42,301 | 42,301 |
| Total cash and investments | \$ 1,263,748 | \$ 1,263,748 | \$ 1,283,624 | \$ 1,283,624 |
| Liabilities: | | | | |
| Long-term debt | \$ 194,769 | \$ 210,280 | \$ 194,729 | \$ 199,132 |

See Note 5 to 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**

We consider all fixed maturity and equity securities available-for-sale and report them at fair value with the net unrealized gains or losses reported after-tax (net of any valuation allowance) as a component of other comprehensive income. The proceeds from sales of securities for the three and six months ended June 30, 2011 were \$51.0 million and \$108.7 million, respectively. These proceeds are net of \$0.9 million of receivable for securities sold during the second quarter of 2011 that had not settled at June 30, 2011. The proceeds from sales of securities for the three and six months ended June 30, 2010 were \$68.5 million and \$80.2 million, respectively. Gains or losses on securities are determined on a specific identification basis.

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

| | June 30, 2011 | | | | |
|-------------------------------------|------------------------------|------------------------------|-------------------------------|--|--------------|
| | Amortized Cost or Cost | Gross Unrealized Gains | Gross Unrealized Losses | OTTI Recognized in Accumulated OCI | Fair Value |
| Fixed maturities: | | | | | |
| U.S. government | \$ 151,975 | \$ 3,200 | \$ (34) | \$ 0 | \$ 155,142 |
| Government-sponsored entities | 29,537 | 706 | (11) | 0 | 30,231 |
| State and municipal | 381,358 | 11,835 | (817) | (80) | 392,296 |
| Mortgage-backed securities: | | | | | |
| Residential | 241,135 | 6,279 | (220) | (531) | 246,664 |
| Commercial | 25,710 | 867 | (181) | 0 | 26,396 |
| Total mortgage-backed securities | \$ 266,845 | \$ 7,146 | \$ (401) | \$ (531) | \$ 273,060 |
| Collateralized mortgage obligations | 36,846 | 1,039 | (2) | (100) | 37,783 |
| Asset-backed securities | 48,904 | 457 | (65) | 0 | 49,296 |
| Corporates | 241,766 | 11,083 | (172) | 0 | 252,677 |
| Total fixed maturities | \$ 1,157,232 | \$ 35,466 | \$ (1,501) | \$ (711) | \$ 1,190,486 |
| Equity securities | 24,299 | 12,510 | (2) | 0 | 36,807 |
| Total | \$ 1,181,531 | \$ 47,976 | \$ (1,503) | \$ (711) | \$ 1,227,293 |

| | December 31, 2010 | | | | |
|-------------------------------|------------------------------|------------------------------|-------------------------------|---|------------|
| | Amortized Cost or Cost | Gross Unrealized Gains | Gross Unrealized Losses | OTTI Recognized in Accumulated OCI | Fair Value |
| Fixed maturities: | | | | | |
| U.S. government | \$ 167,729 | \$ 2,897 | \$ (340) | \$ 0 | \$ 170,286 |
| Government-sponsored entities | 40,025 | 1,231 | (104) | 0 | 41,152 |
| State and municipal | 392,057 | 8,395 | (3,170) | (287) | 396,995 |
| Mortgage-backed securities: | | | | | |
| Residential | 195,003 | 4,561 | (1,533) | (416) | 197,615 |
| Commercial | 34,095 | 1,083 | (107) | 0 | 35,070 |

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| | | | | | |
|-------------------------------------|--------------|-----------|------------|----------|--------------|
| Total mortgage-backed securities | \$ 229,098 | \$ 5,644 | \$ (1,640) | \$ (416) | \$ 232,685 |
| Collateralized mortgage obligations | 41,530 | 1,011 | (30) | (112) | 42,398 |
| Asset-backed securities | 27,286 | 266 | (64) | (1) | 27,486 |
| Corporates | 256,079 | 11,080 | (442) | 0 | 266,717 |
| | | | | | |
| Total fixed maturities | \$ 1,153,802 | \$ 30,523 | \$ (5,790) | \$ (817) | \$ 1,177,718 |
| Equity securities | 29,333 | 12,987 | (20) | 0 | 42,301 |
| | | | | | |
| Total | \$ 1,183,135 | \$ 43,510 | \$ (5,810) | \$ (817) | \$ 1,220,019 |

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).

| | 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 |
| June 30, 2011 | | | | | | | | |
| Fixed maturities: | | | | | | | | |
| U.S. government | 3 | \$ 12,243 | \$ (34) | 0.3% | 0 | \$ 0 | \$ 0 | 0.0% |
| Government-sponsored entities | 3 | 9,532 | (11) | 0.1% | 0 | 0 | 0 | 0.0% |
| State and municipal | 29 | 57,210 | (887) | 1.5% | 1 | 759 | (11) | 1.5% |
| Mortgage-backed securities: | | | | | | | | |
| Residential | 13 | 58,274 | (751) | 1.3% | 0 | 0 | 0 | 0.0% |
| Commercial | 7 | 8,880 | (180) | 2.0% | 1 | 50 | 0 | 0.7% |
| Total mortgage-backed securities | 20 | \$ 67,154 | \$ (931) | 1.4% | 1 | \$ 50 | \$ 0 | 0.7% |
| Collateralized mortgage obligations | 2 | 1,334 | (2) | 0.1% | 2 | 589 | (100) | 14.5% |
| Asset-backed securities | 5 | 7,382 | (21) | 0.3% | 1 | 390 | (44) | 10.1% |
| Corporates | 18 | 17,348 | (172) | 1.0% | 0 | 0 | 0 | 0.0% |
| Total fixed maturities | 80 | \$ 172,205 | \$ (2,057) | 1.2% | 5 | \$ 1,787 | \$ (155) | 8.0% |
| Equity securities | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 | 0.0% |
| Total | 80 | \$ 172,205 | \$ (2,057) | 1.2% | 5 | \$ 1,787 | \$ (155) | 8.0% |

| | 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, 2010 | | | | | | | | |
| Fixed maturities: | | | | | | | | |
| U.S. government | 5 | \$ 13,700 | \$ (340) | 2.4% | 0 | \$ 0 | \$ 0 | 0.0% |
| Government-sponsored entities | 3 | 4,442 | (104) | 2.3% | 0 | 0 | 0 | 0.0% |
| State and municipal | 65 | 125,781 | (3,457) | 2.7% | 0 | 0 | 0 | 0.0% |
| Mortgage-backed securities: | | | | | | | | |
| Residential | 15 | 73,059 | (1,949) | 2.6% | 0 | 0 | 0 | 0.0% |
| Commercial | 6 | 9,846 | (99) | 1.0% | 3 | 343 | (8) | 2.3% |
| Total mortgage-backed securities | 21 | \$ 82,904 | \$ (2,048) | 2.4% | 3 | \$ 343 | \$ (8) | 2.3% |
| Collateralized mortgage obligations | 3 | 4,433 | (30) | 0.7% | 2 | 1,043 | (112) | 9.7% |
| Asset-backed securities | 2 | 1,487 | (15) | 1.0% | 2 | 455 | (50) | 9.9% |
| Corporates | 22 | 29,475 | (442) | 1.5% | 0 | 0 | 0 | 0.0% |

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| | | | | | | | | |
|------------------------|------------|-------------------|-------------------|-------------|----------|-----------------|-----------------|-------------|
| Total fixed maturities | 121 | \$ 262,222 | \$ (6,436) | 2.4% | 7 | \$ 1,841 | \$ (170) | 8.5% |
| Equity securities | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 | 0.0% |
| Total | 121 | \$ 262,222 | \$ (6,436) | 2.4% | 7 | \$ 1,841 | \$ (170) | 8.5% |

The table above excludes unrealized losses on equities invested in a rabbi trust of \$2,000 and \$20,000 at June 30, 2011 and December 31, 2010, respectively.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

Condensed Notes to Consolidated Financial Statements

Gross unrealized losses at June 30, 2011 were attributable to a general rise in interest rates.

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 include:

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;

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;

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.

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

| | June 30, 2011 | December 31, 2010 |
|---|--------------------------|------------------------------|
| Number of positions held with unrealized: | | |

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| | | |
|---|-----|-----|
| Gains | 543 | 466 |
| Losses | 85 | 128 |
| Number of positions held that individually exceed unrealized: | | |
| Gains of \$500,000 | 4 | 4 |
| Losses of \$500,000 | 0 | 0 |
| Percentage of positions held with unrealized: | | |
| Gains that were investment grade | 82% | 75% |
| Losses that were investment grade | 85% | 91% |
| Percentage of fair value held with unrealized: | | |
| Gains that were investment grade | 91% | 89% |
| Losses that were investment grade | 97% | 98% |

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, excluding the rabbi trust, by age and severity at June 30, 2011 (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% |
|----------------------------|---|-------------------------------|-------------------|----------------|------------------|
| Less than or equal to: | | | | | |
| Three months | \$ 48,357 | \$ (186) | \$ (186) | \$ 0 | \$ 0 |
| Six months | 4,549 | (39) | (39) | 0 | 0 |
| Nine months | 104,440 | (1,597) | (1,555) | (41) | 0 |
| Twelve months | 14,860 | (236) | (236) | 0 | 0 |
| Greater than twelve months | 1,787 | (155) | (12) | 0 | (143) |
| Total | \$ 173,992 | \$ (2,212) | \$ (2,027) | \$ (41) | \$ (143) |

* 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 | |
| Six months ended June 30, 2011 | | | | |
| Unrealized holding gains (losses) on securities arising during the period | \$ 11,472 | \$ 2,288 | \$ (4,816) | \$ 8,944 |
| Realized (gains) losses on securities sold | (2,980) | (2,748) | 2,005 | (3,723) |
| Impairment loss recognized in earnings | 846 | 0 | (296) | 550 |
| Change in unrealized gains (losses) on marketable securities, net | \$ 9,338 | \$ (459) | \$ (3,107) | \$ 5,771 |
| Six months ended June 30, 2010 | | | | |
| Unrealized holding gains (losses) on securities arising during the period | \$ 18,943 | \$ (2,666) | \$ (5,697) | \$ 10,580 |
| Realized (gains) losses on securities sold | (1,389) | 0 | 486 | (903) |
| Impairment loss recognized in earnings | 1,796 | 4 | (630) | 1,170 |
| Change in unrealized gains (losses) on marketable securities, net | \$ 19,350 | \$ (2,661) | \$ (5,841) | \$ 10,848 |

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 to amortized cost, we separate the amount of the impairment into a credit loss component and the amount due to all other factors. The excess of the amortized cost over the present value of the expected cash flows determines the credit loss component of an impairment charge on a fixed maturity security. The present value is determined using the best estimate of cash flows discounted at (1) the effective interest rate implicit at the date of acquisition for non-structured securities or (2) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows vary depending on the type of security. We recognize the credit loss component of an impairment charge in net earnings and the non-credit component in

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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.

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 that were bifurcated between a credit and non-credit component (in thousands):

| | |
|--------------------------------|--------------|
| Balance at December 31, 2010 | \$ 1,828 |
| Additions for: | |
| Previously impaired securities | 36 |
| Newly impaired securities | 692 |
| Reductions for: | |
| Securities sold and pay downs | (446) |
| Balance at June 30, 2011 | \$ 2,109 |

The table below sets forth the scheduled maturities of fixed maturity securities at June 30, 2011, 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 | \$ 95,662 | \$ 10 | \$ 0 | \$ 95,672 | \$ 94,560 |
| After one year through five years | 386,030 | 37,850 | 197 | 424,077 | \$ 409,651 |
| After five years through ten years | 207,020 | 35,635 | 185 | 242,840 | \$ 233,438 |
| After ten years | 44,161 | 23,598 | 0 | 67,758 | \$ 66,988 |
| Mortgage-backed, asset-backed and collateralized mortgage obligations | 283,239 | 76,900 | 0 | 360,139 | \$ 352,595 |
| | \$ 1,016,111 | \$ 173,992 | \$ 382 | \$ 1,190,486 | \$ 1,157,232 |

Note 6 Long-Term Debt

In February 2004, we issued \$200 million principal of senior notes due February 2014 (the Senior Notes). The Senior Notes accrue interest at an effective yield of 5.55% and bear a coupon of 5.5%, payable semiannually. At the time we issued the notes, we capitalized \$2.1 million of debt issuance costs, which we are amortizing over the term of the Senior Notes. During 2009, we repurchased \$5.0 million of our debt, bringing the outstanding principal to \$195.0 million. We calculated the June 30, 2011 fair value of \$210.3 million using a 162 basis point spread to the three-year U.S. Treasury Note of 0.797%.

In August 2008, we entered into an agreement for a \$50 million three-year revolving credit facility (the Credit Agreement) that requires us to meet certain financial and other covenants. We are currently in compliance with all covenants under the Credit Agreement. At June 30, 2011, there were no borrowings outstanding under the Credit Agreement. We intend to renew this agreement prior to its expiration on August 31, 2011.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Note 7 Income Taxes**

The provision for income taxes for the three and six months ended June 30, 2011 was \$1.4 million and \$4.2 million, respectively, compared to \$7.2 million and \$14.4 million, respectively, for the same periods of 2010. The following table reconciles our income taxes at statutory rates to our effective provision for income taxes (in thousands):

| | For the three months ended June 30, | | For the six months ended June 30, | |
|-----------------------------------|--|-----------|--------------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Earnings before income taxes | \$ 9,035 | \$ 23,430 | \$ 22,795 | \$ 46,258 |
| Income taxes at statutory rates | 3,162 | 8,201 | 7,978 | 16,190 |
| Effect of: | | | | |
| Dividends-received deduction | (32) | (39) | (67) | (74) |
| Tax-exempt interest | (885) | (891) | (1,760) | (1,773) |
| Adjustment to valuation allowance | (810) | (135) | (1,944) | (23) |
| Other | (12) | 16 | (3) | 37 |
| Provision for income taxes | \$ 1,423 | \$ 7,152 | \$ 4,204 | \$ 14,358 |
| GAAP effective tax rate | 15.8% | 30.5% | 18.4% | 31.0% |

During the first six months of 2011, we decreased our tax valuation allowance by approximately \$1.9 million. This adjustment is due to both a decrease in the reserve for other-than-temporary impaired securities and utilization of our capital loss carryforward.

Note 8 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):

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---------------------------|-------------------------------------|-----------|-----------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Income tax payments | \$ 9,203 | \$ 16,100 | \$ 9,203 | \$ 21,600 |
| Interest payments on debt | 0 | 0 | 5,363 | 5,363 |

Negative Cash Book Balances

Negative cash book balances, included in the line item Other liabilities in the Consolidated Balance Sheets, were \$8.8 million and \$27.7 million, respectively, at June 30, 2011 and December 31, 2010.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Note 9 Insurance Reserves**

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-------------------|------------------------------|-------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Balance at Beginning of Period | | | | |
| Unpaid losses on known claims | \$ 181,980 | \$ 168,918 | \$ 180,334 | \$ 164,134 |
| IBNR losses | 158,956 | 185,538 | 164,140 | 193,790 |
| LAE | 132,592 | 150,769 | 133,359 | 151,191 |
| Total unpaid losses and LAE | 473,527 | 505,225 | 477,833 | 509,114 |
| Reinsurance recoverables | (16,115) | (18,735) | (16,521) | (17,715) |
| Unpaid losses and LAE, net of reinsurance recoverables | 457,413 | 486,491 | 461,312 | 491,399 |
| Current Activity | | | | |
| Loss and LAE incurred: | | | | |
| Current accident year | 189,007 | 173,557 | 371,387 | 336,889 |
| Prior accident years | 3,446 | (20,276) | 23 | (36,965) |
| Total loss and LAE incurred | 192,453 | 153,281 | 371,410 | 299,923 |
| Loss and LAE payments: | | | | |
| Current accident year | (110,874) | (96,894) | (169,927) | (147,900) |
| Prior accident years | (70,764) | (59,184) | (194,567) | (159,729) |
| Total loss and LAE payments | (181,637) | (156,078) | (364,494) | (307,629) |
| Balance at End of Period | | | | |
| Unpaid losses and LAE, net of reinsurance recoverables | 468,228 | 483,693 | 468,228 | 483,693 |
| Add back reinsurance recoverables | 14,880 | 18,574 | 14,880 | 18,574 |
| Total unpaid losses and LAE | \$ 483,108 | \$ 502,267 | \$ 483,108 | \$ 502,267 |
| Unpaid losses on known claims | \$ 188,189 | \$ 170,692 | \$ 188,189 | \$ 170,692 |
| IBNR losses | 160,992 | 185,553 | 160,992 | 185,553 |
| LAE | 133,928 | 146,022 | 133,928 | 146,022 |
| Total unpaid losses and LAE | \$ 483,108 | \$ 502,267 | \$ 483,108 | \$ 502,267 |

Increases in severities on both bodily injury coverage in several of our Focus States as well as personal injury protection coverage in Florida, both related to accident year 2010, were the primary source of the \$3.4 million of unfavorable development during the three and six months ended June 30, 2011.

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Bodily injury and collision coverages in the states of Arizona, California, Connecticut, Florida and Georgia related to accident years 2009, 2008 and 2007 were the primary source of the \$37.0 million of favorable reserve development during the six months ended June 30, 2010.

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

In June 2011, we used current funds to complete the \$16.1 million purchase of the 111,602 square foot Liberty Park facility that we formerly leased in Birmingham. The future reductions in operating lease obligations resulting from this purchase are as follows:

| | Reduction in Operating Leases |
|----------------|--|
| 2011 | \$ 749 |
| 2012-2013 | 3,571 |
| 2014-2015 | 3,851 |
| 2016 and after | 4,515 |
| Total | \$ 12,686 |

There have been no other material changes from the commitments discussed in the Form 10-K for the year ended December 31, 2010. 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, 2010.

Contingencies

There have been no material changes from the contingencies discussed in the Form 10-K for the year ended December 31, 2010. For a description of our previously reported contingencies, refer to Note 14 Commitments and Contingencies, in the Form 10-K for the year ended December 31, 2010.

Note 11 Subsequent Events

On August 2, 2011, our Board of Directors increased the authority under our current share and debt repurchase plan by \$50.0 million and extended the date to execute the program to December 31, 2012 from December 31, 2011.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Management's Discussion and Analysis of Financial Condition and Results of Operations****ITEM 2****CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains certain forward-looking statements which anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. We make these statements subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in this report not dealing with historical results or current facts are forward-looking and we base them on estimates, assumptions and projections. Statements which include the words assumes, believes, seeks, expects, may, should, intends, 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), rising bodily injury loss cost trends, undesired business mix or risk profile for new business, elevated unemployment rates and the proliferation of illegal immigration legislation in 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 twelve months ended December 31, 2010.

OVERVIEW

We continued to generate strong premium growth in the second quarter of 2011. This quarter marks the seventh consecutive quarter that we have experienced growth in written premiums. This increase is a result of marketing efforts intended to expand our presence in our target markets, including the appointment of new agents in the Urban Zones and increased advertising. See *Results of Operations Underwriting Premium* for a more detailed discussion of our gross written premium growth.

Net earnings and diluted earnings per share for the three months ended June 30, 2011 were \$7.6 million and \$0.61, respectively, compared to \$16.3 million and \$1.22, respectively, for the three months ended June 30, 2010. Net earnings and diluted earnings per share for the six months ended June 30, 2011 were \$18.6 million and \$1.48, respectively, compared to \$31.9 million and \$2.37, respectively, for the six months ended June 30, 2010. The decrease in diluted earnings per share for the three months and six months ended June 30, 2011 is primarily due to unfavorable development in 2011 versus favorable development in 2010.

We had net realized gains on investments of \$2.0 million and less than \$0.1 million for the three months ended June 30, 2011 and 2010, respectively. We had a net realized gain on investments of \$4.9 million for the first six months of 2011, compared to a net realized loss of \$0.4 million for the same period of 2010. Included in the net realized gain for the second quarter of 2011 is \$0.2 million of other-than-temporary impairments on fixed income securities compared with \$0.3 million of impairments during the second quarter of 2010. Included in the net realized gain for the first six months of 2011 is \$0.8 million of other-than-temporary impairments on fixed income securities compared with \$1.8 million of impairments during the first six months of 2010.

Included in net earnings for the three and six months ended June 30, 2011 were \$2.2 million (\$3.4 million pre-tax) and \$15,000 (\$23,000 pre-tax), respectively, of unfavorable development on prior accident period loss and LAE reserves. This compares to \$13.2 million (\$20.3 million pre-tax) and \$24.0 million (\$37.0 million pre-tax), respectively, of favorable development for the three and six months ended June 30, 2010. The following table displays combined ratio results by accident year developed through June 30, 2011.

| Accident Year Combined Ratio Developed Through | Prior Accident Year Favorable / (Unfavorable) Development | (\$in millions) Prior Accident Year Favorable / (Unfavorable) |
|---|--|--|
|---|--|--|

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| Accident Year | Dec. 2009 | Dec. 2010 | Mar. 2011 | June 2011 | Q2 2011 | YTD 2011 | Development | |
|---------------|--------------|--------------|--------------|--------------|------------|-------------|-------------|-------------|
| | | | | | | | Q2 2011 | YTD 2011 |
| Prior | | | | | | | \$ (1.3) | \$ 0.1 |
| 2004 | 85.4% | 85.0% | 85.0% | 85.0% | 0.0% | 0.1% | 0.1 | 0.6 |
| 2005 | 88.6% | 88.1% | 88.0% | 88.0% | 0.0% | 0.1% | 0.2 | 1.0 |
| 2006 | 91.3% | 90.6% | 90.5% | 90.5% | 0.0% | 0.2% | 0.2 | 1.4 |
| 2007 | 94.0% | 92.8% | 92.7% | 92.6% | 0.1% | 0.2% | 1.5 | 2.4 |
| 2008 | 94.1% | 92.1% | 92.0% | 91.8% | 0.2% | 0.3% | 1.4 | 2.9 |
| 2009 | 96.2% | 93.0% | 93.0% | 93.0% | 0.0% | 0.0% | (0.1) | (0.3) |
| 2010 | | 97.7% | 98.0% | 98.6% | -0.6% | -0.9% | (5.3) | (8.1) |
| 2011 YTD | | | 99.4% | 98.7% | | | | |
| | | | | | | | \$ (3.4) | \$ (0.0) |

Recent accident years are less developed than prior years and must be interpreted with caution. However, the upward trend in the 2010 and 2011 accident year combined ratios reflects an increase in new business during 2010 and 2011. Our new business combined ratios typically run 20 to 30 points higher than renewal business combined ratios due to higher commission and acquisition expenses as well as typically higher loss ratios.

Increases in severities on both bodily injury coverage in several of our Focus States as well as personal injury protection coverage in Florida, both related to accident year 2010, were the primary source of the \$3.4 million of unfavorable development during the three months ended June 30, 2011. See *Results of Operations Underwriting Profitability* for a more detailed discussion of our underwriting results.

Our book value per share increased 2.7% from \$53.03 at December 31, 2010 to \$54.44 at June 30, 2011. This increase was primarily due to earnings, net of shareholder dividends, for the six months ended June 30, 2011. Annualized return on equity for the three and six months ended June 30, 2011 was 3.3% and 4.1%, respectively, compared with 10.4% and 10.2% for the three and six months ended June 30, 2010.

Table of Contents

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 (Urban Zones) identified within selected Focus States that we believe offer the greatest opportunity for premium growth and profitability.

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

Focus States We have identified Urban Zones in these states, which include Arizona, California, Florida, Georgia, Illinois, Nevada, Pennsylvania and Texas.

Maintenance States We are maintaining our writings in these states, which include Alabama, Colorado, South Carolina and Tennessee. We believe each state offers us an opportunity for underwriting profit.

Other States Includes 8 states where we maintain a renewal book of personal auto business.

We further classify territories within the Focus States into two categories:

Urban Zones include the following urban areas:

Arizona Phoenix and Tucson

California Bay Area, Los Angeles, Sacramento, San Diego, and San Joaquin Valley

Florida Jacksonville, Miami, Orlando, Sarasota and Tampa

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Georgia Atlanta

Illinois Chicago

Nevada Las Vegas

Pennsylvania Allentown and Philadelphia

Texas Dallas, Fort Worth, Houston and San Antonio

Non-urban Zones include all remaining areas in the Focus States located outside of a designated Urban Zone. We continually evaluate our market opportunities; thus, the Focus States, Urban Zones, Maintenance States and Other States may change over time as new market opportunities arise, as the allocation of resources changes or as regulatory environments change. In the tables below, we have restated 2010 premium, policies in force and combined ratios to be consistent with the 2011 definition of Urban Zones, Focus States, Maintenance States and Other States.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

| | 2011 | Three months ended June 30, | | % Change |
|-----------------------------|------------|-----------------------------|-----------|----------|
| | | 2010 | Change | |
| Net earned premium | | | | |
| Gross written premium | | | | |
| Personal Auto | | | | |
| Focus States | | | | |
| Urban Zones | \$ 205,944 | \$ 184,955 | \$ 20,989 | 11.3% |
| Non-urban Zones | 27,859 | 26,478 | 1,382 | 5.2% |
| Total Focus States | 233,804 | 211,433 | 22,371 | 10.6% |
| Maintenance States | 3,961 | 4,055 | (94) | (2.3)% |
| Other States | 1,837 | 2,158 | (322) | (14.9)% |
| Total Personal Auto | 239,602 | 217,646 | 21,956 | 10.1% |
| Commercial Vehicle | 16,491 | 14,918 | 1,573 | 10.5% |
| Classic Collector | 3,287 | 3,050 | 238 | 7.8% |
| Total gross written premium | 259,380 | 235,614 | 23,766 | 10.1% |
| Ceded reinsurance | (1,656) | (1,378) | (278) | 20.2% |
| Net written premium | 257,724 | 234,236 | 23,488 | 10.0% |
| Change in unearned premium | (6,141) | (8,646) | 2,506 | (29.0)% |
| Net earned premium | \$ 251,584 | \$ 225,590 | \$ 25,994 | 11.5% |

| | 2011 | Six months ended June 30, | | % Change |
|---------------------------|------------|---------------------------|-----------|----------|
| | | 2010 | Change | |
| Net earned premium | | | | |
| Gross written premium | | | | |
| Personal Auto | | | | |
| Focus States | | | | |
| Urban Zones | \$ 432,172 | \$ 385,859 | \$ 46,313 | 12.0% |
| Non-urban Zones | 60,153 | 57,423 | 2,730 | 4.8% |
| Total Focus States | 492,325 | 443,282 | 49,043 | 11.1% |
| Maintenance States | 8,479 | 8,693 | (214) | (2.5)% |
| Other States | 3,906 | 4,754 | (848) | (17.8)% |
| Total Personal Auto | 504,709 | 456,729 | 47,980 | 10.5% |
| Commercial Vehicle | 32,340 | 30,217 | 2,123 | 7.0% |
| Classic Collector | 5,446 | 5,114 | 332 | 6.5% |

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| | | | | |
|-----------------------------|------------|------------|-----------|--------|
| Total gross written premium | 542,495 | 492,060 | 50,436 | 10.2% |
| Ceded reinsurance | (3,235) | (2,640) | (594) | 22.5% |
| Net written premium | 539,261 | 489,419 | 49,842 | 10.2% |
| Change in unearned premium | (48,696) | (51,763) | 3,068 | (5.9)% |
| Net earned premium | \$ 490,565 | \$ 437,656 | \$ 52,909 | 12.1% |

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:

| | At June 30, | | | |
|--------------------------|-------------|---------|---------|----------|
| | 2011 | 2010 | Change | % Change |
| Policies in Force | | | | |
| Personal Auto | | | | |
| Focus States | | | | |
| Urban Zones | 701,721 | 647,582 | 54,139 | 8.4% |
| Non-urban Zones | 86,999 | 82,597 | 4,402 | 5.3% |
| Total Focus States | 788,720 | 730,179 | 58,541 | 8.0% |
| Maintenance States | 15,171 | 15,358 | (187) | (1.2)% |
| Other States | 4,528 | 6,227 | (1,699) | (27.3)% |
| Total Personal Auto | 808,419 | 751,764 | 56,655 | 7.5% |
| Commercial Vehicle | 34,295 | 31,472 | 2,823 | 9.0% |
| Classic Collector | 34,841 | 34,194 | 647 | 1.9% |
| Total policies in force | 877,555 | 817,430 | 60,125 | 7.4% |

Gross written premium grew 10.1% and 10.2% during the second quarter and first six months of 2011, respectively, compared with the same periods of 2010. During the first six months of 2011, Infinity implemented 12 rate revisions in various states with an overall rate increase of 1.7%. Policies in force at June 30, 2011 increased 7.4% compared with the same period in 2010. Gross written premium grew more than policies in force due to a shift in business mix toward policies offering broader coverage. These policies typically generate a higher premium per policy than those with coverage that is more restricted.

During the second quarter and first six months of 2011, personal auto insurance gross written premium in Infinity's Focus States grew 10.6% and 11.1%, respectively, when compared with the same periods of 2010. The increase in gross written premium is the result of significant growth in all Focus States excluding Illinois and Nevada.

Arizona gross written premium grew 31.5% and 7.6% during the second quarter and first six months of 2011, respectively. This growth is primarily a result of recent rate decreases and agency promotions in the state.

California gross written premium grew 10.6% and 12.6% during the second quarter and first six months of 2011, respectively. Increased agency incentives, coupled with rate actions taken by competitors, have stimulated growth in the state.

Florida gross written premium grew 8.2% and 2.6% during the second quarter and first six months of 2011, respectively. This growth is primarily a result of agency promotions and competitor rate increases.

Georgia gross written premium grew 19.8% and 20.5% during the second quarter and first six months of 2011, respectively. This growth is primarily a result of recent rate decreases coupled with agency promotions and competitor rate increases.

Pennsylvania gross written premium decreased 1.8% during the second quarter of 2011 but increased 7.4% during the first six months. The growth during the first six months is primarily a result of new agency appointments and growth in the Premier product. Growth began to slow in the second quarter because of competitor rate decreases.

Texas gross written premium grew 18.5% and 27.6% during the second quarter and first six months of 2011, respectively. The growth in premium in Texas primarily relates to a shift in business mix to the Premier product, which we introduced in late 2009 in this state.

Gross written premium in the Maintenance States declined 2.3% and 2.5% during the second quarter and first six months of 2011, respectively, due to declines in Colorado and South Carolina.

Our Commercial Vehicle gross written premium grew 10.5% and 7.0% during the second quarter and first six months of 2011, respectively. This growth is primarily due to growth in California resulting from the appointment of new agents.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Management's Discussion and Analysis of Financial Condition and Results of Operations****Profitability**

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

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

The following table presents the statutory and GAAP combined ratios:

| | Three months ended June 30, | | | | | | % Point Change | | |
|--|-----------------------------|-----------------------|-------------------|------------------------|-----------------------|-------------------|------------------------|-----------------------|-------------------|
| | 2011 | | | 2010 | | | | | |
| | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio |
| Personal Auto: | | | | | | | | | |
| Focus States: | | | | | | | | | |
| Urban Zones | 76.0% | 21.3% | 97.3% | 67.6% | 22.0% | 89.6% | 8.4% | (0.6)% | 7.8% |
| Non-urban Zones | 79.2% | 20.7% | 99.9% | 74.1% | 23.6% | 97.8% | 5.0% | (2.9)% | 2.1% |
| Total Focus States | 76.4% | 21.3% | 97.7% | 68.4% | 22.2% | 90.6% | 8.0% | (0.9)% | 7.1% |
| Maintenance States | 79.0% | 27.5% | 106.5% | 65.8% | 25.4% | 91.2% | 13.2% | 2.0% | 15.3% |
| Other States | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| Subtotal | 76.4% | 21.4% | 97.8% | 67.9% | 22.2% | 90.1% | 8.5% | (0.8)% | 7.6% |
| Commercial Vehicle | 75.6% | 18.3% | 93.9% | 83.3% | 19.3% | 102.6% | (7.7)% | (1.0)% | (8.8)% |
| Classic Collector | 69.6% | 36.8% | 106.4% | 46.3% | 36.2% | 82.6% | 23.3% | 0.6% | 23.8% |
| Total statutory ratios | 76.6% | 21.1% | 97.7% | 67.9% | 22.5% | 90.4% | 8.7% | (1.5)% | 7.2% |
| Total statutory ratios excluding development | 75.2% | 21.1% | 96.3% | 76.9% | 22.5% | 99.4% | (1.7)% | (1.5)% | (3.1)% |
| GAAP ratios | 76.5% | 22.8% | 99.3% | 67.9% | 23.9% | 91.8% | 8.6% | (1.0)% | 7.5% |
| GAAP ratios excluding development | 75.1% | 22.8% | 98.0% | 76.9% | 23.9% | 100.8% | (1.8)% | (1.0)% | (2.8)% |

NM: not meaningful due to the low premium.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Management's Discussion and Analysis of Financial Condition and Results of Operations**

| | Six months ended June 30, | | | | | | % Point Change | | |
|--|---------------------------|-----------------------|-------------------|------------------------|-----------------------|-------------------|------------------------|-----------------------|-------------------|
| | 2011 | | | 2010 | | | | | |
| | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio |
| Personal Auto: | | | | | | | | | |
| Focus States: | | | | | | | | | |
| Urban Zones | 75.7% | 21.5% | 97.2% | 68.3% | 21.2% | 89.5% | 7.5% | 0.3% | 7.8% |
| Non-urban Zones | 78.7% | 20.2% | 99.0% | 75.2% | 21.6% | 96.8% | 3.5% | (1.3)% | 2.2% |
| Total Focus States | 76.1% | 21.3% | 97.5% | 69.1% | 21.2% | 90.4% | 7.0% | 0.1% | 7.1% |
| Maintenance States | 81.9% | 27.6% | 109.5% | 70.3% | 27.4% | 97.7% | 11.6% | 0.2% | 11.8% |
| Other States | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| Subtotal | 76.2% | 21.4% | 97.7% | 68.6% | 21.4% | 89.9% | 7.7% | 0.0% | 7.7% |
| Commercial Vehicle | 71.5% | 18.3% | 89.8% | 79.7% | 19.6% | 99.3% | (8.2)% | (1.3)% | (9.5)% |
| Classic Collector | 66.2% | 40.0% | 106.2% | 39.5% | 39.9% | 79.4% | 26.7% | 0.1% | 26.8% |
| Total statutory ratios | 75.8% | 21.2% | 97.0% | 68.5% | 21.6% | 90.1% | 7.2% | (0.4)% | 6.8% |
| Total statutory ratios excluding development | 75.8% | 21.2% | 97.0% | 77.0% | 21.6% | 98.6% | (1.2)% | (0.4)% | (1.6)% |
| GAAP ratios | 75.7% | 22.9% | 98.7% | 68.5% | 23.3% | 91.8% | 7.2% | (0.4)% | 6.8% |
| GAAP ratios excluding development | 75.7% | 22.9% | 98.7% | 77.0% | 23.3% | 100.3% | (1.3)% | (0.4)% | (1.6)% |

NM: not meaningful due to the low premium.

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

The statutory combined ratio for the three and six months ended June 30, 2011 deteriorated by 7.2 points and 6.8 points, respectively, from the same periods of 2010. The second quarter and first six months of 2011 included \$3.4 million and less than \$0.1 million, respectively, of unfavorable development on prior year loss and LAE reserves compared to \$20.3 million and \$37.0 million of favorable development for the same periods of 2010. Increases in severities on both bodily injury coverage in several of our Focus States as well as personal injury protection coverage in Florida, both related to accident year 2010, were the primary source of the unfavorable development during the three months ended June 30, 2011. Excluding the effect of development from all periods, the statutory combined ratio improved by 3.1 points and 1.6 points, respectively, for the three and six months ended June 30, 2011 compared to the same periods of 2010. The GAAP combined ratio for the three and six months ended June 30, 2011 deteriorated by 7.5 points and 6.8 points, respectively, from the same periods of 2010. Excluding the effect of development, the GAAP combined ratio improved by 2.8 points and 1.6 points, respectively, for the three and six months ended June 30, 2011 compared to the same periods of 2010. We expect the GAAP combined ratio, excluding redundancy releases, to be between 98.0% and 99.0% for the full year 2011.

Losses from catastrophes were \$2.0 million for both the three and six months ended June 30, 2011, respectively, compared to \$0.3 million and \$0.5 million for the same periods of 2010.

The combined ratio in the Focus States deteriorated by 7.1 points for each of the three and six months ended June 30, 2011, primarily due to increases in the loss and LAE ratios in Arizona, California, Georgia, and Texas. These increases were a result of a decline in favorable

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development coupled with higher loss and LAE ratios on new business.

The combined ratio in the Maintenance States increased 15.3 points and 11.8 points, respectively, during the second quarter and first six months of 2011 when compared to the same periods of 2010, primarily due to increases in the loss and LAE ratios in Alabama, Colorado and Tennessee. We experienced \$0.7 million in catastrophe losses during the year in these states.

The combined ratio for the Commercial Vehicle product decreased by 8.8 points and 9.5 points, respectively, during the second quarter and first six months of 2011. We incurred several large losses in this product during the first six months of 2010. We have tightened underwriting standards in this product in an effort to improve underperforming business.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Management's Discussion and Analysis of Financial Condition and Results of Operations**

The loss and LAE ratio for the Classic Collector product increased by 23.8 points and 26.8 points, respectively, during the second quarter and first six months of 2011 because of several large losses during the year.

Net Investment Income

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|---------------------|------------------------------|---------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Investment income: | | | | |
| Interest income on fixed maturities, cash and cash equivalents | \$ 10,958 | \$ 11,889 | \$ 21,648 | \$ 23,536 |
| Dividends on equity securities | 153 | 188 | 318 | 353 |
| Gross investment income | \$ 11,112 | \$ 12,077 | \$ 21,967 | \$ 23,889 |
| Investment expenses | (493) | (494) | (1,016) | (1,011) |
| Net investment income | \$ 10,619 | \$ 11,583 | \$ 20,951 | \$ 22,878 |
| Average investment balance, at cost | \$ 1,232,273 | \$ 1,234,643 | \$ 1,236,192 | \$ 1,240,915 |
| Annualized returns excluding realized gains and losses | 3.4% | 3.8% | 3.4% | 3.7% |

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Net investment income for the three months and six months ended June 30, 2011 declined compared to the same periods in 2010 primarily due to a decline in book yields because of a general decline in market interest rates for high quality bonds.

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

| | Three months ended June 30, 2011 | | | Three months ended June 30, 2010 | | |
|------------------|------------------------------------|----------------------------------|-------------------------------|------------------------------------|----------------------------------|-------------------------------|
| | Impairments Recognized in Earnings | Realized Gains (Losses) on Sales | Total Realized Gains (Losses) | Impairments Recognized in Earnings | Realized Gains (Losses) on Sales | Total Realized Gains (Losses) |
| Fixed maturities | \$ (222) | \$ 1,118 | \$ 896 | \$ (263) | \$ 311 | \$ 48 |
| Equities | 0 | 1,063 | 1,063 | (4) | 0 | (4) |
| Total | \$ (222) | \$ 2,181 | \$ 1,959 | \$ (267) | \$ 311 | \$ 44 |

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| | Six months ended June 30, 2011 | | | Six months ended June 30, 2010 | | |
|------------------|---|---|-------------------------------------|--|---|-------------------------------------|
| | Impairments Recognized in Earnings | Realized Gains (Losses) on Sales | Total Realized Gains (Losses) | Impairments Recognized in Earnings | Realized Gains (Losses) on Sales | Total Realized Gains (Losses) |
| Fixed maturities | \$ (846) | \$ 2,980 | \$ 2,134 | \$ (1,796) | \$ 1,389 | \$ (407) |
| Equities | 0 | 2,748 | 2,748 | (4) | 0 | (4) |
| Total | \$ (846) | \$ 5,728 | \$ 4,882 | \$ (1,800) | \$ 1,389 | \$ (411) |

For our securities held with unrealized losses, we believe, based on our analysis, that (i) we will recover our cost basis in these securities and (ii) we do not intend to sell the securities nor is it more likely than not that there will be a requirement to sell the securities before they recover in value. Should either of these beliefs change with regard to a particular security, a charge for impairment would likely be required. While it is not possible to predict accurately if or when a specific security will become impaired, charges for other-than-temporary impairments could be material to results of operations in a future period.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

Interest Expense

The Senior Notes accrue interest at an effective yield of 5.55%. Refer to Note 6 to the Consolidated Financial Statements for additional information on the Senior Notes. We recognized \$2.7 million and \$5.4 million, respectively, of interest expense on the Senior Notes in the Consolidated Statements of Earnings for the three and six months ended June 30, 2011 compared to \$2.7 million and \$5.4 million, respectively, for the same periods of 2010.

Other Expenses

Other expenses for the three months ended June 30, 2011 were \$0.4 million compared to \$1.8 million for the corresponding period of 2010. Other expenses for the six months ended June 30, 2011 were \$0.4 million compared to \$2.5 million for the same period of 2010. These declines are primarily due to \$1.3 million and \$2.0 million declines in sublease losses for the three and six months ended June 30, 2011, respectively, compared to the same periods of 2010.

Income Taxes

Our GAAP effective tax rate for the three and six months ended June 30, 2011 was 15.8% and 18.4%, respectively, compared to 30.5% and 31.0% for the same periods of 2010. See Note 7 to the Consolidated Financial Statements for additional information on income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Funds

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

Funds to meet expenditures at the holding company come primarily from dividends and tax payments from the insurance subsidiaries as well as cash and investments held by the holding company. As of June 30, 2011, the holding company had \$202.2 million of cash and investments. In 2011, our insurance subsidiaries may pay us up to \$96.0 million in ordinary dividends without prior regulatory approval. For the six months ended June 30, 2011, the subsidiaries paid \$12.5 million of dividends to the holding company.

Our insurance subsidiaries generate liquidity to satisfy their obligations primarily by collecting and investing premium in advance of paying claims and generating investment income on their \$1.1 billion investment portfolio. Our insurance subsidiaries generated a negative cash flow from operations of \$8.2 million during the second quarter of 2011 but a positive operating cash flow of \$18.7 million for the six months ended June 30, 2011 compared to positive operating cash flows of \$24.6 million and \$46.3 million for the three and six-month periods ended June 30, 2010, respectively. The negative cash flow from operations for the second quarter of 2011 was primarily due to a \$27.1 million decline in the insurance subsidiaries' negative cash book balances, which are presented as liabilities on their balance sheets. We transferred funds from both the holding company and insurance subsidiaries' short-term investment accounts to their relationship banking accounts as well as increased our working capital during the quarter, which drove the decline in negative cash book balances.

At June 30, 2011, we had outstanding \$195.0 million principal of Senior Notes due 2014, bearing a fixed 5.5% interest rate. Interest payments on the Senior Notes of \$5.4 million are due each February and August through maturity in February 2014. Refer to Note 6 to the Consolidated Financial Statements for more information on the Senior Notes.

In August 2008, we entered into an agreement for a \$50 million three-year revolving credit facility (the "Credit Agreement") that requires us to meet certain financial and other covenants. We are currently in compliance with all covenants under the Credit Agreement. At June 30, 2011, there were no borrowings outstanding under the Credit Agreement. We intend to renew this agreement prior to its expiration on August 31, 2011.

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In August 2010, we filed a shelf registration with the Securities and Exchange Commission, which will allow us to sell any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depositary shares and units in one or more offerings should we choose to do so in the future.

In February 2011, we increased our quarterly dividend to \$0.18 per share from \$0.14 per share. At this current amount, our 2011 annualized dividend payments would be approximately \$8.8 million.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

In October 2006, the Board of Directors approved a share repurchase program whereby we may repurchase up to an aggregate amount of \$100 million of our outstanding common shares. On August 6, 2009, the Board of Directors increased the authority by \$28.8 million to \$50.0 million as of that date and modified the authority to include the repurchase of our debt. During the third quarter of 2010, we exhausted the remaining repurchase authority under this program. On August 3, 2010, our Board of Directors approved an additional \$50.0 million share and debt repurchase program expiring on December 31, 2011. During the first quarter of 2011, we repurchased 112,000 shares at an average cost, excluding commissions, of \$60.39. During the second quarter of 2011, we repurchased 175,700 shares at an average cost, excluding commissions, of \$53.74. As of June 30, 2011, we had \$21.8 million of authority remaining under this program. On August 2, 2011, our Board of Directors increased the authority under this program by \$50.0 million and extended the date to execute the program to December 31, 2012.

In June 2011, we used current funds to complete the \$16.1 million purchase of the 111,602 square foot Liberty Park facility that we formerly leased in Birmingham.

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

Reinsurance

We use excess of loss, catastrophe and extra-contractual loss reinsurance to mitigate the financial impact of large or catastrophic losses. During 2010, the catastrophe reinsurance provided protection for losses up to \$15 million in excess of \$5 million for any single event. Effective April 1, 2011, we added an additional layer of catastrophe reinsurance that will cover 75% of \$5 million of losses in excess of \$20 million for any single event. Our excess of loss reinsurance provides reinsurance protection for commercial auto losses up to \$700,000 for claims in excess of \$300,000 per occurrence. Our extra-contractual loss reinsurance provides protection for losses up to \$15 million in excess of \$5 million for any single extra-contractual loss. We also use reinsurance to mitigate losses on our Classic Collector business.

Premium ceded under all reinsurance agreements for the three months ended June 30, 2011 and 2010 were \$1.7 million and \$1.4 million, respectively. Premium ceded under these agreements for the six months ended June 30, 2011 and 2010 were \$3.2 million and \$2.6 million, respectively.

Investments

Our consolidated investment portfolio at June 30, 2011 contained approximately \$1.2 billion in fixed maturity securities and \$36.8 million in equity securities, all carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income, a separate component of shareholders' equity, on an after-tax basis. At June 30, 2011, we had pre-tax net unrealized gains of \$33.3 million on fixed maturities and pre-tax net unrealized gains of \$12.5 million on equity securities. Combined, the pre-tax net unrealized gain increased by \$8.9 million for the six months ended June 30, 2011.

Approximately 94.2% of our fixed maturity investments at June 30, 2011 were rated investment grade, and as of the same date, the average credit rating of our fixed maturity portfolio was AA. Investment grade securities generally bear lower yields and have lower degrees of risk than those that are unrated or non-investment grade. We believe that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

Since we carry all of these securities at fair value in our balance sheet, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses. The average option adjusted duration of our fixed maturity portfolio is 3.4 years at June 30, 2011.

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).

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Level 1 securities are U.S. Treasury securities, an exchange-traded fund and equity securities held in a rabbi trust. Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Level 3 securities are comprised of (i) securities for which there is no active or inactive market for similar instruments, (ii) securities whose fair value is determined based on unobservable inputs and (iii) securities that nationally recognized statistical rating organizations do not rate.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Management's Discussion and Analysis of Financial Condition and Results of Operations**

Summarized information for our investment portfolio at June 30, 2011 was as follows (in thousands):

| | Amortized Cost | Fair Value | % of Total Fair Value |
|--|-------------------|--------------|-----------------------------|
| U.S. government and agencies: | | | |
| U.S. government | \$ 151,975 | \$ 155,142 | 12.6% |
| Government-sponsored entities | 29,537 | 30,231 | 2.5% |
| Total U.S. government and agencies | 181,512 | 185,373 | 15.1% |
| State and municipal | 381,358 | 392,296 | 32.0% |
| Mortgage-backed, CMOs and asset-backed: | | | |
| Residential mortgage-backed securities | 241,135 | 246,664 | 20.1% |
| Commercial mortgage-backed securities | 25,710 | 26,396 | 2.2% |
| Collateralized mortgage obligations: | | | |
| PAC | 18,320 | 18,849 | 1.5% |
| Sequentials | 15,945 | 16,384 | 1.3% |
| Junior | 636 | 536 | 0.0% |
| Accretion directed | 53 | 52 | 0.0% |
| Whole loan | 1,892 | 1,961 | 0.2% |
| Total CMO | 36,846 | 37,783 | 3.1% |
| Asset-backed securities: | | | |
| Auto loans | 19,312 | 19,537 | 1.6% |
| Home equity | 627 | 590 | 0.0% |
| Credit card receivables | 28,855 | 29,056 | 2.4% |
| Miscellaneous | 110 | 114 | 0.0% |
| Total ABS | 48,904 | 49,296 | 4.0% |
| Total mortgage-backed, CMOs and asset-backed | 352,595 | 360,139 | 29.3% |
| Corporates | | | |
| Investment grade | 176,972 | 183,569 | 15.0% |
| Non-investment grade | 64,794 | 69,108 | 5.6% |
| Total corporates | 241,766 | 252,677 | 20.6% |
| Total fixed maturities | 1,157,232 | 1,190,486 | 97.0% |
| Equity securities | 24,299 | 36,807 | 3.0% |
| Total investment portfolio | \$ 1,181,531 | \$ 1,227,293 | 100.0% |

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 presents the credit rating and fair value (in thousands) of our fixed maturity portfolio by major security type:

| | Rating | | | | Non-investment Grade | Total Fair Value | % of Total Exposure |
|---------------------------------------|-------------------|-------------------|-------------------|------------------|----------------------|---------------------|---------------------|
| | AAA | AA | A | BBB | | | |
| U.S. government and agencies | \$ 185,373 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 185,373 | 15.6% |
| State and municipal | 48,290 | 236,901 | 99,263 | 7,841 | 0 | 392,296 | 33.0% |
| Mortgage-backed, asset-backed and CMO | 354,315 | 5,825 | 0 | 0 | 0 | 360,139 | 30.3% |
| Corporates | 12,723 | 14,054 | 130,562 | 26,230 | 69,108 | 252,677 | 21.2% |
| Total fair value | \$ 600,701 | \$ 256,779 | \$ 229,826 | \$ 34,071 | \$ 69,108 | \$ 1,190,486 | 100.0% |
| % of total fair value | 50.5% | 21.6% | 19.3% | 2.9% | 5.8% | 100.0% | |

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

Since 2007, the mortgage industry has experienced a rise in mortgage delinquencies and foreclosures, particularly among lower quality exposures (sub-prime and Alt-A). As a result, many securities with underlying sub-prime and Alt-A mortgages as collateral experienced significant drops in market value. We have only modest exposure to these types of investments. At June 30, 2011, our fixed maturity portfolio included three securities having a fair value of \$1.0 million with exposure to sub-prime and Alt-A mortgages. Although these securities have sub-prime mortgages as underlying collateral, all are rated AA or better.

The following table presents the credit rating and fair value of our residential mortgage backed securities at June 30, 2011 by deal origination year (in thousands):

| Deal Origination Year | Rating | | | | Non-investment Grade | Total Fair Value | % of Total Exposure |
|-------------------------|-------------------|-------------|-------------|-------------|----------------------|-------------------|---------------------|
| | AAA | AA | A | BBB | | | |
| 2006 | \$ 1,771 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 1,771 | 0.7% |
| 2007 | 8,370 | 0 | 0 | 0 | 0 | 8,370 | 3.4% |
| 2008 | 38,052 | 0 | 0 | 0 | 0 | 38,052 | 15.4% |
| 2009 | 53,143 | 0 | 0 | 0 | 0 | 53,143 | 21.5% |
| 2010 | 100,981 | 0 | 0 | 0 | 0 | 100,981 | 40.9% |
| 2011 | 44,346 | 0 | 0 | 0 | 0 | 44,346 | 18.0% |
| Total fair value | \$ 246,664 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 246,664 | 100.0% |
| % of total fair value | 100.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |

All of the \$246.7 million of residential mortgage backed securities were issued by government-sponsored enterprises (GSE).

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 presents the credit rating and fair value of our commercial mortgage-backed securities at June 30, 2011 by deal origination year (in thousands):

| Deal Origination Year | Rating | | | | Non-investment Grade | Total Fair Value | % of Total Exposure |
|-------------------------|------------------|-------------|-------------|-------------|----------------------|------------------|---------------------|
| | AAA | AA | A | BBB | | | |
| 2002 | \$ 4,592 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 4,592 | 17.4% |
| 2003 | 390 | 0 | 0 | 0 | 0 | 390 | 1.5% |
| 2004 | 4,200 | 0 | 0 | 0 | 0 | 4,200 | 15.9% |
| 2005 | 7,541 | 0 | 0 | 0 | 0 | 7,541 | 28.6% |
| 2006 | 7,608 | 0 | 0 | 0 | 0 | 7,608 | 28.8% |
| 2007 | 2,065 | 0 | 0 | 0 | 0 | 2,065 | 7.8% |
| Total fair value | \$ 26,396 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 26,396 | 100.0% |
| % of total fair value | 100.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |

None of the \$26.4 million of commercial mortgage-backed securities were issued by GSEs.

The following table presents the credit rating and fair value of our collateralized mortgage obligation portfolio at June 30, 2011 by deal origination year (in thousands):

| Deal Origination Year | Rating | | | | Non-investment Grade | Total Fair Value | % of Total Exposure |
|-------------------------|------------------|-----------------|-------------|-------------|----------------------|------------------|---------------------|
| | AAA | AA | A | BBB | | | |
| 1999 | \$ 0 | \$ 536 | \$ 0 | \$ 0 | \$ 0 | \$ 536 | 1.4% |
| 2002 | 4,402 | 0 | 0 | 0 | 0 | 4,402 | 11.7% |
| 2003 | 7,359 | 0 | 0 | 0 | 0 | 7,359 | 19.5% |
| 2004 | 4,214 | 1,198 | 0 | 0 | 0 | 5,412 | 14.3% |
| 2005 | 0 | 1,440 | 0 | 0 | 0 | 1,440 | 3.8% |
| 2009 | 10,867 | 0 | 0 | 0 | 0 | 10,867 | 28.8% |
| 2010 | 4,029 | 0 | 0 | 0 | 0 | 4,029 | 10.7% |
| 2011 | 3,738 | 0 | 0 | 0 | 0 | 3,738 | 9.9% |
| Total fair value | \$ 34,608 | \$ 3,175 | \$ 0 | \$ 0 | \$ 0 | \$ 37,783 | 100.0% |
| % of total fair value | 91.6% | 8.4% | 0.0% | 0.0% | 0.0% | 100.0% | |

Of the \$37.8 million of collateralized mortgage obligations, \$29.5 million were issued by GSEs.

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 presents the credit rating and fair value of our ABS portfolio at June 30, 2011 by deal origination year (in thousands):

| Deal Origination Year | Rating | | | | Non-investment Grade | Total Fair Value | % of Total Exposure |
|-----------------------|-----------|----------|------|------|----------------------|------------------|---------------------|
| | AAA | AA | A | BBB | | | |
| 2001 | \$ 78 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 78 | 0.2% |
| 2003 | 5,831 | 0 | 0 | 0 | 0 | 5,831 | 11.8% |
| 2004 | 4,991 | 0 | 0 | 0 | 0 | 4,991 | 10.1% |
| 2007 | 3,811 | 0 | 0 | 0 | 0 | 3,811 | 7.7% |
| 2008 | 5,367 | 0 | 0 | 0 | 0 | 5,367 | 10.9% |
| 2009 | 10,797 | 542 | 0 | 0 | 0 | 11,338 | 23.0% |
| 2010 | 2,546 | 2,108 | 0 | 0 | 0 | 4,654 | 9.4% |
| 2011 | 13,225 | 0 | 0 | 0 | 0 | 13,225 | 26.8% |
| Total fair value | \$ 46,647 | \$ 2,650 | \$ 0 | \$ 0 | \$ 0 | \$ 49,296 | 100.0% |
| % of total fair value | 94.6% | 5.4% | 0.0% | 0.0% | 0.0% | 100.0% | |

Our investment portfolio consists of \$392.3 million of state and municipal bonds, of which \$164.0 million are insured. Of the insured bonds, 48.3% are insured with MBIA, 29.4% with Assured Guaranty, 22.0% with AMBAC and 0.3% are insured with XL Group. The following table presents the underlying ratings, represented by the lower of Standard and Poor's, Moody's or Fitch's ratings, of the state and municipal bond portfolio (in thousands) at June 30, 2011:

| S&P Equivalent Rating | Insured | | Uninsured | | Total | |
|-----------------------|------------|-----------------|------------|-----------------|------------|-----------------|
| | Fair Value | % of Fair Value | Fair Value | % of Fair Value | Fair Value | % of Fair Value |
| AAA | \$ 6,195 | 3.8% | \$ 42,095 | 18.4% | \$ 48,290 | 12.3% |
| AA+, AA, AA- | 89,686 | 54.7% | 147,215 | 64.5% | \$ 236,901 | 60.4% |
| A+, A, A- | 60,261 | 36.7% | 39,003 | 17.1% | \$ 99,263 | 25.3% |
| BBB+, BBB, BBB- | 7,841 | 4.8% | 0 | 0.0% | \$ 7,841 | 2.0% |
| Total | \$ 163,983 | 100.0% | \$ 228,312 | 100.0% | \$ 392,296 | 100.0% |

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 presents the credit rating and fair value of our state and municipal bond portfolio, by state, at June 30, 2011 (in thousands):

| State | Rating | | | | Non-investment Grade | Fair Value | % of Total Exposure |
|-----------------------|-----------|------------|-----------|----------|----------------------|------------|---------------------|
| | AAA | AA | A | BBB | | | |
| TX | \$ 14,396 | \$ 18,118 | \$ 4,501 | \$ 0 | \$ 0 | \$ 37,015 | 9.4% |
| NY | 0 | 33,130 | 0 | 0 | 0 | 33,130 | 8.4% |
| GA | 9,449 | 8,505 | 4,741 | 4,823 | 0 | 27,519 | 7.0% |
| FL | 0 | 13,969 | 12,002 | 0 | 0 | 25,971 | 6.6% |
| WA | 1,448 | 15,021 | 1,798 | 0 | 0 | 18,268 | 4.7% |
| PA | 807 | 8,167 | 8,234 | 0 | 0 | 17,209 | 4.4% |
| CO | 1,779 | 9,143 | 4,314 | 0 | 0 | 15,236 | 3.9% |
| IL | 0 | 2,395 | 12,412 | 0 | 0 | 14,807 | 3.8% |
| IN | 0 | 13,004 | 1,536 | 0 | 0 | 14,540 | 3.7% |
| MI | 381 | 5,727 | 8,307 | 0 | 0 | 14,414 | 3.7% |
| All other states | 20,029 | 109,723 | 41,418 | 3,018 | 0 | 174,188 | 44.4% |
| Total fair value | \$ 48,290 | \$ 236,901 | \$ 99,263 | \$ 7,841 | \$ 0 | \$ 392,296 | 100.0% |
| % of total fair value | 12.3% | 60.4% | 25.3% | 2.0% | 0.0% | 100.0% | |

The following table presents the fair value of our state and municipal bond portfolio, by state and type of bond, at June 30, 2011 (in thousands):

| State | Type | | | | Fair Value | % of Total Exposure |
|-----------------------|--------------------|-----------|------------|-----------|------------|---------------------|
| | General Obligation | | Revenue | Other | | |
| | State | Local | | | | |
| TX | \$ 4,258 | \$ 10,249 | \$ 22,507 | \$ 0 | \$ 37,015 | 9.4% |
| NY | 0 | 6,078 | 27,051 | 0 | 33,130 | 8.4% |
| GA | 7,690 | 2,238 | 17,591 | 0 | 27,519 | 7.0% |
| FL | 3,557 | 0 | 16,650 | 5,764 | 25,971 | 6.6% |
| WA | 6,396 | 568 | 11,303 | 0 | 18,268 | 4.7% |
| PA | 2,058 | 2,641 | 12,510 | 0 | 17,209 | 4.4% |
| CO | 0 | 1,448 | 10,358 | 3,430 | 15,236 | 3.9% |
| IL | 1,601 | 940 | 12,267 | 0 | 14,807 | 3.8% |
| IN | 0 | 0 | 14,540 | 0 | 14,540 | 3.7% |
| MI | 0 | 5,072 | 9,341 | 0 | 14,414 | 3.7% |
| All other states | 29,315 | 26,614 | 117,384 | 875 | 174,188 | 44.4% |
| Total fair value | \$ 54,875 | \$ 55,849 | \$ 271,502 | \$ 10,069 | \$ 392,296 | 100.0% |
| % of total fair value | 14.0% | 14.2% | 69.2% | 2.6% | 100.0% | |

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 presents the fair value of the revenue category of our state and municipal bond portfolio, by state and further classification, at June 30, 2011 (in thousands):

| State | Revenue Bonds | | | | Fair Value | % of Total Exposure |
|-----------------------|----------------|-----------|-----------|-----------|------------|---------------------|
| | Transportation | Utilities | Education | Other | | |
| TX | \$ 11,567 | \$ 4,266 | \$ 4,549 | \$ 2,125 | \$ 22,507 | 8.3% |
| NY | 6,807 | 0 | 7,961 | 12,283 | 27,051 | 10.0% |
| GA | 8,580 | 5,216 | 1,759 | 2,036 | 17,591 | 6.5% |
| FL | 12,583 | 0 | 0 | 4,067 | 16,650 | 6.1% |
| WA | 0 | 8,057 | 0 | 3,246 | 11,303 | 4.2% |
| PA | 8,234 | 0 | 4,276 | 0 | 12,510 | 4.6% |
| CO | 2,994 | 0 | 7,363 | 0 | 10,358 | 3.8% |
| IL | 8,270 | 0 | 2,186 | 1,811 | 12,267 | 4.5% |
| IN | 2,008 | 0 | 9,211 | 3,320 | 14,540 | 5.4% |
| MI | 0 | 0 | 0 | 9,341 | 9,341 | 3.4% |
| All other states | 27,893 | 29,194 | 15,557 | 44,741 | 117,384 | 43.2% |
| Total fair value | \$ 88,936 | \$ 46,733 | \$ 52,863 | \$ 82,971 | \$ 271,502 | 100.0% |
| % of total fair value | 32.8% | 17.2% | 19.5% | 30.6% | 100.0% | |

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

ITEM 3

Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2011, there were no material changes to the information provided in our Form 10-K for the year ended December 31, 2010 under the caption "Exposure to Market Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations. Refer to Item 2 Management's Discussion and Analysis under the caption "Investments" for updates to disclosures made under the sub caption "Credit Risk" in our Form 10-K for the year ended December 31, 2010.

ITEM 4

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of Infinity's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2011. Based on that evaluation, we concluded that the controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission ("SEC") under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended June 30, 2011, there have been no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1

Legal Proceedings

We have not become a party to any material legal proceedings nor have there been any material developments in our legal proceedings disclosed in our Form 10-K for the year ended December 31, 2010. For a description of our previously reported legal proceedings, refer to Part I, Item 3, Legal Proceedings, in the form 10-K for the year ended December 31, 2010.

ITEM 1A

Risk Factors

There have been no material changes in our risk factors as disclosed in our Form 10-K for the year ended December 31, 2010. For a description of our previously reported risk factors, refer to Part I, Item 1A, Risk Factors, in the Form 10-K for the year ended December 31, 2010.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****ITEM 2****Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

| Period | Total Number of Shares Purchased | Average Price Paid per Share (a) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b) | Maximum Number (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|---|---|---|---|
| April 1, 2011 - April 30, 2011 | 20,900 | \$ 60.01 | 20,900 | \$ 30,034,583 |
| May 1, 2011 - May 31, 2011 | 68,700 | \$ 53.14 | 68,700 | 26,381,793 |
| June 1, 2011 - June 30, 2011 | 86,100 | \$ 52.69 | 86,100 | 21,842,632 |
| Total | 175,700 | \$ 53.74 | 175,700 | \$ 21,842,632 |

(a) Average price paid per share excludes commissions.

(b) On August 2, 2011, our Board of Directors increased the authority under our current share and debt repurchase plan by \$50.0 million and extended the date to execute the program to December 31, 2012 from December 31, 2011.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

ITEM 6

Exhibits

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

Table of Contents

Signature

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

Infinity Property and Casualty Corporation

August 4, 2011

BY: /s/ ROGER SMITH

Roger Smith

Executive Vice President, Chief Financial Officer and Treasurer

(principal financial and accounting officer)