

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

May 09, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2008

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, 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 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

Smaller reporting company

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

As of April 30th, 2008, there were 16,205,917 shares of the registrant's common stock outstanding.

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Exhibit 31.1	Certification of the Chief Executive Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of the Chief Financial Officer Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**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)**

	<b>Three months ended March 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>Change</b>
<b>Revenues:</b>			
Earned premiums	\$ 235,064	\$ 255,950	(8.2)%
Net investment income	15,324	16,894	(9.3)%
Realized (losses) gains on investments	(1,381)	1,766	(178.2)%
Other income	191	265	(27.9)%
<b>Total revenues</b>	<b>249,198</b>	<b>274,875</b>	<b>(9.3)%</b>
<b>Costs and expenses:</b>			
Losses and loss adjustment expenses	169,521	177,418	(4.5)%
Commissions and other underwriting expenses	52,511	59,325	(11.5)%
Interest expense	2,767	2,766	0.0%
Corporate general and administrative expenses	1,902	1,941	(2.0)%
Restructuring charges	334	(198)	(268.7)%
Other expenses	1,423	639	122.7%
<b>Total costs and expenses</b>	<b>228,458</b>	<b>241,891</b>	<b>(5.6)%</b>
<b>Earnings before income taxes</b>	<b>20,740</b>	<b>32,984</b>	<b>(37.1)%</b>
Provision for income taxes	6,739	11,226	(40.0)%
<b>Net earnings</b>	<b>\$ 14,001</b>	<b>\$ 21,758</b>	<b>(35.7)%</b>
<b>Earnings per common share:</b>			
Basic	\$ 0.87	\$ 1.11	(21.6)%
Diluted	0.86	1.10	(21.8)%
<b>Average number of common shares:</b>			
Basic	16,129	19,516	(17.4)%
Diluted	16,348	19,714	(17.1)%
<b>Cash dividends per common share</b>	<b>\$ 0.11</b>	<b>\$ 0.09</b>	<b>22.2%</b>
<b>See Notes to Consolidated Financial Statements.</b>			



**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	March 31, 2008 (unaudited)	December 31, 2007
<b>Assets</b>		
Investments:		
Fixed maturities at fair value (amortized cost \$1,224,192 and \$1,215,371)	\$ 1,238,339	\$ 1,226,804
Equity securities at fair value (amortized cost \$49,320 and \$49,056)	45,174	49,677
Total investments	1,283,513	1,276,481
Cash and cash equivalents	38,548	46,831
Accrued investment income	12,055	13,417
Agents' balances and premiums receivable, net of allowances for doubtful accounts of \$13,229 and \$15,447	342,686	333,985
Prepaid reinsurance premiums	1,788	1,823
Recoverables from reinsurers (includes \$3,398 and \$1,280 on paid losses and loss adjustment expenses)	30,237	29,499
Deferred policy acquisition costs	79,247	75,774
Current and deferred income taxes	25,661	31,849
Receivable for securities sold	45,818	588
Prepaid expenses, deferred charges and other assets	35,309	31,087
Goodwill	75,275	75,275
Total assets	\$ 1,970,137	\$ 1,916,610
<b>Liabilities and shareholders' equity</b>		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 591,232	\$ 618,409
Unearned premiums	428,352	411,237
Payable to reinsurers	72	228
Long-term debt (fair value \$195,955 and \$191,734)	199,514	199,496
Commissions payable	27,737	26,872
Payable for securities purchased	63,082	2,099
Accounts payable, accrued expenses and other liabilities	47,608	57,045
Total liabilities	1,357,597	1,315,386
Commitments and contingencies (see note 11)		
Shareholders' equity:		
Common stock, no par value 50,000,000 shares authorized 21,012,691 and 21,007,044 shares issued	20,952	20,942
Additional paid-in capital	340,634	340,195
Retained earnings	438,856	426,638
Accumulated other comprehensive income, net of tax	7,002	8,353
Treasury stock, at cost (4,807,362 and 4,807,362 shares)	(194,904)	(194,904)
Total shareholders' equity	612,540	601,224

Total liabilities and shareholders' equity	\$ 1,970,137	\$ 1,916,610
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See Notes to Consolidated Financial Statements.

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## 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
<b>Balance at December 31, 2006</b>	\$ 20,837	\$ 335,708	\$ 361,682	\$ (3,206)	\$ (50,420)	\$ 664,601
Net earnings	\$	\$	\$ 21,758	\$	\$	\$ 21,758
Net change in pension liability, net of tax				(11)		(11)
Change in unrealized gain (loss) on investments, net of tax				1,766		1,766
Comprehensive income						\$ 23,513
Dividends paid to common shareholders			(1,756)			(1,756)
Employee stock purchases, including tax benefit	2	51				53
Exercise of stock options, including tax benefit	21	624				645
Share-based compensation expense		258				258
Acquisition of treasury stock					(8,987)	(8,987)
<b>Balance at March 31, 2007</b>	\$ 20,860	\$ 336,641	\$ 381,684	\$ (1,451)	\$ (59,407)	\$ 678,327
Net earnings	\$	\$	\$ 50,186	\$	\$	\$ 50,186
Net change in post-retirement benefit liability, net of tax				234		234
Change in unrealized gain (loss) on investments, net of tax				9,570		9,570
Comprehensive income						\$ 59,990
Dividends paid to common shareholders			(4,951)			(4,951)
Employee stock purchases, including tax benefit	4	173				177
Exercise of stock options, including tax benefit	65	1,908				1,973
Share-based compensation expense - options		855				855
Share-based compensation expense - restricted stock	7	324				331
Stock granted to directors	6	294				300
Acquisition of treasury stock					(135,497)	(135,497)
Other			(281)			(281)
<b>Balance at December 31, 2007</b>	\$ 20,942	\$ 340,195	\$ 426,638	\$ 8,353	\$ (194,904)	\$ 601,224
Net earnings	\$	\$	\$ 14,001	\$	\$	\$ 14,001
Net change in post-retirement benefit liability, net of tax				(16)		(16)
Change in unrealized gain (loss) on investments, net of tax				(1,335)		(1,335)
Comprehensive income						\$ 12,650
Dividends paid to common shareholders			(1,783)			(1,783)
Employee stock purchases, including tax benefit	2	72				74



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Exercise of stock options, including tax benefit	3	51	54
Share-based compensation expense options		122	122
Share based compensation expense restricted stock	5	194	199
<b>Balance at March 31, 2008</b>	\$ 20,952	\$ 340,634	\$ 438,856
		\$ 7,002	\$ (194,904)
			\$ 612,540

See Notes to Consolidated Financial Statements.

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	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities:</b>		
Net earnings	\$ 14,001	\$ 21,758
Adjustments:		
Depreciation and amortization	2,354	1,921
Realized losses (gains) on investing activities	1,381	(1,766)
Share-based compensation expense	321	258
Decrease in accrued investment income	1,362	1,262
(Increase) in agents' balances and premiums receivable	(8,701)	(40,489)
(Increase) decrease in reinsurance receivables	(703)	2,475
(Increase) in deferred policy acquisition costs	(3,473)	(8,968)
Decrease in other assets	4,061	8,147
(Decrease) increase in insurance claims and reserves	(10,063)	46,555
(Decrease) in payable to reinsurers	(156)	(298)
Decrease in other liabilities	(8,572)	(43)
Net cash (used in) provided by operating activities	(8,188)	30,812
<b>Investing activities:</b>		
Purchases of and additional investments in:		
Fixed maturities	(152,447)	(15,098)
Equity securities	(265)	(44,633)
Property and equipment	(2,966)	(2,967)
Maturities and redemptions of fixed maturity investments	18,629	21,994
Sales:		
Fixed maturities	138,606	1,940
Equity securities		51,460
Net cash provided by investing activities	1,558	12,696
<b>Financing activities:</b>		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	129	698
Acquisition of treasury stock		(9,234)
Dividends paid to shareholders	(1,783)	(1,756)
Net cash used in financing activities	(1,653)	(10,292)
Net (decrease) increase in cash and cash equivalents	(8,283)	33,216
Cash and cash equivalents at beginning of period	46,831	109,187
Cash and cash equivalents at end of period	\$ 38,548	\$ 142,403

See Notes to Consolidated Financial Statements.



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**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2008**

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| 3. Computations of Earnings Per Share | 9. Restructuring Charges                 |
| 4. Long-Term Debt                     | 10. Accelerated Share Repurchase Program |
| 5. Investments                        | 11. Commitments and Contingencies        |
| 6. Income Taxes                       | 12. Benefit Plans                        |

**Note 1 Reporting and Accounting Policies**

**Nature of Operations**

Infinity Property and Casualty Corporation ( Infinity or the Company ) is a holding company that, through subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance. Although licensed to write insurance in all 50 states, Infinity focuses on select states that management believes offer the greatest opportunity for premium growth and profitability.

**Basis of Consolidation and Reporting**

The accompanying consolidated financial statements are unaudited and should be read in conjunction with Infinity Property and Casualty Corporation's Annual Report on Form 10-K for the year ended December 31, 2007. This Quarterly Report on Form 10-Q, including the Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on Infinity's financial performance since the beginning of the year.

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

**Estimates**

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

**New Accounting Standards Adopted**

Effective January 1, 2008, Infinity adopted SFAS No. 157, Fair Value Measurements ( SFAS 157 ) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about the information used to measure fair value. SFAS 157 applies whenever other accounting pronouncements require, or permit, assets or liabilities to be measured at fair value; it does not require any new fair value measurements. The adoption of SFAS 157 did not have a material impact on the results of operations or financial position of the Company (See Note 5 of the Consolidated Financial Statements).

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Effective January 1, 2008, Infinity adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 ( SFAS 159 ) which permits entities to voluntarily choose to measure many financial instruments at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value is elected for an instrument, the statement specifies that entities report in earnings unrealized gains and losses at each subsequent reporting date. Infinity did not elect the fair value option for any of its financial assets or liabilities.

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**Condensed Notes to Consolidated Financial Statements**

**Reclassifications**

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on total assets, total liabilities, total shareholders' equity or net income as previously reported.

**Note 2 Share-Based Compensation**

***Restricted Stock Plan***

Infinity's Restricted Stock Plan was established in 2002. There were 500,000 shares of Infinity common stock reserved for issuance under the Restricted Stock Plan, of which 206,609 shares have been issued through March 31, 2008. The fair value of shares issued under Infinity's Restricted Stock Plan is expensed over the vesting periods of the awards based on the market value of Infinity's stock on the date of grant.

On July 31, 2007, Infinity's Compensation Committee approved the grant of 72,234 shares of restricted stock to certain officers under the Company's 2002 Restricted Stock Plan. These shares will vest in full on July 31, 2011. During the vesting period, the shares will not have voting rights but will accrue dividends, which will not be paid until the shares have vested. The shares are treated as issued and outstanding for calculation of diluted earnings per share only. Until fully vested, the shares will not be considered issued and outstanding for purposes of the basic earnings per share calculation. During the first quarter of 2008, \$0.2 million of expense was recorded in the Consolidated Statement of Earnings related to the grant of restricted stock.

***Non-Employee Directors' Stock Ownership Plan***

In May 2005, Infinity's shareholders approved the Non-Employee Directors' Stock Ownership Plan (the Directors' Plan). The purpose of the Directors' Plan is to include Infinity common stock as part of the compensation provided to its non-employee directors and to provide for stock ownership requirements for Infinity's non-employee directors. There are 200,000 shares of Infinity common stock reserved for issuance under the Directors' Plan, of which 12,553 shares have been issued through March 31, 2008. Under the terms of the Directors' Plan, shares are granted on or about June 1 of each year and are restricted from sale or transfer by any recipient for six months from the date of grant. On June 1, 2007, a total of 5,658 shares of Infinity common stock, valued pursuant to the Directors' Plan at \$300,000, were issued to Infinity's non-employee directors.

***Employee Stock Purchase Plan***

Infinity established the Employee Stock Purchase Plan (the ESPP) in 2004. Under this plan, all eligible full-time employees may purchase shares of Infinity common stock at a 15% discount to the current market price. Employees may allocate up to 25% of their base salary with a maximum annual participation amount of \$25,000. The source of shares issued to participants is treasury shares and/or authorized but previously unissued shares. The maximum number of shares which may be issued under the ESPP may not exceed 1,000,000, of which 27,197 had been issued through March 31, 2008. Infinity's ESPP is qualified under Section 423 of the Internal Revenue Code of 1986, as amended. The 15% discount for shares purchased during the three months ended March 31, 2008 and 2007 approximated \$13,000 and \$9,100, respectively. The discounts were recognized as compensation expense in the Consolidated Statements of Earnings in each period. Participants' shares are treated as issued and outstanding for earnings per share calculations.

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Infinity's Stock Option Plan (SOP) was established with 2,000,000 shares (subject to anti-dilution provisions) of Infinity common stock reserved for issuance under the SOP. Infinity's Compensation Committee (Committee) administers the plan. Each member of the Committee is an outside director, as such term is defined under Section 162(m) of the Code and a Non-Employee Director as defined in Rule 16b-3(b) promulgated under the Securities Exchange Act of 1934.

Through March 31, 2008, there were 1,396,620 shares available for grant under the SOP. No options have been granted since 2004. The SOP allows forfeited options to be reissued. Options are generally granted with an exercise price equal to the closing price of Infinity's stock at the date of grant and have a 10-year contractual life. Options granted to employees generally vest at the rate of 20% per year of continuous service commencing one year after grant while options issued to non-employee directors are immediately exercisable. For options with graded vesting, the fair value of the award is recognized on a straight-line method. Certain options provide for acceleration of vesting if there is a change in control as defined in the SOP. Subject to specific limitations contained in the SOP, Infinity's Board of Directors has the ability to amend, suspend or terminate the plan at any time without shareholder approval. Unless earlier terminated, the plan may continue in effect until December 16, 2012.

As permitted by SFAS 123(R), Infinity used the modified Black-Scholes model with the assumptions noted below to estimate the value of employee stock options on the date of grant. Expected volatilities are based on historical volatilities of Infinity's stock. Infinity selected the expected option life to be 7.5 years, which represents the midpoint between the last vesting date and the end of the contractual term. The risk-free rate for periods within the contractual life of the options is based on the yield on 10-year Treasury notes in effect at the time of grant. The dividend yield was based on expected dividends at the time of grant.

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

	2004 Grants	2003 Grants
Weighted-average-grant date fair value	\$ 13.87	\$ 5.97
Dividend yield	0.7%	1.4%
Expected volatility	33.0%	33.0%
Risk-free interest rate	4.3%	4.0%
Expected life	7.5 years	7.5 years
Weighted-average-grant exercise price	\$ 33.56	\$ 16.11
Outstanding as of March 31, 2008	136,100	218,860

The following chart describes activity for Infinity's Stock Option Plan for the three months ended March 31, 2008:

Options	Number of Options	Weighted-average Exercise Price	Weighted-average Remaining Term (in years)	Aggregate Intrinsic Value (a) (in millions)
Outstanding as of December 31, 2007	358,360	\$ 22.82		
Granted				
Exercised	(3,400)	18.07		
Forfeited				
Outstanding as of March 31, 2008	354,960	\$ 22.86	5.27	\$ 6.7

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Vested or expected to vest as of March 31, 2008	354,960	\$	22.86	5.27	\$	6.7
Exercisable as of March 31, 2008	328,060	\$	21.98	5.22	\$	6.4

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

SFAS 123(R) requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As of March 31, 2008, Infinity used an estimated forfeiture rate of 0%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.



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Cash received from option exercises was less than \$0.1 million for the three months ended March 31, 2008 and \$0.5 million for the three months ended March 31, 2007. The actual tax benefit realized for the tax deductions from options exercised of share-based payment arrangements totaled less than \$0.1 million for the three months ended March 31, 2008 and \$0.1 million for the three months ended March 31, 2007. The total intrinsic value of options exercised was less than \$0.1 million for the three months ended March 31, 2008 and \$0.5 million for the three months ended March 31, 2007.

As of March 31, 2008, there was \$0.3 million of stock option compensation expense related to non-vested awards not yet recognized in the consolidated financial statements, which is expected to be recognized over a weighted-average period of 0.46 years. The total fair value of stock option and restricted stock shares which vested during the three months ended March 31, 2008 and 2007 was approximately \$0.1 million and \$0.2 million, respectively.

Infinity has a policy of issuing new stock for the exercise of stock options.

**Note 3 Computations of Earnings Per Share**

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

	<b>For the three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Net earnings for basic and diluted earnings per share	\$ 14,001	\$ 21,758
Average basic shares outstanding	16,129	19,516
Basic earnings per share	\$ 0.87	\$ 1.11
Average basic shares outstanding	16,129	19,516
Restricted stock not yet vested	72	
Dilutive effect of assumed option exercises	147	198
Average diluted shares outstanding	16,348	19,714
Diluted earnings per share	\$ 0.86	\$ 1.10

On September 7, 2007, Infinity repurchased shares through an accelerated share repurchase ( ASR ) program. At the end of the ASR program, Infinity may receive or be required to pay a price adjustment to the dealer based on the volume weighted average price of Infinity's common stock during the period of the ASR purchases. Infinity has the option to settle this price adjustment in either shares or cash. Had Infinity settled the ASR in shares based on the volume weighted average price through March 31, 2008, the Company would have received shares from the dealer. The shares that would have been received from the dealer were excluded from the shares outstanding calculation because to include them would have been anti-dilutive. See Note 10.

**Note 4 Long-Term Debt**

In February 2004, Infinity 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 the notes were issued, Infinity capitalized \$2.1 million of debt issuance costs, which are being amortized over the term of the Senior Notes. The March 31, 2008 fair value of \$196 million was calculated using a 250 basis point spread to the ten-year U.S. Treasury Note of 3.411%.

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In August 2005, Infinity entered into an agreement for a \$50 million three-year revolving credit facility (the Credit Agreement ) that requires Infinity to meet certain financial and other covenants. Infinity is currently in compliance with all covenants under the Credit Agreement. At March 31, 2008 and 2007, there were no borrowings outstanding under the Credit Agreement. Infinity intends to renew the agreement upon expiration.

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All fixed maturity and equity securities are considered available-for-sale and reported at fair value with unrealized gains or losses reported after-tax in other comprehensive income. Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

The following table presents for each of the fair-value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2008 (in thousands):

Description	Fair Value Measurements at Reporting Date Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Available-for-sale securities	\$ 184,746	\$ 1,049,020	\$ 49,747	\$ 1,283,513
% of Total	14.4%	81.7%	3.9%	100.0%

Level 1 securities are U.S. Treasury securities and the exchange traded fund that makes up Infinity's equity portfolio. Level 2 securities are comprised of securities whose fair value was determined by a nationally recognized pricing service using observable market inputs. Level 3 securities are comprised of (i) securities for which the pricing service is unable to provide a fair value, (ii) securities whose fair value is determined by the pricing service based on unobservable inputs and (iii) securities, other than securities backed by the U.S. Government, that are not rated by a Nationally Recognized Statistical Rating Organization.

The following table presents the changes in the Level 3 fair-value category for the three months ended March 31, 2008 (in thousands):

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

	Available-for-Sale Securities
Balance at December 31, 2007	\$ 31,162
Total gains or losses (realized or unrealized)	
Included in net earnings	
Included in other comprehensive income	42
Purchases, sales, issuances and settlements	13,437
Transfers in and/or out of Level 3	5,106
Balance at March 31, 2008	\$ 49,747

Of the \$49.7 million fair value of securities in Level 3, which consists of 38 securities, 84% are priced based on non-binding broker quotes or prices from the Bloomberg information system. The remainder are manually calculated.

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The gains or losses included in net earnings are included in the line item realized gains (losses) on investments on the Consolidated Statement of Earnings.

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Summarized information for Infinity's investment portfolio follows (in thousands):

	March 31, 2008			Gross Unrealized	
	Amortized Cost	Fair Value	% of Total Fair Value	Gain	Loss
Fixed maturities	\$ 1,224,192	\$ 1,238,339	96%	\$ 23,950	\$ (9,803)
Equity securities	49,320	45,174	4%		(4,146)
<b>Total</b>	<b>\$ 1,273,512</b>	<b>\$ 1,283,513</b>	<b>100%</b>	<b>\$ 23,950</b>	<b>\$ (13,949)</b>

	December 31, 2007			Gross Unrealized	
	Amortized Cost	Fair Value	% of Total Fair Value	Gain	Loss
Fixed maturities	\$ 1,215,371	\$ 1,226,804	96%	\$ 18,276	\$ (6,843)
Equity securities	49,056	49,677	4%	621	
<b>Total</b>	<b>\$ 1,264,427</b>	<b>\$ 1,276,481</b>	<b>100%</b>	<b>\$ 18,897</b>	<b>\$ (6,843)</b>

	March 31, 2008	December 31, 2007
Number of positions held with unrealized:		
Gains	346	311
Losses	157	180
Number of positions held that individually exceed unrealized:		
Gains of \$500,000	5	7
Losses of \$500,000	4	1
Percentage of positions held with unrealized:		
Gains that were investment grade	88%	86%
Losses that were investment grade	58%	66%
Positions held with unrealized losses that were investment grade represented 87% of the aggregate fair value of Infinity's portfolio at March 31, 2008 compared to 90% at December 31, 2007.		

The following table sets forth the amount of unrealized loss by age and severity at March 31, 2008 (in thousands):

Age of unrealized loss:	Fair Value of Securities with Unrealized Losses	Total Gross Unrealized Losses	Less than 5%*	5% to 10%*	Greater than 10%*
Less than or equal to:					
Three months	\$ 172,901	\$ (6,838)	\$ (2,311)	\$ (4,326)	\$ (201)
Six months	13,070	(502)	(201)	(230)	(71)
Nine months	6,774	(354)	(142)	(100)	(112)

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Twelve months	24,215	(1,738)	(150)	(681)	(907)
Greater than twelve months	143,349	(4,517)	(2,776)	(754)	(987)
<b>Total</b>	<b>\$ 360,309</b>	<b>\$ (13,949)</b>	<b>\$ (5,580)</b>	<b>\$ (6,091)</b>	<b>\$ (2,278)</b>

\* As compared to amortized cost.

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Infinity has both the ability and intent to hold those securities with unrealized losses for a period of time sufficient to allow for any anticipated recovery in fair value.

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

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

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

historical operating, balance sheet and cash flow data contained in issuer SEC filings;

issuer news releases;

near-term prospects for improvement in the issuer and/or its industry;

industry research and communications with industry specialists;

third-party research and credit rating reports; and

the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Management regularly evaluates for potential impairment each security position that either has a fair value of less than 95% of its book value, an unrealized loss that exceeds \$100,000 or had one or more impairment charges recorded in the past. In addition, management reviews positions held related to an issuer of a previously impaired security.

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

	Pre-tax Fixed Maturities	Pre-tax Equity Securities	Tax Effects	Net
<b><u>Three months ended March 31, 2008</u></b>				
Unrealized holding gains (losses) on securities arising during the period	\$ 1,333	\$ (4,767)	\$ 1,201	\$ (2,233)
Realized (gains) losses included in net income	1,381		(483)	898
Change in unrealized gains (losses) on marketable securities, net	\$ 2,714	\$ (4,767)	\$ 718	\$ (1,335)

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**Three months ended March 31, 2007**

Unrealized holding gains (losses) on securities arising during the period	\$ 4,195	\$ 287	\$ (1,569)	\$ 2,913
Realized (gains) losses included in net income	566	(2,332)	619	(1,147)
Change in unrealized gains (losses) on marketable securities, net	\$ 4,761	\$ (2,045)	\$ (950)	\$ 1,766



**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Note 6 Income Taxes**

Income tax expense for the three months ended March 31, 2008 was \$6.7 million compared to \$11.2 million for the same period of 2007. The following table reconciles Infinity's statutory federal income tax rate to its effective tax rate (in thousands).

	For the three months ended March 31,	
	2008	2007
Earnings before income taxes	\$ 20,740	\$ 32,984
Income taxes at statutory rates	7,259	11,544
Effect of:		
Dividends-received deduction	(45)	(75)
Tax-exempt interest	(791)	(513)
Adjustment to valuation allowance	158	149
Other	158	121
Provision for income taxes as shown on the Consolidated Statements of Earnings	\$ 6,739	\$ 11,226
GAAP effective tax rate	32.5%	34.0%

In the first quarter of 2008, Infinity increased its tax valuation allowance by approximately \$158,000 primarily due to an increase in the reserve for other-than-temporary impaired securities.

In the first quarter of 2007, Infinity increased its tax valuation allowance by approximately \$149,000 primarily due to a basis difference in the sale of other-than-temporary impaired securities.

Infinity received notification in April 2008 that the Internal Revenue Service will perform an examination of the 2005 tax year. While no notice has been received from the IRS regarding tax years 2004, 2006 or 2007, the statute of limitations for such notice has not expired.

**Note 7 Supplemental Cash Flow Information**

Non-cash activity includes the issuance of and the accounting for restricted stock compensation and the changes in net unrealized gains or losses in securities. The Company made the following payments that are not separately disclosed in the Consolidated Statements of Cash Flows (in thousands):

	For the three months ended March 31,	
	2008	2007
Income tax payments	\$ 5,500	\$ 1,200
Interest payments on debt	5,500	5,500

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

	Three months ended March 31,	
	2008	2007
<b>Balance at Beginning of Period</b>		
Unpaid losses on known claims	\$ 225,415	\$ 231,029
IBNR losses	186,402	167,965
LAE	206,592	197,035
<b>Total unpaid losses and LAE</b>	<b>618,409</b>	<b>596,029</b>
Reinsurance recoverables	(28,219)	(27,579)
<b>Unpaid losses and LAE, net of reinsurance recoverables</b>	<b>590,190</b>	<b>568,450</b>
<b>Current Activity</b>		
Loss and LAE incurred:		
Current accident year	175,465	178,475
Prior accident years	(5,944)	(1,057)
<b>Total loss and LAE incurred</b>	<b>169,521</b>	<b>177,418</b>
Loss and LAE payments:		
Current accident year	(55,116)	(56,283)
Prior accident years	(140,202)	(120,096)
<b>Total loss and LAE payments</b>	<b>(195,318)</b>	<b>(176,379)</b>
<b>Balance at End of Period</b>		
Unpaid losses and LAE, net of reinsurance recoverables	564,393	569,489
Add back reinsurance recoverables	26,839	26,712
<b>Total unpaid losses and LAE</b>	<b>\$ 591,232</b>	<b>\$ 596,201</b>
Unpaid losses on known claims	\$ 208,516	\$ 221,924
IBNR losses	182,461	173,703
LAE	200,255	200,574
<b>Total unpaid losses and LAE</b>	<b>\$ 591,232</b>	<b>\$ 596,201</b>

The \$5.9 million of favorable development during the three months ended March 31, 2008 primarily relates to the personal insurance business assumed through a reinsurance contract (the Assumed Agency Business ) from Infinity's former parent company's principal property and casualty subsidiary, Great American Insurance Company.



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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## Condensed Notes to Consolidated Financial Statements

**Note 9 Restructuring Charges**

In October 2006, Infinity announced plans to consolidate certain of its customer service, claims and information technology back-office operations. The objective of the restructuring is to improve service levels and to more consistently and cost effectively manage the operations.

Restructuring costs incurred in 2006, 2007 and the three months ended March 31, 2008 are as follows (in thousands):

	2006	2007	Three months ended March 31, 2008	Total
Employee related costs	\$ 4,782	\$ (562)	\$ 310	\$ 4,530
Contract termination costs		1,929		1,929
Other exit costs		326	24	350
Total	\$ 4,782	\$ 1,693	\$ 334	\$ 6,809

Infinity expects to incur additional charges of approximately \$0.3 million during late 2008 or early 2009 as additional facilities affected by the restructuring are sublet or closed.

Activities related to accrued restructuring charges as of March 31, 2008 are as follows (in thousands):

	Employee related costs	Contract termination costs	Other exit costs	Total liability
<b>Balance at December 31, 2007</b>	\$ 1,390	\$ 1,462	\$	\$ 2,852
Incurred	235		24	259
Costs paid or settled	(809)	(217)	(24)	(1,050)
Net adjustments	75			75
<b>Balance at March 31, 2008</b>	\$ 891	\$ 1,245	\$	\$ 2,136

Infinity incurred additional employee related costs during the first quarter of 2008 as a result of retaining certain employees identified for severance benefits longer than originally anticipated.

**Note 10 Accelerated Share Repurchase Program**

On September 7, 2007, Infinity repurchased 2,554,932 shares through an accelerated share repurchase ( ASR ). The shares were purchased from a dealer at \$39.14 per share for a total cost of \$100 million. The dealer began purchasing shares on October 8, 2007, and is expected to purchase an equivalent number of shares by the end of May 2008. At the end of the ASR program, Infinity may receive or be required to pay a price adjustment to the dealer based on the volume weighted average price of Infinity's common stock during the period of the ASR purchases. Infinity has the option to settle this price adjustment in either shares or cash. The maximum number of shares Infinity could be required to issue to settle the ASR is 7,664,796. Had the ASR settled as of March 31, 2008, Infinity would have received from the dealer either \$92,477 or 2,223 shares. In September 2007, Infinity purchased a collar on a portion of the shares to provide some protection from a significant increase in Infinity's stock price.

**Note 11 *Commitments and Contingencies***

During the first quarter of 2008, Infinity began construction of an office building that will house a new 300 seat call center in McAllen, Texas. The project, which is expected to be completed by the end of 2008, is estimated to cost approximately \$7.3 million.

There are no other material changes from the contractual obligations discussed in the Form 10-K for the year ended December 31, 2007.

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The following table discloses the components of net periodic postretirement benefit cost (in thousands):

	<b>For the three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Service cost	\$ 33	\$ 42
Interest cost	45	49
Amortization of prior service cost	(17)	(17)
Amortization of net cumulative (gain)/loss	(8)	
<b>Net period postretirement benefit cost</b>	<b>\$ 53</b>	<b>\$ 74</b>

In accordance with SFAS 158, Infinity will be changing the measurement date for its postretirement benefit plan from September 30 to December 31 for its 2008 financial statements. Infinity has elected the 15-month approach to transition to the December 31 measurement date and will record an adjustment to retained earnings of approximately \$50,000 at the end of 2008.

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**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 statements that may be deemed to be forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made 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 are based on estimates, assumptions, and projections. Statements which include the words believes, seeks, expects, may, should, intends, likely, targets, plans, anticipates, estimates or the negative version of those words and similar statements of a future or forward-looking nature identify forward-looking statements. Examples of such forward-looking statements include statements relating to expectations concerning market conditions, premiums, growth, earnings, investment performance, expected losses, rate changes and loss experience.

Actual results could differ materially from those expected by Infinity depending on: changes in economic conditions and financial markets (including interest rates), the adequacy or accuracy of Infinity's pricing methodologies, actions of competitors, the approval of requested form and rate changes, judicial and regulatory developments affecting the automobile insurance industry, the outcome of pending litigation against Infinity, weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions), changes in driving patterns and loss trends. Infinity undertakes 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 II, Item 1A of this report, as well as, in Item 1A of Infinity's Annual Report on Form 10-K for the twelve months ended December 31, 2007.

**OVERVIEW**

Net earnings and diluted earnings per share for the three months ended March 31, 2008 were \$14.0 million and \$0.86, respectively, compared to \$21.8 million and \$1.10, respectively, for the three months ended March 31, 2007. The decline in diluted earnings per share is primarily as a result of an increase in the loss ratio, particularly in California. Included in net earnings for the three months ended March 31, 2008 were \$3.9 million (\$5.9 million pre-tax) of favorable development on prior accident period loss and LAE reserves compared to \$0.7 million (\$1.1 million pre-tax) for the three months ended March 31, 2007. See *Results of Operations - Underwriting Profitability* for a more detailed discussion of Infinity's underwriting results.

Total revenues declined 9.3% for the three months ended March 31, 2008 compared with the same period in 2007. The decline was primarily due to an 8.2% decline in earned premiums as a result of decreases in gross written premiums in the second half of 2007 and the first quarter of 2008 in states such as California, Florida and Georgia. See *Results of Operations - Underwriting Premiums* for a more detailed discussion of Infinity's gross written premium growth.

Infinity's book value per share increased 8.4% from \$34.87 at March 31, 2007 to \$37.80 at March 31, 2008. Infinity's return on equity fell to 9.2% during the first quarter of 2008 compared to 13.0% during the first quarter of 2007.

**REGULATORY ENVIRONMENT**

Effective April 2007, California adopted amended rate approval regulations, which among other changes, established, for personal auto and most other lines of property and casualty insurance written in California, a maximum permitted after-tax rate of return on invested capital at an insurance company level, currently set at 9.1%. In response to these amended regulations, as well as regulations adopted in October 2006 restricting use of territory as a rating variable, Infinity has received approval for both its programs in the state and is now in full compliance with the aforementioned regulations. However, over 200 automobile insurers in the state, many of which compete with Infinity, have yet to file new rates to comply with the regulations. Accordingly, until these companies file and receive approval for their new rates, the competitive environment in California will be in a state of flux. Infinity believes that in this environment, it is possible that its premium volume could be materially adversely affected to the extent that competitors' approved rates are lower than those of Infinity.





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

**RESULTS OF OPERATIONS**

*Underwriting*

**Premiums**

Infinity's 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, Infinity believes that it is generally understood to mean coverage for drivers who, due to their driving record, age or vehicle type, represent higher than normal risks and pay higher rates for comparable coverage. Infinity also writes commercial vehicle insurance, and insurance for classic collectible automobiles ( Classic Collector ).

Infinity is licensed to write insurance in all 50 states, but is committed to growth in targeted urban areas ( Urban Zones ) identified within selected focus states that management believes offer the greatest opportunity for premium growth and profitability.

Infinity classifies the states in which it operates into three categories:

**Focus States** Infinity has identified Urban Zones in these states which include: Arizona, California, Connecticut, Florida, Georgia, Illinois, Nevada, Pennsylvania and Texas.

**Maintenance States** Infinity is maintaining its writings in these states which include: Alabama, Colorado, Indiana, Mississippi, Missouri, Ohio, South Carolina, and Tennessee. These states contain no Urban Zones, but Infinity believes each Maintenance State offers the Company an opportunity for underwriting profit.

**Other States** Includes all remaining states.

Infinity further classifies territories within the Focus States into two categories:

**Urban Zones** include the following urban areas:

Arizona Phoenix, Tucson

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

Connecticut Hartford

Florida Jacksonville, Miami, Orlando, Sarasota and Tampa

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Georgia Atlanta

Illinois Chicago

Nevada Las Vegas

Pennsylvania Allentown, 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. Infinity continually evaluates its market opportunities; thus the Focus States, Urban Zones or Maintenance States may change over time as new market opportunities arise, as the allocation of resources changes, or as regulatory environments change. Infinity has restated 2007 premiums, policies-in-force and combined ratios to be consistent with the 2008 definition of Urban Zones, Focus States, Maintenance States and Other States.

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The following table shows Infinity's net earned premiums for the three months ended March 31, 2008 and 2007 (\$ in thousands):

	2008	Three months ended March 31, 2007	\$ Change	Change
<b>Net earned premiums</b>				
Gross written premium				
Personal auto insurance:				
Focus States:				
Urban Zones	\$ 193,749	\$ 222,495	\$ (28,746)	(12.9)%
Non-Urban Zones	32,760	47,040	(14,280)	(30.4)%
Total Focus States	226,509	269,535	(43,026)	(16.0)%
Maintenance States	10,939	17,432	(6,493)	(37.2)%
Other States	572	3,106	(2,534)	(81.6)%
Subtotal	238,020	290,073	(52,053)	(17.9)%
Commercial Vehicle	10,869	10,203	666	6.5%
Classic Collector	4,366	4,031	335	8.3%
Other	221	485	(264)	(54.4)%
Total gross written premiums	253,476	304,792	(51,316)	(16.8)%
Ceded reinsurance	(1,262)	(1,186)	(76)	6.4%
Net written premiums	252,214	303,606	(51,392)	(16.9)%
Change in unearned premiums	(17,150)	(47,656)	30,506	(64.0)%
Net earned premiums	\$ 235,064	\$ 255,950	\$ (20,886)	(8.2)%

The following table shows Infinity's policies-in-force as of March 31, 2008 and 2007:

	2008	As of March 31, 2007	\$ Change	Change
<b>Policies-in-force</b>				
Personal auto insurance:				
Focus States:				
Urban Zones	604,471	599,030	5,441	0.9%
Non-Urban Zones	94,610	128,989	(34,379)	(26.7)%
Total Focus States	699,081	728,019	(28,938)	(4.0)%
Maintenance States	34,585	50,087	(15,502)	(31.0)%
Other States	2,029	8,512	(6,483)	(76.2)%
Total personal auto insurance	735,695	786,618	(50,923)	(6.5)%
Commercial Vehicle	15,211	14,344	867	6.0%
Classic Collector	60,524	58,714	1,810	3.1%

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Other	816	1,443	(627)	(43.5)%
<b>Total policies-in-force</b>	<b>812,246</b>	<b>861,119</b>	<b>(48,873)</b>	<b>(5.7)%</b>

Gross written premium decreased 16.8% during the first quarter of 2008 compared with the first quarter of 2007. During the first three months of 2008, Infinity implemented 12 rate revisions in various states with an overall rate impact of a 4.0% decrease. The overall rate decrease during the first quarter of 2008 is primarily a result of the 10.4% rate decrease implemented January 1, 2008 in Infinity's largest program in California in response to the amended rate approval regulations in that state. Excluding California, overall rates increased 2.2%. Policies-in-force at March 31, 2008 decreased 5.7% compared to the same period in 2007. Gross written premium declined more than policies-in-force due to a shift in the business mix to more liability only policies, which have lower average premiums.

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During the first quarter of 2008, personal auto insurance gross written premium in Infinity's nine Focus States decreased 16.0% compared to the same period in 2007. The decline in gross written premium is primarily a result of declines in California, Connecticut, Georgia and Florida. In California, premium declined 18.7% during the first quarter of 2008 as compared to the same period in 2007. In addition to the rate decrease in California that was effective January 1, 2008, gross written premium declined as the compulsory automobile insurance laws in California are not being actively enforced, thus individuals are allowing their automobile insurance policies to lapse. Premiums may also be affected by the economic slowdown, which is affecting the buying behavior of individuals with regards to automobile insurance. In an effort to improve profitability, Infinity increased rates 16.2% during 2007 in Connecticut contributing to the 59.5% decline in gross written premium during the first quarter of 2008 compared with the same period in 2007. A decline in premium of 25.3% in Georgia is primarily a result of a reduction in the amount of business written in non-urban zones in the state. Premiums in Georgia's non-urban zones are expected to continue to decline during the remainder of 2008. Gross written premium in Florida declined 18.3% during the first quarter of 2008 as compared with the first quarter of 2007. Although gross written premium in Infinity's newest urban zone in Florida, Miami, increased during the first quarter, the remaining urban zones declined. The decline in gross written premiums is due primarily to Infinity raising rates 13.5% during 2007 and another 6.6% in January 2008 to improve profitability in the state.

Partly offsetting the decline in premiums in California, Connecticut, Georgia and Florida was an increase in gross written premium in Nevada, Pennsylvania and Texas. The increase in Nevada is primarily attributable to continued marketing efforts in addition to Infinity's rate stability while other companies increased their rates. The increase in Pennsylvania is primarily attributable to growth in the urban zone of Allentown where advertising and agency incentives led to increased gross written premium during the first quarter of 2008. Gross written premium in all four of Infinity's Texas urban zones increased during the first quarter of 2008 compared to the same period of 2007. New agent appointments and advertising have contributed to the gross written premium growth.

Gross written premium in the Maintenance States declined 37.2% during the first quarter of 2008 compared to the same period in 2007 primarily as a result of declines in Alabama, Missouri, Ohio and South Carolina. Infinity has increased rates in several of these states over the last twelve months in an effort to improve profitability.

Infinity's Commercial Vehicle gross written premium increased 6.5% during the first quarter of 2008 compared to the first quarter of 2007. During 2007, Infinity revised its rating structure and reintroduced the program in states such as California and Texas. In addition, increased marketing and advertising led to the increase in gross written premiums.

Gross written premium for the Classic Collector book of business grew 8.3% during the first quarter of 2008 compared to the same period in 2007 with premiums growing in each of Infinity's nine Focus States.

**Profitability**

A key operating performance measure for insurance companies is underwriting profitability, as opposed to overall profitability or net earnings. Underwriting profitability is measured by the combined ratio. When the combined ratio is under 100%, underwriting results are generally considered profitable; when the ratio is over 100%, underwriting results are generally considered unprofitable. The combined ratio does not reflect investment income, other income, other expenses or federal income taxes.

While financial data is reported in accordance with GAAP for shareholder and other investment purposes, data is reported on a statutory basis for insurance regulatory purposes. Infinity evaluates 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 premiums and (ii) underwriting expenses incurred as a percentage of net written premiums. 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 premiums are earned; on a statutory basis these items are expensed as incurred. Costs for computer software developed or obtained for internal use are capitalized under GAAP and amortized over their useful life, rather than expensed 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.



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The following table presents the statutory and GAAP combined ratios:

	Three months ended March 31,								
	2008			2007			% Point Change		
	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio
Personal Auto Insurance:									
Focus States:									
Urban Zones	79.5%	19.6%	99.1%	71.1%	19.5%	90.6%	8.4%	0.1%	8.5%
Non-Urban Zones	69.9%	20.9%	90.8%	79.2%	22.3%	101.5%	(9.3)%	(1.4)%	(10.7)%
Total Focus States	78.1%	19.8%	97.9%	72.7%	20.0%	92.7%	5.4%	(0.2)%	5.2%
Maintenance States	60.8%	24.0%	84.8%	70.0%	22.5%	92.5%	(9.2)%	1.5%	(7.7)%
Other States	139.9%	33.1%	173.0%	(3.2)%	27.0%	23.8%	143.1%	6.1%	149.2%
Subtotal	77.6%	20.0%	97.6%	71.3%	20.2%	91.5%	6.3%	(0.2)%	6.1%
Commercial Vehicle	36.6%	22.6%	59.2%	21.3%	22.1%	43.4%	15.3%	0.5%	15.8%
Classic Collector	27.2%	45.9%	73.1%	44.7%	58.6%	103.3%	(17.5)%	(12.7)%	(30.2)%
Other	NM	NM	NM	151.3%	157.9%	309.2%	NM	NM	NM
Total statutory ratios	72.2%	20.8%	93.0%	69.3%	20.9%	90.2%	2.9%	(0.1)%	2.8%
GAAP ratios	72.1%	22.4%	94.5%	69.3%	23.2%	92.5%	2.8%	(0.8)%	2.0%

In evaluating the profit performance of Infinity's business, Infinity's management reviews underwriting profitability using statutory combined ratios. Accordingly, the discussion of underwriting results that follows will focus on these ratios and the components thereof.

The statutory combined ratio for the first quarter of 2008 increased 2.8 points compared to the same period during 2007. The first quarter of 2008 and 2007 benefited from \$5.9 million and \$1.1 million, respectively, of favorable development on loss and LAE reserves. Losses from catastrophes were \$0.2 million for both the three months ended March 31, 2008 and the three months ended March 31, 2007.

The combined ratio increase of 5.2 points in the Focus States is primarily attributable to an increase in the loss and LAE ratio in California which resulted from a decline in average earned premium per exposure unit and slightly higher loss costs. Infinity has made adjustments to its program in California to improve the overall risk profile of its customer base, which has lowered the average earned premium. However, Infinity has not yet seen a corresponding improvement in loss cost trends resulting in an increase in the loss and LAE ratio. Infinity did see improvements in the combined ratio for Arizona, Florida, Georgia and Pennsylvania during the first quarter of 2008 as compared to the first quarter of 2007. Underwriting profits were realized in four of the nine Focus States and in 14 of Infinity's 22 Urban Zones.

In the Maintenance States, the combined ratio decreased during the first quarter of 2008 compared to the first quarter of 2007 primarily as a result of favorable development on LAE reserves in Alabama and Missouri.

The loss and LAE ratio for the Commercial Vehicle business increased during the first quarter of 2008 compared to the same period of 2007 primarily as a result of favorable development on LAE reserves recorded during the first quarter of 2007.

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The combined ratio for Classic Collector business improved during the first quarter of 2008 compared to the first quarter of 2007. The 17.5% point improvement in the loss and LAE ratio is attributable to a large loss recorded during the first quarter of 2007 in California. As a result of completing the transition of moving the Classic Collector business to a new computer platform, fixed expenses have been reduced resulting in the lower expense ratio in the first quarter of 2008 compared to the same period in 2007.



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

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

	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Investment income:</b>		
Interest income on fixed maturities, cash and cash equivalents	\$ 15,585	\$ 17,217
Dividends on equity securities	215	412
Gross investment income	\$ 15,800	\$ 17,629
Investment expenses	(476)	(735)
Net investment income	\$ 15,324	\$ 16,894

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Net investment income for the three months ended March 31, 2008 declined primarily due to a decrease in average investment balances of 4.8% in addition to a 13 basis point decline in book yields as a result of a general decline in market interest rates for high quality bonds. Average invested balances declined \$68 million or 4.8% primarily due to the \$100 million ASR in September 2007.

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

	<b>Three months ended March 31, 2008</b>			<b>Three months ended March 31, 2007</b>		
	<b>Impairments on securities held</b>	<b>Realized gains (losses) on sales</b>	<b>Total realized gains (losses)</b>	<b>Impairments on securities held</b>	<b>Realized gains (losses) on sales</b>	<b>Total realized gains (losses)</b>
Fixed maturities	\$ (4,197)	\$ 2,816	\$ (1,381)	\$ (812)	\$ 246	\$ (566)
Equities					2,332	2,332
<b>Total</b>	<b>\$ (4,197)</b>	<b>\$ 2,816</b>	<b>\$ (1,381)</b>	<b>\$ (812)</b>	<b>\$ 2,578</b>	<b>\$ 1,766</b>

For Infinity's securities held with unrealized losses, management believes that, based on its analysis (i) Infinity will recover its cost basis in these securities in a relatively short period of time and/or (ii) that Infinity has the ability and intent to hold these securities until they mature or 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 accurately predict 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. Management believes it is not likely that future impairment charges will have a significant effect on Infinity's liquidity.

Had Infinity recorded additional impairment charges on all its unrealized losses that were more than twelve months old at March 31, 2008, the pre-tax earnings impact would have been \$4.5 million. Infinity has both the ability and intent to hold those securities with unrealized losses for a period of time sufficient to allow for any anticipated recovery in fair value.

**Interest Expense**

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The Senior Notes accrue interest at an effective yield of 5.55% (Refer to Note 4 of the Consolidated Financial Statements for additional information on the Senior Notes). Interest expense on the Senior Notes recognized in the Consolidated Statements of Earnings for each of the three months ended March 31, 2008 and 2007 was \$2.8 million.

### *Other Expenses*

Other expenses for the three months ended March 31, 2008 were \$1.4 million compared to \$0.6 million for the corresponding period of 2007. The increase was primarily due to expenses related to Infinity's financial service center pilot program in addition to an increase in corporate litigation expenses.

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

***Income Taxes***

The Company's GAAP effective tax rate was 32.5% and 34.0% for the three months ended March 31, 2008 and 2007, respectively, primarily due to an increased proportion of tax-exempt investment income in 2008. (See Note 6 of the Consolidated Financial Statements for additional information)

**LIQUIDITY AND CAPITAL RESOURCES**

***Sources and Uses of Funds***

Infinity is organized as a holding company with all of its operations being conducted by its insurance subsidiaries. Accordingly, Infinity will have continuing cash needs for administrative expenses, the payment of interest on borrowings, shareholder dividends, share repurchases and taxes. Administrative expenses at the holding company have averaged approximately \$7.1 million annually since 2004.

At March 31, 2008, Infinity had outstanding \$200 million principal of Senior Notes due 2014, bearing a fixed 5.5% interest rate. Interest payments on the Senior Notes of \$5.5 million are due each February and August through maturity in February 2014. (Refer to Note 4 of the Consolidated Financial Statements for more information on the Senior Notes).

In February 2008, Infinity increased its quarterly dividend to \$0.11 per share from \$0.09 per share. At this current amount, Infinity's 2008 annualized dividend payments would be approximately \$7.1 million.

In October 2006, the Company announced that the Board of Directors approved a share repurchase program expiring on the earliest of December 31, 2008 or the completion of all purchases contemplated by the program, whereby the Company may repurchase up to an aggregate amount of \$100 million of its outstanding common shares. Through December 31, 2007, Infinity repurchased 1,032,479 shares at an average cost, excluding commissions, of \$43.03, respectively. No repurchases were made under this program during the first quarter of 2008.

Funds to meet expenditures at the holding company come primarily from dividends and tax payments from the insurance subsidiaries, borrowing on its line of credit, as well as cash and investments held by the holding company. As of March 31, 2008, Infinity had \$185.2 million of cash and investments. In 2008, Infinity's insurance subsidiaries may pay to Infinity up to \$79.0 million in ordinary dividends without prior regulatory approval. For the three months ended March 31, 2008, \$17.5 million of dividends were paid to Infinity by its insurance subsidiaries.

In August 2005, Infinity entered into an agreement for a \$50 million three-year revolving credit facility that includes requirements to meet certain financial and other covenants. Infinity is currently in compliance with all covenants under the agreement. Under this agreement, there were no borrowings outstanding at March 31, 2008 or December 31, 2007. Infinity intends to renew this line of credit by August 2008.

Infinity's insurance subsidiaries generate liquidity to satisfy their obligations, primarily by collecting premiums in advance of paying claims and investment income on its \$1.1 billion investment portfolio. Infinity's insurance subsidiaries generated a negative cash flow of approximately \$2.8 million for the three months ended March 31, 2008 and generated a positive cash flow of \$33.7 million during the same period of 2007. To fund any operating cash shortfall, Infinity's insurance subsidiaries generate cash from maturing securities from its fixed maturity portfolio.

Management believes that cash and investment balances, cash flows generated from operations or borrowings, and maturities and sales of investments are adequate to meet the future liquidity needs for Infinity and its insurance subsidiaries.

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

***Reinsurance***

Infinity utilizes excess of loss and catastrophe reinsurance to mitigate the financial impact of large or catastrophe losses. During 2008, the catastrophe reinsurance provides protection for losses up to \$15 million in excess of \$5 million for any single event. During 2007, the catastrophe reinsurance provided protection for losses up to \$10 million in excess of \$5 million for any single event. Infinity's excess of loss reinsurance provides reinsurance protection for commercial auto losses up to \$700,000 for claims exceeding \$300,000 per occurrence. Infinity also utilizes reinsurance to mitigate losses on its Classic Collector business.

Since 2005, personal auto losses up to \$900,000 for claims exceeding \$100,000 per occurrence per coverage were covered under the personal auto excess of loss reinsurance treaty. Infinity discontinued this personal auto excess of loss reinsurance as of April 15, 2008 because of the expected increase in its cost and the lack of perceived need for the cover in the future. Premiums ceded under this reinsurance agreement for the 12 months ended December 31, 2007 were \$1.4 million, or 14.0% of the bodily injury premium written on higher limit policies. Infinity has averaged less than \$2.0 million of losses covered per year under this agreement since 2005.

Premiums ceded under all reinsurance agreements for the three months ended March 31, 2008 and 2007 were \$1.3 and \$1.1 million, respectively.

***Investments***

Infinity's consolidated investment portfolio at March 31, 2008 contained approximately \$1.2 billion in fixed maturity securities and \$45.2 million in equity securities, all carried at fair value with unrealized gains and losses reported as a separate component of shareholders' equity on an after-tax basis. At March 31, 2008, Infinity had pre-tax net unrealized gains of \$14.1 million on fixed maturities and pre-tax net unrealized losses of \$4.1 million on equity securities. Combined, the pre-tax net unrealized gain decreased by \$2.1 million for the three months ended March 31, 2008.

Approximately 95% of Infinity's fixed maturity investments at March 31, 2008 were rated investment grade, and as of the same date, the average credit rating of Infinity's 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. Management believes that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

Since all of these securities are carried at fair value in the 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 duration of Infinity's fixed maturity portfolio was 3.6 years at March 31, 2008.

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

Level 1 securities are U.S. Treasury securities and the exchange traded fund that makes up Infinity's equity portfolio. Level 2 securities are comprised of securities whose fair value was determined by a nationally recognized pricing service using observable market inputs. Level 3 securities are comprised of (i) securities for which the pricing service is unable to provide a fair value, (ii) securities whose fair value is determined by the pricing service based on unobservable inputs and (iii) securities, other than securities backed by the U.S. Government, that are not rated by a Nationally Recognized Statistical Rating Organization. (See Note 5 of the Consolidated Financial Statements).

Since the second half of 2007, the mortgage industry experienced a rise in mortgage delinquencies and foreclosures, particularly among lower quality exposures ( sub-prime and Alt-A ). As a result of these increasing delinquencies and foreclosures, many collateralized mortgage obligations ( CMOs ) with underlying sub-prime and Alt-A mortgages as collateral experienced significant drops in market value. Infinity has only modest exposure to these type investments. At March 31, 2008, Infinity's fixed maturity portfolio included 13 CMOs, or 2.0% of the total market value of the fixed income portfolio, with exposure to sub-prime and Alt-A mortgages. Although these CMOs have sub-prime mortgages

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as underlying collateral, all but one of them have AAA ratings. One security, with a market value of \$0.8 million, has an AA rating.

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In early 2008, several municipal bond insurers had their credit ratings downgraded or placed under review by one or more of the nationally recognized credit rating agencies. These downgrades were a result of a perceived weakening of the insurers' financial strength as a result of losses incurred from mortgage-backed and asset-backed securities. These securities were experiencing increased delinquencies and defaults as a result of a weakening economy and housing market in particular.

Infinity's investment portfolio consists of \$309.2 million of municipal bonds, of which \$230.7 million are insured. Of the insured bonds, 31% are insured with FSA, 30% with MBIA, 19% with FGIC, 19% with AMBAC and 1% with XL Capital. The following table presents the underlying ratings, represented by the lower of Standard and Poor's or Fitch's ratings, of the insured municipal bond portfolio:

(in thousands)	Insured		Uninsured		Total	
	Market Value	% of Market Value	Market Value	% of Market Value	Market Value	% of Market Value
AAA	\$ 44,118	19.1%	\$ 41,173	52.5%	\$ 85,291	27.6%
AA+, AA, AA-	87,175	37.8%	31,781	40.5%	118,956	38.5%
A+, A, A-	83,747	36.3%	3,494	4.4%	87,241	28.2%
BBB+, BBB, BBB-	8,066	3.5%	2,025	2.6%	10,091	3.2%
NR	7,618	3.3%			7,618	2.5%
Total	\$ 230,724	100.0%	\$ 78,473	100.0%	\$ 309,197	100.0%

The table below sets forth the scheduled maturities of fixed maturity securities at March 31, 2008, based on their fair values. Securities that do not have a single maturity date are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

(in thousands)	Fair Market Value			All Fixed Maturity Securities	Amortized Cost
	Securities with Unrealized Gains	Securities with Unrealized Losses	Securities with No Unrealized Gains or Losses		
Maturity					
One year or less	\$ 37,136	\$ 12,644	\$	\$ 49,780	\$ 49,324
After one year through five years	393,587	47,847	11,275	452,709	442,172
After five years through ten years	137,723	53,865	2,514	194,102	191,357
After ten years	79,400	8,858	2,197	90,455	88,802
Mortgage-backed securities	240,892	191,921	18,480	451,293	452,537
Total	\$ 888,738	\$ 315,135	\$ 34,466	\$ 1,238,339	\$ 1,224,192

**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****ITEM 3****Quantitative and Qualitative Disclosures About Market Risk**

As of March 31, 2008, there were no material changes to the information provided in Infinity's Form 10-K for 2007 under the caption "Exposure to Market Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

**ITEM 4****Controls and Procedures**

Infinity's chief executive officer and chief financial officer, with assistance from management, evaluated Infinity's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15) as of March 31, 2008. Based on that evaluation, they concluded that the controls and procedures are effective. There has been no change in Infinity's internal controls during the first three months of 2008 that has materially affected, or is reasonably likely to materially affect, Infinity's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)).

**PART II****OTHER INFORMATION****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
January 1, 2008	January 31, 2008	0	0	0	55,515,399
February 1, 2008	February 29, 2008	0	0	0	55,515,399
March 1, 2008	March 31, 2008	0	0	0	55,515,399
Total		0	0	0	\$ 55,515,399

(a) Average price paid per share excludes commissions.

(b) In October 2006, the Company announced that the Board of Directors approved a share repurchase program expiring on the earliest of December 31, 2008 or the completion of all purchases contemplated by the Plan, whereby the Company may repurchase up to an aggregate of \$100 million of its outstanding shares.

On September 7, 2007, Infinity repurchased 2,554,932 shares at an average price, excluding commissions, of \$39.14 per share for a total cost of \$100 million, through an accelerated share repurchase (ASR) program as authorized by the Board of Directors in August 2007. At the end of the ASR program, Infinity may receive or be required to pay a price adjustment to the dealer based on the volume weighted average price of Infinity's common stock during the period of the ASR purchases. Infinity has the option to settle this price adjustment in either shares or cash. The dealer began purchasing shares on October 8, 2007 and is expected to complete the program by the end of May 2008.





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**ITEM 6**

**Exhibits**

- Exhibit 31.1 - Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 - Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- Exhibit 32 - Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Signature**

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

Infinity Property and Casualty Corporation

BY: /s/ ROGER SMITH  
Roger Smith  
Executive Vice President, Chief Financial Officer and Treasurer

May 9, 2008

(principal financial and accounting officer)