

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

August 06, 2015

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, 2015

OR

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

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

Commission File No. 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated under

the Laws of Ohio

(State or other jurisdiction of

incorporation or organization)

3700 Colonnade Parkway, Suite 600, Birmingham, Alabama 35243

(Address of principal executive offices and zip code)

(205) 870-4000

(Registrant's telephone number, including area code)

Not Applicable

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

03-0483872

(I.R.S. Employer

Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of July 31, 2015, there were 11,384,811 shares of the registrant's common stock outstanding.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

INDEX

|              |   | Page      |
|--------------|---|-----------|
|              | <u>PART I – FINANCIAL INFORMATION</u>   |           |
| Item 1       | <u>Financial Statements</u>   |           |
|              | <u>Consolidated Statements of Earnings</u>  | <u>3</u>  |
|              | <u>Consolidated Statements of Comprehensive Income</u>  | <u>4</u>  |
|              | <u>Consolidated Balance Sheets</u>  | <u>5</u>  |
|              | <u>Consolidated Statements of Changes in Shareholders’ Equity</u>   | <u>6</u>  |
|              | <u>Consolidated Statements of Cash Flows</u>  | <u>7</u>  |
|              | <u>Condensed Notes to Consolidated Financial Statements</u>   | <u>9</u>  |
| Item 2       | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                | <u>26</u> |
| Item 3       | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>39</u> |
| Item 4       | <u>Controls and Procedures</u>  | <u>39</u> |
|              | <u>PART II – OTHER INFORMATION</u>  |           |
| Item 1       | <u>Legal Proceedings</u>  | <u>40</u> |
| Item 1A      | <u>Risk Factors</u>   | <u>40</u> |
| Item 2       | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | <u>40</u> |
| Item 6       | <u>Exhibits</u>   | <u>41</u> |
|              | <u>Signature</u>  | <u>42</u> |
|              | <u>EXHIBIT INDEX</u>  |           |
| Exhibit 31.1 | Certification of the Chief Executive Officer under Exchange Act Rule 13a-14(a)                              |           |
| Exhibit 31.2 | Certification of the Chief Financial Officer under Exchange Act Rule 13a-14(a)                              |           |
| Exhibit 32   | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 |           |

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

2

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Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## PART I

## FINANCIAL INFORMATION

## ITEM 1

## Financial Statements

## INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

(\$ in thousands, except per share data)

(unaudited)

|  | Three months ended June 30, |           |          | Six months ended June 30, |           |          |    |  |
|--|-----------------------------|-----------|----------|---------------------------|-----------|----------|----|--|
|  | 2015                        | 2014      | % Change | 2015                      | 2014      | % Change |    |  |
| Revenues:  |                             |           |          |                           |           |          |    |  |
| Earned premium   | \$340,504                   | \$333,024 | 2.2      | % \$672,610               | \$660,703 | 1.8      | %  |  |
| Installment and other fee income                         | 24,556                      | 23,845    | 3.0      | % 49,117                  | 48,185    | 1.9      | %  |  |
| Net investment income                                    | 9,202                       | 9,110     | 1.0      | % 17,938                  | 17,909    | 0.2      | %  |  |
| Net realized gains on investments <sup>1</sup>           | 214                         | 1,846     | (88.4)   | )% 1,384                  | 2,491     | (44.5)   | )% |  |
| Other income   | 281                         | 128       | 118.9    | % 681                     | 279       | 143.8    | %  |  |
| Total revenues   | 374,757                     | 367,954   | 1.8      | % 741,730                 | 729,567   | 1.7      | %  |  |
| Costs and Expenses:                                      |                             |           |          |                           |           |          |    |  |
| Losses and loss adjustment expenses                      | 262,784                     | 256,935   | 2.3      | % 518,427                 | 510,637   | 1.5      | %  |  |
| Commissions and other underwriting expenses              | 86,272                      | 89,725    | (3.8)    | )% 175,101                | 177,698   | (1.5)    | )% |  |
| Interest expense   | 3,459                       | 3,451     | 0.2      | % 6,918                   | 6,904     | 0.2      | %  |  |
| Corporate general and administrative expenses            | 2,123                       | 2,696     | (21.3)   | )% 4,026                  | 4,222     | (4.6)    | )% |  |
| Other expenses   | 452                         | 5         | NM       | 1,355                     | 317       | 327.9    | %  |  |
| Total costs and expenses                                 | 355,090                     | 352,811   | 0.6      | % 705,827                 | 699,777   | 0.9      | %  |  |
| Earnings before income taxes                             | 19,667                      | 15,143    | 29.9     | % 35,903                  | 29,789    | 20.5     | %  |  |
| Provision for income taxes                               | 6,174                       | 4,476     | 38.0     | % 11,257                  | 8,795     | 28.0     | %  |  |
| Net Earnings   | \$13,493                    | \$10,667  | 26.5     | % \$24,646                | \$20,994  | 17.4     | %  |  |
| Net Earnings per Common Share:                           |                             |           |          |                           |           |          |    |  |
| Basic  | \$1.18                      | \$0.93    | 26.9     | % \$2.16                  | \$1.84    | 17.4     | %  |  |
| Diluted  | 1.18                        | 0.92      | 28.3     | % 2.14                    | 1.81      | 18.2     | %  |  |
| Average Number of Common Shares:                         |                             |           |          |                           |           |          |    |  |
| Basic  | 11,408                      | 11,435    | (0.2)    | )% 11,417                 | 11,432    | (0.1)    | )% |  |
| Diluted  | 11,483                      | 11,583    | (0.9)    | )% 11,517                 | 11,581    | (0.6)    | )% |  |
| Cash Dividends per Common Share                          | \$0.43                      | \$0.36    | 19.4     | % \$0.86                  | \$0.72    | 19.4     | %  |  |
| <sup>1</sup> Net realized gains before impairment losses |                             |           |          |                           |           |          |    |  |
| Total other-than-temporary impairment (OTTI) losses      | \$423                       | \$1,852   | (77.2)   | )% \$1,973                | \$2,524   | (21.8)   | )% |  |
|  | (208)                       | (1)       | NM       | (590)                     | (894)     | (34.0)   | )% |  |
| Non-credit portion in other comprehensive income         | 0                           | 0         | 0.0      | % 0                       | 885       | NM       |    |  |
| OTTI losses reclassified from other comprehensive income | 0                           | (5)       | NM       | 0                         | (25)      | NM       |    |  |
| Net impairment losses recognized in earnings             | (208)                       | (6)       | NM       | (590)                     | (33)      | NM       |    |  |
| Total net realized gains on investments                  | \$214                       | \$1,846   | (88.4)   | )% \$1,384                | \$2,491   | (44.5)   | )% |  |

NM = Not Meaningful

See Condensed Notes to Consolidated Financial Statements.

3

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Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

(\$ in thousands)

(unaudited)

|  | Three months ended June 30, |          | Six months ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2015                        | 2014     | 2015                      | 2014     |
| Net earnings   | \$13,493                    | \$10,667 | \$24,646                  | \$20,994 |
| Other comprehensive income before tax:   |                             |          |                           |          |
| Net change in postretirement benefit liability                                   | 16                          | (3       | ) 33                      | 655      |
| Unrealized (losses) gains on investments:  |                             |          |                           |          |
| Unrealized holding (losses) gains arising during the period                      | (13,472                     | ) 15,517 | (5,056                    | ) 23,370 |
| Less: Reclassification adjustments for gains included in net earnings            | (214                        | ) (1,846 | ) (1,384                  | ) (2,491 |
| Unrealized (losses) gains on investments, net                                    | (13,687                     | ) 13,671 | (6,440                    | ) 20,879 |
| Other comprehensive (loss) income, before tax                                    | (13,670                     | ) 13,669 | (6,407                    | ) 21,534 |
| Income tax benefit (expense) related to components of other comprehensive income | 4,785                       | (4,784   | ) 2,242                   | (7,537   |
| Other comprehensive (loss) income, net of tax                                    | (8,886                      | ) 8,885  | (4,164                    | ) 13,997 |
| Comprehensive income   | \$4,607                     | \$19,552 | \$20,482                  | \$34,991 |

See Condensed Notes to Consolidated Financial Statements.

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(\$ in thousands, except share amounts in line descriptions)

|   | June 30, 2015<br>(unaudited) | December 31,<br>2014 |
|---|------------------------------|----------------------|
| Assets  |                              |                      |
| Investments:  |                              |                      |
| Fixed maturities – at fair value (amortized cost \$1,428,944 and \$1,412,417)                             | \$1,440,771                  | \$1,431,843          |
| Equity securities – at fair value (cost \$76,691 and \$77,862)  | 94,397                       | 94,408               |
| Short-term investments - at fair value (amortized cost \$4,123 and \$803)                                 | 4,121                        | 803                  |
| Total investments   | 1,539,290                    | 1,527,054            |
| Cash and cash equivalents   | 60,481                       | 84,541               |
| Accrued investment income   | 13,520                       | 12,976               |
| Agents' balances and premium receivable, net of allowances for doubtful accounts of \$15,248 and \$15,510 | 541,541                      | 483,638              |
| Property and equipment, net of accumulated depreciation of \$69,112 and \$63,929                          | 77,923                       | 55,880               |
| Prepaid reinsurance premium   | 5,912                        | 4,809                |
| Recoverables from reinsurers (includes \$794 and \$161 on paid losses and LAE)                            | 14,949                       | 14,530               |
| Deferred policy acquisition costs   | 99,344                       | 90,428               |
| Current and deferred income taxes   | 24,056                       | 20,022               |
| Receivable for securities sold  | 0                            | 4,549                |
| Other assets  | 12,967                       | 11,108               |
| Goodwill  | 75,275                       | 75,275               |
| Total assets  | \$2,465,257                  | \$2,384,812          |
| Liabilities and Shareholders' Equity  |                              |                      |
| Liabilities:  |                              |                      |
| Unpaid losses and loss adjustment expenses  | \$681,028                    | \$668,177            |
| Unearned premium  | 652,948                      | 589,260              |
| Long-term debt (fair value \$287,576 and \$291,044)   | 275,000                      | 275,000              |
| Commissions payable   | 18,522                       | 18,673               |
| Payable for securities purchased  | 11,100                       | 17,173               |
| Other liabilities   | 124,105                      | 118,870              |
| Total liabilities   | 1,762,702                    | 1,687,153            |
| Commitments and contingencies (See Note 9)  |                              |                      |
| Shareholders' equity:   |                              |                      |
| Common stock, no par value (50,000,000 shares authorized; 21,773,580 and 21,728,032 shares issued)        | 21,773                       | 21,745               |
| Additional paid-in capital  | 374,499                      | 372,368              |
| Retained earnings   | 740,444                      | 725,651              |
| Accumulated other comprehensive income, net of tax  | 19,330                       | 23,494               |
| Treasury stock, at cost (10,347,489 and 10,244,672 shares)  | (453,491)                    | (445,599)            |
| Total shareholders' equity  | 702,555                      | 697,659              |
| Total liabilities and shareholders' equity  | \$2,465,257                  | \$2,384,812          |

See Condensed Notes to Consolidated Financial Statements.





Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

(\$ in thousands)

(unaudited)

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income,<br>Net of Tax | Treasury<br>Stock | Total     |
|---|-----------------|----------------------------------|----------------------|--|-------------------|-----------|
| Balance at December 31, 2013  | \$21,684        | \$368,902                        | \$685,011            | \$ 16,624  | \$(435,463)       | \$656,758 |
| Net earnings  | —               | —                                | 20,994               | —  | —                 | 20,994    |
| Net change in postretirement benefit liability                            | —               | —                                | —                    | 426  | —                 | 426       |
| Change in unrealized gain on investments                                  | —               | —                                | —                    | 13,831   | —                 | 13,831    |
| Change in non-credit component of impairment losses on fixed maturities   | —               | —                                | —                    | (260 )   | —                 | (260 )    |
| Comprehensive income  | —               | —                                | —                    | —  | —                 | 34,991    |
| Dividends paid to common shareholders                                     | —               | —                                | (8,283 )             | —  | —                 | (8,283 )  |
| Shares issued and share-based compensation expense, including tax benefit | 45              | 2,438                            | —                    | —  | —                 | 2,483     |
| Acquisition of treasury stock   | —               | —                                | —                    | —  | (5,163 )          | (5,163 )  |
| Balance at June 30, 2014  | \$21,729        | \$371,340                        | \$697,722            | \$ 30,621  | \$(440,625)       | \$680,787 |
| Net earnings  | —               | —                                | 36,207               | —  | —                 | 36,207    |
| Net change in postretirement benefit liability                            | —               | —                                | —                    | (273 )   | —                 | (273 )    |
| Change in unrealized gain on investments                                  | —               | —                                | —                    | (7,021 )   | —                 | (7,021 )  |
| Change in non-credit component of impairment losses on fixed maturities   | —               | —                                | —                    | 167  | —                 | 167       |
| Comprehensive income  | —               | —                                | —                    | —  | —                 | 29,080    |
| Dividends paid to common shareholders                                     | —               | —                                | (8,278 )             | —  | —                 | (8,278 )  |
| Shares issued and share-based compensation expense, including tax benefit | 16              | 1,027                            | —                    | —  | —                 | 1,044     |
| Acquisition of treasury stock   | —               | —                                | —                    | —  | (4,973 )          | (4,973 )  |
| Balance at December 31, 2014  | \$21,745        | \$372,368                        | \$725,651            | \$ 23,494  | \$(445,599)       | \$697,659 |
| Net earnings  | —               | —                                | 24,646               | —  | —                 | 24,646    |
| Net change in postretirement benefit liability                            | —               | —                                | —                    | 21   | —                 | 21        |
| Change in unrealized gain on investments                                  | —               | —                                | —                    | (4,478 )   | —                 | (4,478 )  |
| Change in non-credit component of impairment losses on fixed maturities   | —               | —                                | —                    | 292  | —                 | 292       |
| Comprehensive income  | —               | —                                | —                    | —  | —                 | 20,482    |
| Dividends paid to common shareholders                                     | —               | —                                | (9,853 )             | —  | —                 | (9,853 )  |
|   | 28              | 2,132                            | —                    | —  | —                 | 2,160     |

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

|                               |          |           |           |           |             |           |
|-------------------------------|----------|-----------|-----------|-----------|-------------|-----------|
| Acquisition of treasury stock | —        | —         | —         | —         | (7,892 )    | (7,892 )  |
| Balance at June 30, 2015      | \$21,773 | \$374,499 | \$740,444 | \$ 19,330 | \$(453,491) | \$702,555 |

See Condensed Notes to Consolidated Financial Statements.

6

---

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

(\$ in thousands)

(unaudited)

|  | Three months ended June 30, |           |
|--|-----------------------------|-----------|
|  | 2015                        | 2014      |
| <b>Operating Activities:</b>                                       |                             |           |
| Net earnings   | \$13,493                    | \$10,667  |
| <b>Adjustments:</b>  |                             |           |
| Depreciation   | 2,941                       | 2,659     |
| Amortization   | 5,211                       | 5,500     |
| Net realized gains on investments                                  | (214)                       | (1,846)   |
| Loss on disposal of property and equipment                         | 123                         | 0         |
| Share-based compensation expense                                   | 1,069                       | 1,876     |
| Excess tax benefits from share-based payment arrangements          | (298)                       | (96)      |
| Activity related to rabbi trust                                    | (16)                        | 43        |
| Change in accrued investment income                                | (1,489)                     | (1,091)   |
| Change in agents' balances and premium receivable                  | (11,572)                    | (1,537)   |
| Change in reinsurance receivables                                  | (759)                       | (592)     |
| Change in deferred policy acquisition costs                        | (1,180)                     | 690       |
| Change in other assets   | (5,072)                     | (709)     |
| Change in unpaid losses and loss adjustment expenses               | 5,272                       | 2,332     |
| Change in unearned premium   | 8,514                       | (2,266)   |
| Change in other liabilities  | 7,889                       | (1,242)   |
| Net cash provided by operating activities                          | 23,911                      | 14,388    |
| <b>Investing Activities:</b>                                       |                             |           |
| Purchases of fixed maturities                                      | (137,518)                   | (115,716) |
| Purchases of short-term investments                                | (2,628)                     | 0         |
| Purchases of property and equipment                                | (26,065)                    | (7,702)   |
| Maturities and redemptions of fixed maturities                     | 59,775                      | 31,990    |
| Maturities and redemptions of short-term investments               | 285                         | 1,200     |
| Proceeds from sale of fixed maturities                             | 56,704                      | 52,380    |
| Proceeds from sale of equity securities                            | 0                           | 4,999     |
| Net cash used in investing activities                              | (49,448)                    | (32,849)  |
| <b>Financing Activities:</b>                                       |                             |           |
| Proceeds from stock options exercised and employee stock purchases | 68                          | 83        |
| Excess tax benefits from share-based payment arrangements          | 298                         | 96        |
| Principal payments under capital lease obligation                  | (128)                       | (141)     |
| Acquisition of treasury stock                                      | (5,733)                     | (3,185)   |
| Dividends paid to shareholders                                     | (4,922)                     | (4,144)   |
| Net cash used in financing activities                              | (10,416)                    | (7,292)   |
| Net decrease in cash and cash equivalents                          | (35,953)                    | (25,753)  |
| Cash and cash equivalents at beginning of period                   | 96,434                      | 84,892    |
| Cash and cash equivalents at end of period                         | \$60,481                    | \$59,139  |



Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

(\$ in thousands)

(unaudited)

|  | Six months ended June 30, |           |
|--|---------------------------|-----------|
|  | 2015                      | 2014      |
| <b>Operating Activities:</b>                                       |                           |           |
| Net earnings   | \$24,646                  | \$20,994  |
| <b>Adjustments:</b>  |                           |           |
| Depreciation   | 5,923                     | 5,199     |
| Amortization   | 11,099                    | 11,267    |
| Net realized gains on investments                                  | (1,384)                   | (2,491)   |
| Loss (gain) on disposal of property and equipment                  | 238                       | (27)      |
| Share-based compensation expense                                   | 1,728                     | 1,708     |
| Excess tax benefits from share-based payment arrangements          | (298)                     | (151)     |
| Activity related to rabbi trust                                    | 11                        | 61        |
| Change in accrued investment income                                | (543)                     | (706)     |
| Change in agents' balances and premium receivable                  | (57,903)                  | (43,194)  |
| Change in reinsurance receivables                                  | (1,521)                   | (1,738)   |
| Change in deferred policy acquisition costs                        | (8,916)                   | (5,759)   |
| Change in other assets   | (3,340)                   | 1,845     |
| Change in unpaid losses and loss adjustment expenses               | 12,850                    | 18,645    |
| Change in unearned premium   | 63,688                    | 44,742    |
| Change in other liabilities  | 5,099                     | 4,311     |
| Net cash provided by operating activities                          | 51,378                    | 54,705    |
| <b>Investing Activities:</b>                                       |                           |           |
| Purchases of fixed maturities                                      | (287,674)                 | (299,244) |
| Purchases of equity securities                                     | (2,000)                   | (2,600)   |
| Purchases of short-term investments                                | (3,660)                   | (200)     |
| Purchases of property and equipment                                | (28,204)                  | (12,951)  |
| Maturities and redemptions of fixed maturities                     | 106,503                   | 73,191    |
| Maturities and redemptions of short-term investments               | 285                       | 2,600     |
| Proceeds from sale of fixed maturities                             | 152,136                   | 117,339   |
| Proceeds from sale of equity securities                            | 4,489                     | 4,999     |
| Proceeds from sale of property and equipment                       | 0                         | 30        |
| Net cash used in investing activities                              | (58,125)                  | (116,836) |
| <b>Financing Activities:</b>                                       |                           |           |
| Proceeds from stock options exercised and employee stock purchases | 133                       | 624       |
| Excess tax benefits from share-based payment arrangements          | 298                       | 151       |
| Principal payments under capital lease obligation                  | (246)                     | (275)     |
| Acquisition of treasury stock                                      | (7,645)                   | (5,160)   |
| Dividends paid to shareholders                                     | (9,853)                   | (8,283)   |
| Net cash used in financing activities                              | (17,313)                  | (12,942)  |
| Net decrease in cash and cash equivalents                          | (24,060)                  | (75,072)  |
| Cash and cash equivalents at beginning of period                   | 84,541                    | 134,211   |
| Cash and cash equivalents at end of period                         | \$60,481                  | \$59,139  |

See Condensed Notes to Consolidated Financial Statements.

8

---

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

INDEX TO NOTES

- |   |   |
|---|---|
| 1. <u>Reporting and Accounting Policies</u>     | 6. <u>Income Taxes</u>                            |
| 2. <u>Computation of Net Earnings Per Share</u> | 7. <u>Additional Information</u>                  |
| 3. <u>Fair Value</u>                            | 8. <u>Insurance Reserves</u>                      |
| 4. <u>Investments</u>                           | 9. <u>Commitments and Contingencies</u>           |
| 5. <u>Long-Term Debt</u>                        | 10. <u>Accumulated Other Comprehensive Income</u> |

Note 1 Reporting and Accounting Policies

Nature of Operations

We are a holding company that provides, through our subsidiaries, personal automobile insurance with a focus on the nonstandard market. 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, 2014. 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, 2015, for recognition or disclosure in our financial statements and the notes to the financial statements.

Schedules may not foot due to rounding.

Estimates

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

Recently Issued Accounting Standards

In May 2015 the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) related to the disclosure for short-duration contracts. The guidance requires additional disclosures related to the liability for unpaid claims and claim adjustment expenses in an effort to increase transparency and comparability. The standard is effective for fiscal years beginning after December 15, 2015, and is to be applied retrospectively. The new guidance will have no impact on our results of operations or financial position.

In April 2015 the FASB issued an ASU related to the presentation of debt issuance costs. The guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The standard is effective for fiscal years beginning after December 15, 2015, and is to be applied

retrospectively. The new guidance will have no material impact on our results of operations or financial position.



Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

In May 2014 the FASB issued an ASU related to the accounting for revenue from contracts with customers. Insurance contracts have been excluded from the scope of the guidance. The proposed ASU 2015-240 would change the effective date from fiscal years beginning after December 15, 2016, to fiscal years beginning after December 15, 2017. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

## Note 2 Computation of Net Earnings per Share

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

|   | Three months ended June 30, |          | Six months ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2015                        | 2014     | 2015                      | 2014     |
| Net earnings                                | \$13,493                    | \$10,667 | \$24,646                  | \$20,994 |
| Average basic shares outstanding            | 11,408                      | 11,435   | 11,417                    | 11,432   |
| Basic net earnings per share                | \$1.18                      | \$0.93   | \$2.16                    | \$1.84   |
| Average basic shares outstanding            | 11,408                      | 11,435   | 11,417                    | 11,432   |
| Restricted stock not yet vested             | 14                          | 62       | 13                        | 59       |
| Dilutive effect of assumed option exercises | 0                           | 0        | 0                         | 1        |
| Dilutive effect of Performance Share Plan   | 61                          | 86       | 87                        | 89       |
| Average diluted shares outstanding          | 11,483                      | 11,583   | 11,517                    | 11,581   |
| Diluted net earnings per share              | \$1.18                      | \$0.92   | \$2.14                    | \$1.81   |

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 3 Fair Value

Fair values of instruments are based on:

(i) quoted prices in active markets for identical assets (Level 1);

quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in  
(ii) markets that are not active and model-derived valuations in which all significant inputs are observable in active  
markets (Level 2); or

(iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the  
marketplace (Level 3).

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

| June 30, 2015                            | Fair Value |             |         | Total       |   |
|--|------------|-------------|---------|-------------|---|
|  | Level 1    | Level 2     | Level 3 |             |   |
| Cash and cash equivalents                | \$60,481   | \$0         | \$0     | \$60,481    |   |
| Fixed maturity securities:               |            |             |         |             |   |
| U.S. government                          | 69,223     | 56          | 0       | 69,279      |   |
| State and municipal                      | 0          | 502,266     | 10      | 502,276     |   |
| Mortgage-backed securities:              |            |             |         |             |   |
| Residential                              | 0          | 344,411     | 0       | 344,411     |   |
| Commercial                               | 0          | 72,025      | 0       | 72,025      |   |
| Total mortgage-backed securities         | 0          | 416,435     | 0       | 416,435     |   |
| Asset-backed securities                  | 0          | 58,654      | 0       | 58,654      |   |
| Corporates                               | 0          | 391,703     | 2,423   | 394,127     |   |
| Total fixed maturities                   | 69,223     | 1,369,115   | 2,434   | 1,440,771   |   |
| Equity securities                        | 94,397     | 0           | 0       | 94,397      |   |
| Short-term investments                   | 0          | 4,121       | 0       | 4,121       |   |
| Total cash and investments               | \$224,101  | \$1,373,236 | \$2,434 | \$1,599,771 |   |
| Percentage of total cash and investments | 14.0       | % 85.8      | % 0.2   | % 100.0     | % |
| December 31, 2014                        |            |             |         |             |   |
| Cash and cash equivalents                | \$84,541   | \$0         | \$0     | \$84,541    |   |
| Fixed maturity securities:               |            |             |         |             |   |
| U.S. government                          | 66,847     | 87          | 0       | 66,933      |   |
| State and municipal                      | 0          | 503,650     | 0       | 503,650     |   |
| Mortgage-backed securities:              |            |             |         |             |   |
| Residential                              | 0          | 354,528     | 0       | 354,528     |   |
| Commercial                               | 0          | 50,838      | 0       | 50,838      |   |
| Total mortgage-backed securities         | 0          | 405,366     | 0       | 405,366     |   |
| Asset-backed securities                  | 0          | 58,457      | 150     | 58,607      |   |
| Corporates                               | 0          | 394,152     | 3,134   | 397,286     |   |
| Total fixed maturities                   | 66,847     | 1,361,711   | 3,285   | 1,431,843   |   |
| Equity securities                        | 94,408     | 0           | 0       | 94,408      |   |
| Short-term investments                   | 0          | 803         | 0       | 803         |   |
| Total cash and investments               | \$245,795  | \$1,362,514 | \$3,285 | \$1,611,594 |   |
| Percentage of total cash and investments | 15.3       | % 84.5      | % 0.2   | % 100.0     | % |



Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

We do not report our long-term debt at fair value in the Consolidated Balance Sheets. The \$287.6 million and \$291.0 million fair value of our long-term debt at June 30, 2015, and December 31, 2014, respectively, would be included in Level 2 of the fair value hierarchy if it were reported at fair value.

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

A third party nationally recognized pricing service provides the fair value of securities in Level 2. A summary of the significant valuation techniques and market inputs for each class of security follows:

U.S. Government: In determining the fair value for U.S. Government securities we use the market approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.

State and municipal: In determining the fair value for state and municipal securities we use the market approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data and industry and economic events.

Mortgage-backed securities: In determining the fair value for mortgage-backed securities we use the market approach and to a lesser extent the income approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data, industry and economic events and monthly payment information.

Asset-backed securities: In determining the fair value for asset-backed securities we use the market approach and to a lesser extent the income approach. The primary inputs to the valuation include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads, reference data, industry and economic events, monthly payment information and collateral performance.

Corporate: In determining the fair value for corporate securities we use the fair value approach. The primary inputs to the valuation models include reported trades, dealer quotes for identical or similar assets in markets that are not active, benchmark yields, credit spreads (for investment grade securities), observations of equity and credit default swap curves (for high-yield corporates), reference data and industry and economic events.

We review the third party pricing methodologies quarterly and test for significant differences between the market price used to value the security and recent sales activity.

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

The following tables present the progression in the Level 3 fair value category (\$ in thousands):

|   | Three months ended June 30, 2015 |            |                            |          |
|---|----------------------------------|------------|----------------------------|----------|
|   | State and<br>Municipal           | Corporates | Asset-Backed<br>Securities | Total    |
| Balance at beginning of period                  | \$ 10                            | \$ 2,946   | \$ 46                      | \$ 3,002 |
| Total gains or (losses), unrealized or realized |                                  |            |                            |          |
| Included in net earnings                        | 0                                | 12         | 0                          | 12       |
| Included in other comprehensive income          | 0                                | (28        | ) 0                        | (28      |
| Settlements                                     | 0                                | (506       | ) (46                      | ) (552   |
| Balance at end of period                        | \$ 10                            | \$ 2,423   | \$ 0                       | \$ 2,434 |
|   |                                  |            |                            |          |
|   | Three months ended June 30, 2014 |            |                            |          |
|   | State and<br>Municipal           | Corporates | Asset-Backed<br>Securities | Total    |
| Balance at beginning of period                  | \$ 0                             | \$ 5,054   | \$ 530                     | \$ 5,583 |
| Total gains or (losses), unrealized or realized |                                  |            |                            |          |
| Included in net earnings                        | 0                                | 20         | 0                          | 20       |
| Included in other comprehensive income          | 0                                | (3         | ) (2                       | ) (4     |
| Settlements                                     | 0                                | (501       | ) (148                     | ) (649   |
| Balance at end of period                        | \$ 0                             | \$ 4,569   | \$ 380                     | \$ 4,949 |
|   |                                  |            |                            |          |
|   | Six months ended June 30, 2015   |            |                            |          |
|   | State and<br>Municipal           | Corporates | Asset-Backed<br>Securities | Total    |
| Balance at beginning of period                  | \$ 0                             | \$ 3,134   | \$ 150                     | \$ 3,285 |
| Total gains or (losses), unrealized or realized |                                  |            |                            |          |
| Included in net earnings                        | 0                                | (83        | ) 0                        | (83      |
| Included in other comprehensive income          | 0                                | (43        | ) 0                        | (42      |
| Settlements                                     | 0                                | (586       | ) (150                     | ) (736   |
| Transfers in                                    | 10                               | 0          | 0                          | 10       |
| Balance at end of period                        | \$ 10                            | \$ 2,423   | \$ 0                       | \$ 2,434 |
|   |                                  |            |                            |          |
|   | Six months ended June 30, 2014   |            |                            |          |
|   | State and<br>Municipal           | Corporates | Asset-Backed<br>Securities | Total    |
| Balance at beginning of period                  | \$ 0                             | \$ 5,175   | \$ 686                     | \$ 5,860 |
| Total gains or (losses), unrealized or realized |                                  |            |                            |          |
| Included in net earnings                        | 0                                | 29         | 0                          | 29       |
| Included in other comprehensive income          | 0                                | (59        | ) (2                       | ) (60    |
| Settlements                                     | 0                                | (575       | ) (304                     | ) (879   |
| Transfers in                                    | 0                                | 0          | 0                          | 0        |
| Balance at end of period                        | \$ 0                             | \$ 4,569   | \$ 380                     | \$ 4,949 |

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

Of the \$2.4 million fair value of securities in Level 3 at June 30, 2015, which consists of seven securities, we priced three based on non-binding broker quotes, two prices were provided by our unaffiliated money manager and two securities, which were included in Level 3 because they were not rated by a nationally recognized statistical rating organization, were priced by a nationally recognized pricing service.

During the six months ended June 30, 2015, one security was transferred from Level 2 into Level 3 because it was no longer rated by a nationally recognized statistical rating organization. There were no transfers of securities between Levels 1 and 2.

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

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

|                            | June 30, 2015  |             | December 31, 2014 |             |
|----------------------------|----------------|-------------|-------------------|-------------|
|                            | Carrying Value | Fair Value  | Carrying Value    | Fair Value  |
| Assets:                    |                |             |                   |             |
| Cash and cash equivalents  | \$60,481       | \$60,481    | \$84,541          | \$84,541    |
| Investments                |                |             |                   |             |
| Fixed maturities           | 1,440,771      | 1,440,771   | 1,431,843         | 1,431,843   |
| Equity securities          | 94,397         | 94,397      | 94,408            | 94,408      |
| Short-term                 | 4,121          | 4,121       | 803               | 803         |
| Total cash and investments | \$1,599,771    | \$1,599,771 | \$1,611,594       | \$1,611,594 |
| Liabilities:               |                |             |                   |             |
| Long-term debt             | \$275,000      | \$287,576   | \$275,000         | \$291,044   |

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

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Note 4 Investments

We consider all fixed maturity and equity securities to be available-for-sale and report them at fair value with the net unrealized gains or losses reported after-tax (net of any valuation allowance) as a component of other comprehensive income. The proceeds from sales of securities for the three and six months ended June 30, 2015, were \$56.7 million and \$156.6 million, respectively. The proceeds for the three and six months ended June 30, 2014, were \$57.4 million and \$122.3 million, respectively. There was no receivable for unsettled sales as of June 30, 2015 or 2014.

Gross gains of \$0.5 million and gross losses of \$0.1 million were realized on sales of available for sale securities during the three months ended June 30, 2015, compared with gross gains of \$1.9 million and gross losses of \$0.1 million realized on sales during the three months ended June 30, 2014. Gross gains of \$2.7 million and gross losses of \$0.7 million were realized on sales of available for sale securities during the six months ended June 30, 2015, compared with gross gains of \$2.7 million and gross losses of \$0.2 million realized on sales during the six months ended June 30, 2014. Gains or losses on securities are determined on a specific identification basis.

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

June 30, 2015

|                                  | Amortized<br>Cost or Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value    | OTTI<br>Recognized in<br>Accumulated<br>OCI <sup>(1)</sup> |
|----------------------------------|---------------------------|------------------------------|-------------------------------|---------------|--|
| Fixed maturities:                |                           |                              |                               |               |  |
| U.S. government                  | \$68,979                  | \$387                        | \$(87                         | ) \$69,279    | \$0  |
| State and municipal              | 494,780                   | 8,117                        | (621                          | ) 502,276     | (69 )  |
| Mortgage-backed securities:      |                           |                              |                               |               |  |
| Residential                      | 342,421                   | 4,531                        | (2,541                        | ) 344,411     | (2,660 )   |
| Commercial                       | 72,179                    | 162                          | (316                          | ) 72,025      | 0  |
| Total mortgage-backed securities | 414,600                   | \$4,693                      | (2,858                        | ) \$416,435   | (2,660 )   |
| Asset-backed securities          | 58,459                    | 210                          | (15                           | ) 58,654      | (8 )   |
| Corporates                       | 392,125                   | 4,757                        | (2,756                        | ) 394,127     | (246 )   |
| Total fixed maturities           | 1,428,944                 | 18,164                       | (6,337                        | ) 1,440,771   | (2,983 )   |
| Equity securities                | 76,691                    | 17,706                       | 0                             | 94,397        | 0  |
| Short-term investments           | 4,123                     | 0                            | (2                            | ) 4,121       | 0  |
| Total                            | \$1,509,758               | \$35,870                     | \$(6,339                      | ) \$1,539,290 | \$(2,983 )   |

December 31, 2014

|                                  | Amortized<br>Cost or Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value    | OTTI<br>Recognized in<br>Accumulated<br>OCI <sup>(1)</sup> |
|----------------------------------|---------------------------|------------------------------|-------------------------------|---------------|--|
| Fixed maturities:                |                           |                              |                               |               |  |
| U.S. government                  | \$66,625                  | \$502                        | \$(193                        | ) \$66,933    | \$0  |
| State and municipal              | 493,350                   | 10,637                       | (337                          | ) 503,650     | (69 )  |
| Mortgage-backed securities:      |                           |                              |                               |               |  |
| Residential                      | 349,371                   | 6,547                        | (1,390                        | ) 354,528     | (2,914 )   |
| Commercial                       | 50,914                    | 182                          | (258                          | ) 50,838      | 0  |
| Total mortgage-backed securities | 400,285                   | 6,729                        | (1,648                        | ) 405,366     | (2,914 )   |
| Asset-backed securities          | 58,546                    | 131                          | (70                           | ) 58,607      | (8 )   |
| Corporates                       | 393,611                   | 5,999                        | (2,324                        | ) 397,286     | (441 )   |
| Total fixed maturities           | 1,412,417                 | 23,998                       | (4,572                        | ) 1,431,843   | (3,433 )   |
| Equity securities                | 77,862                    | 16,546                       | 0                             | 94,408        | 0  |
| Short-term investments           | 803                       | 0                            | (1                            | ) 803         | 0  |
| Total                            | \$1,491,082               | \$40,544                     | \$(4,573                      | ) \$1,527,054 | \$(3,433 )   |

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



Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

|                                  | Less than 12 Months                         |            |                         |                                | 12 Months or More                           |            |                         |                                |  |
|----------------------------------|---|------------|-------------------------|--------------------------------|---|------------|-------------------------|--------------------------------|--|
|                                  | Number of Securities with Unrealized Losses | Fair Value | Gross Unrealized Losses | Unrealized Losses as % of Cost | Number of Securities with Unrealized Losses | Fair Value | Gross Unrealized Losses | Unrealized Losses as % of Cost |  |
| June 30, 2015                    |   |            |                         |                                |   |            |                         |                                |  |
| Fixed maturities:                |   |            |                         |                                |   |            |                         |                                |  |
| U.S. government                  | 9   | \$17,112   | \$(63)                  | 0.4 %                          | 4   | \$5,165    | \$(24)                  | 0.5 %                          |  |
| State and municipal              | 60  | 149,383    | (621)                   | 0.4 %                          | 0   | 0          | 0                       | 0.0 %                          |  |
| Mortgage-backed securities:      |   |            |                         |                                |   |            |                         |                                |  |
| Residential                      | 159   | 118,336    | (1,388)                 | 1.2 %                          | 64  | 46,853     | (1,153)                 | 2.4 %                          |  |
| Commercial                       | 11  | 36,809     | (222)                   | 0.6 %                          | 3   | 14,254     | (94)                    | 0.7 %                          |  |
| Total mortgage-backed securities | 170   | 155,145    | (1,610)                 | 1.0 %                          | 67  | 61,107     | (1,247)                 | 2.0 %                          |  |
| Asset-backed securities          | 12  | 10,760     | (10)                    | 0.1 %                          | 2   | 1,156      | (4)                     | 0.4 %                          |  |
| Corporates                       | 116   | 160,029    | (2,522)                 | 1.6 %                          | 8   | 10,222     | (234)                   | 2.2 %                          |  |
| Total fixed maturities           | 367   | 492,429    | (4,827)                 | 1.0 %                          | 81  | 77,650     | (1,510)                 | 1.9 %                          |  |
| Equity securities                | 0   | 0          | 0                       | 0.0 %                          | 0   | 0          | 0                       | 0.0 %                          |  |
| Short-term investments           | 3   | 3,621      | (2)                     | 0.1 %                          | 0   | 0          | 0                       | 0.0 %                          |  |
| Total                            | 370   | \$496,050  | \$(4,829)               | 1.0 %                          | 81  | \$77,650   | \$(1,510)               | 1.9 %                          |  |
|                                  | 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, 2014                |   |            |                         |                                |   |            |                         |                                |  |
| Fixed maturities:                |   |            |                         |                                |   |            |                         |                                |  |
| U.S. government                  | 2   | \$5,275    | \$(13)                  | 0.3 %                          | 8   | \$21,051   | \$(180)                 | 0.8 %                          |  |
| State and municipal              | 45  | 108,721    | (290)                   | 0.3 %                          | 2   | 4,183      | (47)                    | 1.1 %                          |  |
| Mortgage-backed securities:      |   |            |                         |                                |   |            |                         |                                |  |
| Residential                      | 24  | 12,855     | (34)                    | 0.3 %                          | 109   | 100,752    | (1,356)                 | 1.3 %                          |  |
| Commercial                       | 8   | 15,638     | (122)                   | 0.8 %                          | 5   | 9,519      | (136)                   | 1.4 %                          |  |
| Total mortgage-backed securities | 32  | 28,493     | (156)                   | 0.5 %                          | 114   | 110,271    | (1,492)                 | 1.3 %                          |  |
| Asset-backed securities          | 24  | 23,351     | (60)                    | 0.3 %                          | 2   | 1,150      | (9)                     | 0.8 %                          |  |
| Corporates                       | 103   | 142,046    | (1,820)                 | 1.3 %                          | 16  | 19,865     | (503)                   | 2.5 %                          |  |
| Total fixed maturities           | 206   | 307,886    | (2,340)                 | 0.8 %                          | 142   | 156,521    | (2,232)                 | 1.4 %                          |  |
| Equity securities                | 0   | 0          | 0                       | 0.0 %                          | 0   | 0          | 0                       | 0.0 %                          |  |
| Short-term investments           | 2   | 803        | (1)                     | 0.1 %                          | 0   | 0          | 0                       | 0.0 %                          |  |

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|       |     |           |            |     |   |     |           |            |     |   |
|-------|-----|-----------|------------|-----|---|-----|-----------|------------|-----|---|
| Total | 208 | \$308,689 | \$(2,341 ) | 0.8 | % | 142 | \$156,521 | \$(2,232 ) | 1.4 | % |
|-------|-----|-----------|------------|-----|---|-----|-----------|------------|-----|---|

17

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Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

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

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

We regularly evaluate for potential impairment each security position that has either of the following: a fair value of less than 95% of its book value or an unrealized loss that equals or exceeds \$100,000.

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

|   | June 30,<br>2015 | December 31,<br>2014 |  |   |
|---|------------------|----------------------|--|---|
| Number of positions held with unrealized:                     |                  |                      |  |   |
| Gains   | 711              | 778                  |  |   |
| Losses  | 451              | 350                  |  |   |
| Number of positions held that individually exceed unrealized: |                  |                      |  |   |
| Gains of \$500,000  | 3                | 3                    |  |   |
| Losses of \$500,000   | 0                | 0                    |  |   |
| Percentage of positions held with unrealized:                 |                  |                      |  |   |
| Gains that were investment grade                              | 92               | % 92                 |  | % |
| Losses that were investment grade                             | 88               | % 84                 |  | % |
| Percentage of fair value held with unrealized:                |                  |                      |  |   |
| Gains that were investment grade                              | 93               | % 94                 |  | % |
| Losses that were investment grade                             | 89               | % 86                 |  | % |

The following table sets forth the amount of unrealized loss, excluding the rabbi trust, by age and severity at June 30, 2015 (\$ in thousands):

| Age of Unrealized Losses:        | Fair Value of<br>Securities with<br>Unrealized<br>Losses | Total Gross<br>Unrealized<br>Losses | Less Than 5%* | 5% - 10%* | Greater<br>Than 10%* |
|----------------------------------|--|-------------------------------------|---------------|-----------|----------------------|
| Three months or less             | \$381,565  | \$(2,994)                           | \$(2,876)     | \$(118)   | \$0                  |
| Four months through six months   | 84,909   | (1,396)                             | (905)         | 0         | (491)                |
| Seven months through nine months | 24,560   | (341)                               | (142)         | (199)     | 0                    |
| Ten months through twelve months | 9,352  | (174)                               | (95)          | (79)      | 0                    |
| Greater than twelve months       | 73,315   | (1,433)                             | (1,433)       | 0         | 0                    |
| Total                            | \$573,700  | \$(6,339)                           | \$(5,452)     | \$(395)   | \$(491)              |

\* As a percentage of amortized cost or cost.

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

|   | Pre-tax<br>Fixed<br>Maturities | Equity<br>Securities | Short-Term<br>Investments | Tax<br>Effects | Net       |
|---|--------------------------------|----------------------|---------------------------|----------------|-----------|
| Six months ended June 30, 2015  |                                |                      |                           |                |           |
| Unrealized holding gains (losses) on securities arising during the period | \$(7,313)                      | \$2,259              | \$ (2)                    | \$1,770        | \$(3,287) |
| Realized gains on securities sold   | (875)                          | (1,098)              | 0                         | 691            | (1,283)   |
| Impairment loss recognized in earnings                                    | 590                            | 0                    | 0                         | (206)          | 383       |
| Change in unrealized gains (losses) on marketable securities, net         | \$(7,599)                      | \$1,160              | \$ (2)                    | \$2,254        | \$(4,186) |
| Six months ended June 30, 2014  |                                |                      |                           |                |           |
| Unrealized holding gains on securities arising during the period          | \$18,850                       | \$4,515              | \$5                       | \$(8,179)      | \$15,190  |
| Realized gains on securities sold   | (1,246)                        | (1,273)              | (5)                       | 883            | (1,641)   |
| Impairment loss recognized in earnings                                    | 33                             | 0                    | 0                         | (12)           | 22        |
|   | \$17,638                       | \$3,242              | \$(1)                     | \$(7,308)      | \$13,571  |

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

19

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Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

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

|                                | Six months ended June 30, |       |
|--------------------------------|---------------------------|-------|
|                                | 2015                      | 2014  |
| Beginning balance              | \$852                     | \$956 |
| Additions for:                 |                           |       |
| Previously impaired securities | 0                         | 19    |
| Newly impaired securities      | 0                         | 13    |
| Reductions for:                |                           |       |
| Securities sold and paid down  | (85                       | ) (74 |
| Ending balance                 | \$766                     | \$914 |

The table below sets forth the scheduled maturities of fixed maturity securities at June 30, 2015, 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                      | \$70,725                         | \$13,087                          | \$7,326                                       | \$91,138                      | \$90,524                      |
| After one year through five years     | 405,984                          | 172,795                           | 0   | 578,779                       | 571,076                       |
| After five years through ten years    | 133,482                          | 150,059                           | 243   | 283,785                       | 282,626                       |
| After ten years                       | 6,011                            | 5,970                             | 0   | 11,980                        | 11,657                        |
| Mortgage- and asset-backed securities | 246,053                          | 228,168                           | 869   | 475,089                       | 473,059                       |
| Total                                 | \$862,254                        | \$570,079                         | \$8,438                                       | \$1,440,771                   | \$1,428,944                   |

## Note 5 Long-Term Debt

In September 2012 we issued \$275 million principal of senior notes due September 2022 (the “5.0% Senior Notes”). The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually. At the time we issued the 5.0% Senior Notes, we capitalized \$2.2 million of debt issuance costs, which we are amortizing over the term of the 5.0% Senior Notes. We calculated the June 30, 2015, fair value of \$287.6 million using a 190 basis point spread to the ten-year U.S. Treasury Note of 2.355%.

In August 2014 we renewed our agreement for a \$50 million three-year revolving credit facility (the “Credit Agreement”) that requires us to meet certain financial and other covenants. We are currently in compliance with all covenants under the Credit Agreement. At June 30, 2015, there were no borrowings outstanding under the Credit Agreement.

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 6 Income Taxes

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

|  | Three months ended June 30, |          | Six months ended June 30, |          |   |
|--|-----------------------------|----------|---------------------------|----------|---|
|  | 2015                        | 2014     | 2015                      | 2014     |   |
| Earnings before income taxes   | \$19,667                    | \$15,143 | \$35,903                  | \$29,789 |   |
| Income taxes at statutory rate   | 6,883                       | 5,300    | 12,566                    | 10,426   |   |
| Effect of:   |                             |          |                           |          |   |
| Dividends-received deduction   | (144                        | ) (144   | ) (248                    | ) (251   | ) |
| Tax-exempt interest  | (584                        | ) (701   | ) (1,308                  | ) (1,403 | ) |
| Other  | 19                          | 20       | 247                       | 23       |   |
| Provision for income taxes as shown on the Consolidated Statements of Earnings | \$6,174                     | \$4,476  | \$11,257                  | \$8,795  |   |
| GAAP effective tax rate  | 31.4                        | % 29.6   | % 31.4                    | % 29.5   | % |

## Note 7 Additional Information

## Supplemental Cash Flow Information

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

|                                     | Three months ended June 30, |         | Six months ended June 30, |         |
|-------------------------------------|-----------------------------|---------|---------------------------|---------|
|                                     | 2015                        | 2014    | 2015                      | 2014    |
| Income tax payments                 | \$12,000                    | \$6,200 | \$12,750                  | \$6,200 |
| Interest payments on debt           | 0                           | 0       | 6,875                     | 6,875   |
| Interest payments on capital leases | \$21                        | \$14    | 43                        | 29      |
| Negative Cash Book Balances         |                             |         |                           |         |

Negative cash book balances, included in the line item "Other liabilities" in the Consolidated Balance Sheets, were \$56.8 million and \$51.2 million, respectively, at June 30, 2015, and December 31, 2014.



Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 8 Insurance Reserves

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

|  | Three months ended June 30, |           | Six months ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2015                        | 2014      | 2015                      | 2014      |
| Balance at Beginning of Period                         |                             |           |                           |           |
| Unpaid losses on known claims                          | \$241,483                   | \$226,659 | \$235,037                 | \$221,447 |
| IBNR losses  | 278,863                     | 272,159   | 277,482                   | 262,660   |
| LAE  | 155,409                     | 164,072   | 155,658                   | 162,469   |
| Total unpaid losses and LAE                            | 675,755                     | 662,890   | 668,177                   | 646,577   |
| Reinsurance recoverables                               | (13,982)                    | (14,544)  | (14,370)                  | (14,431)  |
| Unpaid losses and LAE, net of reinsurance recoverables | 661,773                     | 648,346   | 653,808                   | 632,146   |
| Current Activity                                       |                             |           |                           |           |
| Loss and LAE incurred:                                 |                             |           |                           |           |
| Current accident year                                  | 273,246                     | 257,098   | 531,030                   | 513,874   |
| Prior accident years                                   | (10,462)                    | (163)     | (12,604)                  | (3,237)   |
| Total loss and LAE incurred                            | 262,784                     | 256,935   | 518,427                   | 510,637   |
| Loss and LAE payments:                                 |                             |           |                           |           |
| Current accident year                                  | (164,762)                   | (153,772) | (246,670)                 | (234,590) |
| Prior accident years                                   | (92,922)                    | (100,005) | (258,692)                 | (256,688) |
| Total loss and LAE payments                            | (257,684)                   | (253,776) | (505,362)                 | (491,278) |
| Balance at End of Period                               |                             |           |                           |           |
| Unpaid losses and LAE, net of reinsurance recoverables | 666,873                     | 651,505   | 666,873                   | 651,505   |
| Add back reinsurance recoverables                      | 14,155                      | 13,717    | 14,155                    | 13,717    |
| Total unpaid losses and LAE                            | 681,028                     | 665,222   | 681,028                   | 665,222   |
| Unpaid losses on known claims                          | 245,863                     | 225,040   | 245,863                   | 225,040   |
| IBNR losses  | 281,147                     | 274,830   | 281,147                   | 274,830   |
| LAE  | 154,017                     | 165,352   | 154,017                   | 165,352   |
| Total unpaid losses and LAE                            | \$681,028                   | \$665,222 | \$681,028                 | \$665,222 |

The \$10.5 million and \$12.6 million of favorable reserve development during the three and six months ended June 30, 2015, respectively, was primarily due to decreases in loss adjustment expenses related to Florida bodily injury coverages in accident years 2013 and 2014.

The \$3.2 million of favorable reserve development during the six months ended June 30, 2014 was primarily due to a decrease in frequency in accident year 2013 in Florida personal injury protection and material damage coverages in the states of California and Pennsylvania.

## Note 9 Commitments and Contingencies

## Commitments

There have been no material changes from the commitments discussed in the Form 10-K for the year ended December 31, 2014. 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, 2014.



Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Contingencies

From time to time we and our subsidiaries are named as defendants in various lawsuits incidental to our insurance operations. We consider legal actions relating to claims made in the ordinary course of seeking indemnification for a loss covered by the insurance policy in establishing loss and LAE reserves.

We also face, in the ordinary course of business, lawsuits that seek damages beyond policy limits, commonly known as extra-contractual claims, as well as class action and individual lawsuits that involve issues not unlike those facing other insurance companies and employers. We continually evaluate potential liabilities and reserves for litigation of these types using the criteria established by the Contingencies topic of the FASC. Under this guidance we may only record reserves for a loss if the likelihood of occurrence is probable and we can reasonably estimate the amount. If a material loss is judged to be reasonably possible, we will disclose an estimated range of loss or state that an estimate cannot be made. We consider each legal action using this guidance and record reserves for losses as warranted by establishing a reserve captured within our Consolidated Balance Sheets line-items "Unpaid losses and LAE" for extra-contractual claims and "Other liabilities" for class action and other non-claims related lawsuits. We record amounts incurred on the Consolidated Statements of Earnings within "Losses and LAE" for extra-contractual claims and "Other expenses" for class action and other non-claims related lawsuits.

Certain claims and legal actions have been brought against us for which we have accrued no loss, and for which an estimate of a possible range of loss cannot be made under the above rules. While it is not possible to predict the ultimate outcome of these claims or lawsuits, we do not believe they are likely to have a material effect on our financial condition or liquidity. However, losses incurred because of these cases could have a material adverse impact on net earnings in a given period.

For a description of previously reported contingencies, refer to Note 14 Commitments and Contingencies in the Form 10-K for the year ended December 31, 2014.

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 10 Accumulated Other Comprehensive Income

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

|   | Three months ended June 30, |            |             | 2014       |            |             |
|---|-----------------------------|------------|-------------|------------|------------|-------------|
|   | 2015                        |            |             | 2014       |            |             |
|   | Before Tax                  | Income Tax | Net         | Before Tax | Income Tax | Net         |
| Accumulated change in postretirement benefit liability, beginning of period             | \$ 190                      | \$(66)     | ) \$ 123    | \$ 595     | \$(208)    | ) \$ 387    |
| Effect on other comprehensive income  | 16                          | (6)        | ) 11        | (3)        | ) 1        | (2)         |
| Accumulated change in postretirement benefit liability, end of period                   | 206                         | (72)       | ) 134       | 593        | (208)      | ) 385       |
| Accumulated unrealized gains on investments, net, beginning of period                   | 43,218                      | (15,126)   | ) 28,092    | 32,846     | (11,496)   | ) 21,350    |
| Other comprehensive income before reclassification                                      | (13,472)                    | ) 4,715    | (8,757)     | ) 15,517   | (5,431)    | ) 10,086    |
| Reclassification adjustment for other-than-temporary impairments included in net income | 208                         | (73)       | ) 135       | 6          | (2)        | ) 4         |
| Reclassification adjustment for realized gains included in net income                   | (423)                       | ) 148      | (275)       | ) (1,852)  | ) 648      | (1,204)     |
| Effect on other comprehensive income  | (13,687)                    | ) 4,790    | (8,896)     | ) 13,671   | (4,785)    | ) 8,886     |
| Accumulated unrealized gains on investments, net, end of period                         | 29,532                      | (10,336)   | ) 19,196    | 46,517     | (16,281)   | ) 30,236    |
| Accumulated other comprehensive income, beginning of period                             | 43,408                      | (15,193)   | ) 28,216    | 33,441     | (11,704)   | ) 21,737    |
| Change in postretirement benefit liability  | 16                          | (6)        | ) 11        | (3)        | ) 1        | (2)         |
| Change in unrealized gains on investments, net  | (13,687)                    | ) 4,790    | (8,896)     | ) 13,671   | (4,785)    | ) 8,886     |
| Effect on other comprehensive income  | (13,670)                    | ) 4,785    | (8,886)     | ) 13,669   | (4,784)    | ) 8,885     |
| Accumulated other comprehensive income, end of period                                   | \$ 29,738                   | \$(10,408) | ) \$ 19,330 | \$ 47,110  | \$(16,488) | ) \$ 30,621 |

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

|   | Six months ended June 30,<br>2015 |            |             | 2014       |            |             |   |
|---|-----------------------------------|------------|-------------|------------|------------|-------------|---|
|   | Before Tax                        | Income Tax | Net         | Before Tax | Income Tax | Net         |   |
| Accumulated change in postretirement benefit liability, beginning of period             | \$ 174                            | \$(61      | ) \$ 113    | \$(62      | ) \$ 22    | \$(40       | ) |
| Effect on other comprehensive income  | 33                                | (12        | ) 21        | 655        | (229       | ) 426       |   |
| Accumulated change in postretirement benefit liability, end of period                   | 206                               | (72        | ) 134       | 593        | (208       | ) 385       |   |
| Accumulated unrealized gains on investments, net, beginning of period                   | 35,972                            | (12,590    | ) 23,382    | 25,638     | (8,973     | ) 16,665    |   |
| Other comprehensive income before reclassification                                      | (5,056                            | ) 1,770    | (3,287      | ) 23,370   | (8,179     | ) 15,190    |   |
| Reclassification adjustment for other-than-temporary impairments included in net income | 590                               | (206       | ) 383       | 33         | (12        | ) 22        |   |
| Reclassification adjustment for realized gains included in net income                   | (1,973                            | ) 691      | (1,283      | ) (2,524   | ) 883      | (1,641      | ) |
| Effect on other comprehensive income  | (6,440                            | ) 2,254    | (4,186      | ) 20,879   | (7,308     | ) 13,571    |   |
| Accumulated unrealized gains on investments, net, end of period                         | 29,532                            | (10,336    | ) 19,196    | 46,517     | (16,281    | ) 30,236    |   |
| Accumulated other comprehensive income, beginning of period                             | 36,145                            | (12,651    | ) 23,494    | 25,576     | (8,952     | ) 16,624    |   |
| Change in postretirement benefit liability  | 33                                | (12        | ) 21        | 655        | (229       | ) 426       |   |
| Change in unrealized gains on investments, net  | (6,440                            | ) 2,254    | (4,186      | ) 20,879   | (7,308     | ) 13,571    |   |
| Effect on other comprehensive income  | (6,407                            | ) 2,242    | (4,164      | ) 21,534   | (7,537     | ) 13,997    |   |
| Accumulated other comprehensive income, end of period                                   | \$ 29,738                         | \$(10,408  | ) \$ 19,330 | \$ 47,110  | \$(16,488  | ) \$ 30,621 |   |

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

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

ITEM 2

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

The primary events or circumstances that could cause actual results to differ materially from what we expect include determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio (including other-than-temporary impairments for credit losses), loss cost trends, and competitive conditions in our key Focus States. We undertake no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements see "Risk Factors" contained in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014.

OVERVIEW

During the second quarter and first six months of 2015 total gross written premium grew 5.6% and 4.5%, respectively, compared with the same periods of 2014. The majority of this growth came from California personal auto and countrywide Commercial Vehicle, which grew a combined 16.2% and 15.4%, respectively, compared with the prior year. Partially offsetting premium growth in these two areas was premium decline of 38.3% and 40.8%, respectively, for the combined states of Georgia, Nevada and Pennsylvania as we have shifted our focus in these states to renewal only business. 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, 2015, were \$13.5 million and \$1.18, respectively, compared with \$10.7 million and \$0.92, respectively, for the three months ended June 30, 2014. Net earnings and diluted earnings per share for the six months ended June 30, 2015, were \$24.6 million and \$2.14, respectively, compared with \$21.0 million and \$1.81, respectively, for the six months ended June 30, 2014. The increase in diluted earnings per share for the three and six months ended June 30, 2015, was primarily due to an increase in favorable development on prior accident year loss and loss adjustment expense reserves recognized during the first six months of 2015.

Included in net earnings for the three and six months ended June 30, 2015, was \$6.8 million (\$10.5 million pre-tax) and \$8.2 million (\$12.6 million pre-tax) of favorable development on prior accident year loss and LAE reserves. The development was primarily due to decreases in loss adjustment expenses related to Florida bodily injury coverages in accident years 2013 and 2014. Included in net earnings for the three and six months ended June 30, 2014, was \$0.1 million (\$0.2 million pre-tax) and \$2.1 million (\$3.2 million pre-tax) of favorable development on prior accident year loss and LAE reserves. The development was primarily due to a decrease in frequency in accident year 2013 in Florida personal injury protection and material damage coverages in California and Pennsylvania.



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 displays combined ratio results by accident year developed through June 30, 2015:

| Accident Year | Accident Year Combined Ratio Developed Through |           |          |          |           |          | Prior Accident Year (Favorable) / Unfavorable Development |           | (\$ in millions) Prior Accident Year (Favorable) / Unfavorable Development |  |
|---------------|--|-----------|----------|----------|-----------|----------|---|-----------|--|--|
|               | Dec 2013                                       | June 2014 | Dec 2014 | Mar 2015 | June 2015 | Q2 2015  | YTD 2015  | Q2 2015   | YTD 2015   |  |
| Prior         |  |           |          |          |           |          |   | \$ (0.8 ) | \$ (0.4 )  |  |
| 2007          | 92.2 %   | 92.2 %    | 92.1 %   | 92.1 %   | 92.1 %    | 0.0 %    | 0.0 %   | 0.0 %     | (0.3 )   |  |
| 2008          | 91.3 %   | 91.3 %    | 91.2 %   | 91.1 %   | 91.1 %    | 0.0 %    | (0.1 ) %  | (0.3 ) %  | (0.7 )   |  |
| 2009          | 92.3 %   | 92.3 %    | 92.4 %   | 92.4 %   | 92.4 %    | 0.0 %    | 0.1 %   | 0.0 %     | 0.5  |  |
| 2010          | 99.6 %   | 99.3 %    | 99.2 %   | 99.3 %   | 99.3 %    | 0.0 %    | 0.1 %   | (0.1 ) %  | 0.6  |  |
| 2011          | 100.3 %  | 100.4 %   | 100.1 %  | 100.1 %  | 100.0 %   | (0.1 ) % | (0.1 ) %  | (0.7 ) %  | (0.7 )   |  |
| 2012          | 99.8 %   | 100.2 %   | 100.1 %  | 100.0 %  | 99.9 %    | (0.1 ) % | (0.1 ) %  | (1.2 ) %  | (1.7 )   |  |
| 2013          | 97.7 %   | 97.4 %    | 96.8 %   | 96.6 %   | 96.3 %    | (0.3 ) % | (0.5 ) %  | (4.4 ) %  | (6.7 )   |  |
| 2014          |  | 97.4 %    | 96.4 %   | 96.4 %   | 96.2 %    | (0.2 ) % | (0.2 ) %  | (2.9 ) %  | (3.3 )   |  |
| 2015          |  |           |          | 97.0 %   | 97.7 %    |          |   |           |  |  |
| YTD           |  |           |          |          |           |          |   | (10.5 )   | (12.6 )  |  |

See Results of Operations – Underwriting – Profitability for a more detailed discussion of our underwriting results. Pre-tax net investment income for the three months ended June 30, 2015, was \$9.2 million compared with \$9.1 million for the three months ended June 30, 2014. Pre-tax net investment income for both the six months ended June 30, 2015 and 2014 was \$17.9 million.

Our book value per share increased 1.2% from \$60.75 at December 31, 2014, to \$61.49 at June 30, 2015. This increase was primarily due to earnings partially offset by dividends and a decrease in unrealized gains for the six months ended June 30, 2015.



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

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

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

• "Other States" – Include Georgia, Nevada and Pennsylvania where we currently offer renewals only, as well as additional states where we are running off our writings.

Georgia, Nevada and Pennsylvania were previously included in the Focus States category. All prior period data has been adjusted to reflect the updated state classification.

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



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,<br>2015 | 2014    | Change   | % Change |    |
|-------------------------|---------------------|---------|----------|----------|----|
| Policies in Force       |                     |         |          |          |    |
| Personal Auto:          |                     |         |          |          |    |
| Focus States            | 777,284             | 775,614 | 1,670    | 0.2      | %  |
| Other States            | 35,528              | 61,630  | (26,102) | (42.4)   | )% |
| Total Personal Auto     | 812,812             | 837,244 | (24,432) | (2.9)    | )% |
| Commercial Vehicle      | 47,666              | 42,507  | 5,159    | 12.1     | %  |
| Classic Collector       | 41,084              | 40,287  | 797      | 2.0      | %  |
| Total policies in force | 901,562             | 920,038 | (18,476) | (2.0)    | )% |

Gross written premium grew 5.6% and 4.5% during the second quarter and first six months of 2015, respectively, when compared with the same periods of 2014. During the first six months of 2015 Infinity implemented rate revisions in various states with an overall rate increase of 4.9%. Policies in force at June 30, 2015, decreased 2.0% compared with the same period in 2014. Gross written premium grew despite the decline in policies in force primarily due to an increase in average premiums per policy in California.

During the second quarter and first six months of 2015 personal auto insurance gross written premium in our Focus States grew 8.3% and 7.0%, respectively, when compared with the same periods of 2014. The increase in gross written premium was primarily due to growth in California, which grew 16.8% and 15.0% during the second quarter and first six months of 2015, respectively, when compared with the same periods of 2014. The growth in California was primarily due to an increase in new business as a result of an improving economy and higher average written premiums. The growth in the Focus States during the second quarter and first six months of 2015 was partially offset by declining gross written premium in the Other States as we discontinued writing new business in Georgia, Nevada and Pennsylvania effective January 1, 2015.

Commercial Vehicle gross written premium grew 13.0% and 17.6% during the second quarter and first six months of 2015, respectively, when compared with the same periods of 2014. This growth was primarily due to new and renewal policy growth and higher average premium in California, Florida and Texas.

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 installment and other fees, as a percentage of net written premium. Certain expenses are treated differently under statutory and GAAP accounting principles. Under GAAP, commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized as deferred policy acquisition costs and amortized on a pro rata basis over the period in which the related premium is earned; on a statutory basis these items are expensed as incurred. Additionally, bad debt charge-offs on agent balances and premium receivables are included only in the GAAP combined ratios.

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

The following tables present the statutory and GAAP combined ratios:

|  | Three months ended June 30, |                    |                |                  |                    |                |                  |                    |                |    |
|--|-----------------------------|--------------------|----------------|------------------|--------------------|----------------|------------------|--------------------|----------------|----|
|  | 2015                        |                    |                | 2014             |                    |                | % 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:                               |                             |                    |                |                  |                    |                |                  |                    |                |    |
| Focus States                                 | 74.9                        | % 16.7             | % 91.5         | % 77.8           | % 17.9             | % 95.7         | % (2.9)          | %(1.2)             | %(4.1)         | %) |
| Other States                                 | 116.8                       | % 13.0             | % 129.8        | % 75.1           | % 17.4             | % 92.6         | % 41.6           | %(4.4)             | %)37.2         | %  |
| Total Personal Auto                          | 77.0                        | % 16.5             | % 93.5         | % 77.5           | % 17.9             | % 95.4         | % (0.6)          | %(1.3)             | %(1.9)         | %) |
| Commercial Vehicle                           | 85.2                        | % 15.3             | % 100.4        | % 75.4           | % 17.5             | % 92.9         | % 9.8            | %(2.2)             | %)7.5          | %  |
| Classic Collector                            | 74.1                        | % 27.1             | % 101.2        | % 56.6           | % 31.2             | % 87.9         | % 17.4           | %(4.2)             | %)13.3         | %  |
| Total statutory ratios                       | 77.4                        | % 16.6             | % 93.9         | % 77.3           | % 18.0             | % 95.2         | % 0.1            | %(1.4)             | %(1.3)         | %) |
| Total statutory ratios excluding development | 79.4                        | % 16.6             | % 95.9         | % 79.0           | % 18.0             | % 97.0         | % 0.3            | %(1.4)             | %(1.1)         | %) |
| GAAP ratios                                  | 77.2                        | % 18.1             | % 95.3         | % 77.2           | % 19.8             | % 96.9         | % 0.0            | %(1.7)             | %(1.6)         | %) |
| GAAP ratios excluding development            | 79.2                        | % 18.1             | % 97.3         | % 78.9           | % 19.8             | % 98.7         | % 0.3            | %(1.7)             | %(1.4)         | %) |

|  | Six months ended June 30, |                    |                |                  |                    |                |                  |                    |                |    |
|--|---------------------------|--------------------|----------------|------------------|--------------------|----------------|------------------|--------------------|----------------|----|
|  | 2015                      |                    |                | 2014             |                    |                | % 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:                               |                           |                    |                |                  |                    |                |                  |                    |                |    |
| Focus States                                 | 75.7                      | % 16.9             | % 92.7         | % 78.2           | % 17.7             | % 95.9         | % (2.4)          | %(0.7)             | %(3.2)         | %) |
| Other States                                 | 102.5                     | % 14.7             | % 117.2        | % 75.8           | % 17.7             | % 93.5         | % 26.7           | %(3.0)             | %)23.7         | %  |
| Total Personal Auto                          | 77.2                      | % 16.9             | % 94.1         | % 78.0           | % 17.7             | % 95.7         | % (0.7)          | %(0.8)             | %(1.6)         | %) |
| Commercial Vehicle                           | 81.4                      | % 16.1             | % 97.5         | % 74.6           | % 17.6             | % 92.1         | % 6.9            | %(1.5)             | %)5.4          | %  |
| Classic Collector                            | 57.0                      | % 28.4             | % 85.3         | % 51.2           | % 32.4             | % 83.6         | % 5.7            | %(4.0)             | %)1.7          | %  |
| Total statutory ratios                       | 77.3                      | % 17.0             | % 94.2         | % 77.4           | % 17.9             | % 95.3         | % (0.1)          | %(0.9)             | %(1.0)         | %) |
| Total statutory ratios excluding development | 79.1                      | % 17.0             | % 96.1         | % 77.9           | % 17.9             | % 95.7         | % 1.3            | %(0.9)             | %)0.4          | %  |
| GAAP ratios                                  | 77.1                      | % 18.7             | % 95.8         | % 77.3           | % 19.6             | % 96.9         | % (0.2)          | %(0.9)             | %(1.1)         | %) |
| GAAP ratios excluding development            | 79.0                      | % 18.7             | % 97.7         | % 77.8           | % 19.6             | % 97.4         | % 1.2            | %(0.9)             | %)0.3          | %  |

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, 2015, decreased by 1.3 points and 1.0 point from the same periods of 2014. The second quarter and first six months of 2015 included \$10.5 million and \$12.6 million, respectively, of favorable development on prior accident year loss and LAE reserves primarily due to decreases in loss adjustment expenses related to Florida bodily injury coverages in accident years 2013 and 2014. The second quarter and first six months of 2014 included \$0.2 million and \$3.2 million, respectively, of favorable development on prior accident year loss and LAE reserves. The second quarter of 2015 included \$3.7 million of unfavorable development from the first accident quarter of the year compared with \$5.7 million of favorable development recognized from the first accident quarter of 2014 during the second quarter of 2014. Excluding the effect of development, the statutory combined ratio decreased 1.1 points during the second quarter, but increased 0.4 point for the six months ended June 30, 2015, compared with the same periods of 2014.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

The GAAP combined ratio for the three and six months ended June 30, 2015, decreased by 1.6 points and 1.1 points, respectively, from the same periods of 2014. Excluding the effect of development, the GAAP combined ratio decreased by 1.4 points during the second quarter of 2015. For the six months ended June 30, 2015, the GAAP combined ratio excluding development increased 0.3 point, primarily due to a higher accident year loss ratio as a result of increasing loss costs in personal injury protection, collision coverages and property damage, somewhat offset by a declining expense ratio primarily due to lower salary expenses.

Losses from catastrophes were \$1.0 million and \$1.1 million for the three and six months ended June 30, 2015, respectively, compared with \$1.9 million for both the three and six months ended June 30, 2014.

The 2.9 points and 2.4 points decline in the Focus States loss & LAE ratio for the three and six months ended June 30, 2015, is primarily due to improvement in calendar year loss ratios as a result of favorable development from prior accident year loss and LAE reserves in Florida, as well as an increase in average earned premiums in California.

The combined ratio in the Other States increased by 37.2 points and 23.7 points during the three and six months ended June 30, 2015, respectively, from the same periods of 2014. The increase is primarily due to a deterioration in the current accident year combined ratio in Pennsylvania, as well as favorable development in the first six months of 2014 from prior accident year loss and LAE reserves in Pennsylvania.

The combined ratio in Commercial Vehicle increased by 7.5 points and 5.4 points during the three and six months ended June 30, 2015, respectively, compared with the same periods of 2014, primarily due to increases in both frequency and severity, resulting in higher new business loss ratios, particularly in Florida.

Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

## Installment and Other Fee Income

Installment and other fees charged to policyholders was \$24.6 million and \$49.1 million for the three and six months ended June 30, 2015, respectively, compared with \$23.8 million and \$48.2 million, respectively, for the three and six months ended June 30, 2014. The increase in fee income during the second quarter and first six months of 2015 was primarily related to the premium growth in California.

## 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, |             |   |
|--|-----------------------------|-------------|---------------------------|-------------|---|
|  | 2015                        | 2014        | 2015                      | 2014        |   |
| Investment income:   |                             |             |                           |             |   |
| Interest income on fixed maturities, cash and cash equivalents | \$9,081                     | \$8,963     | \$17,896                  | \$17,795    |   |
| Dividends on equity securities                                 | 688                         | 689         | 1,188                     | 1,204       |   |
| Gross investment income  | 9,769                       | 9,652       | 19,083                    | 18,999      |   |
| Investment expenses  | (567)                       | (542)       | (1,145)                   | (1,090)     | ) |
| Net investment income  | 9,202                       | 9,110       | 17,938                    | 17,909      |   |
| Average investment balance, at cost                            | \$1,571,086                 | \$1,554,125 | \$1,572,481               | \$1,554,837 |   |
| Annualized returns excluding realized gains and losses         | 2.3                         | % 2.3       | % 2.3                     | % 2.3       | % |
| Annualized returns including realized gains and losses         | 2.4                         | % 2.8       | % 2.5                     | % 2.6       | % |

The book yield on our portfolio continues to exceed our new money rates. Therefore, we expect that investment returns will continue to decline gradually as proceeds from maturing or prepaid investments are expected to be reinvested at yields lower than the average book yield for the total portfolio.

The following table provides information about our fixed maturity investments at June 30, 2015, which are sensitive to interest rate risk. The table shows expected principal cash flows by expected maturity date for each of the five subsequent years and collectively for all years thereafter. Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. MBS and sinking fund issues are included based on maturity year adjusted for expected payment patterns.

| (\$ in thousands)                  | Expected Principal Cash Flows |                       |             | Maturing Book Yield |
|------------------------------------|-------------------------------|-----------------------|-------------|---------------------|
|                                    | MBS and ABS only              | Excluding MBS and ABS | Total       |                     |
| For the period ending December 31, |                               |                       |             |                     |
| 2015                               | \$31,557                      | \$67,534              | \$99,091    | 2.2%                |
| 2016                               | 78,820                        | 118,515               | 197,334     | 2.3%                |
| 2017                               | 96,016                        | 206,111               | 302,126     | 2.1%                |
| 2018                               | 54,508                        | 110,594               | 165,102     | 2.3%                |
| 2019                               | 36,460                        | 125,914               | 162,373     | 2.5%                |
| Thereafter                         | 157,115                       | 279,223               | 436,338     | 3.1%                |
| Total                              | \$454,475                     | \$907,890             | \$1,362,366 | 2.5%                |

The cash flows presented take into consideration historical relationships of market yields and prepayment rates. However, the actual prepayment rate may differ from historical trends, resulting in actual principal cash flows that differ from those presented above.





Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

## Realized Gains (Losses) on Investments

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

|                        | Three months ended June 30, 2015   |                                      |                               | Three months ended June 30, 2014   |                                      |                               |
|------------------------|------------------------------------|--------------------------------------|-------------------------------|------------------------------------|--------------------------------------|-------------------------------|
|                        | Impairments Recognized in Earnings | Net Realized Gains (Losses) on Sales | Total Realized Gains (Losses) | Impairments Recognized in Earnings | Net Realized Gains (Losses) on Sales | Total Realized Gains (Losses) |
| Fixed maturities       | \$(208)                            | ) \$423                              | \$214                         | \$(6)                              | ) \$580                              | \$573                         |
| Equities               | 0                                  | 0                                    | 0                             | 0                                  | 1,273                                | 1,273                         |
| Short-term investments | 0                                  | 0                                    | 0                             | 0                                  | 0                                    | 0                             |
| Total                  | \$(208)                            | ) \$423                              | \$214                         | \$(6)                              | ) \$1,852                            | \$1,846                       |

  

|                        | Six months ended June 30, 2015     |                                      |                               | Six months ended June 30, 2014     |                                      |                               |
|------------------------|------------------------------------|--------------------------------------|-------------------------------|------------------------------------|--------------------------------------|-------------------------------|
|                        | Impairments Recognized in Earnings | Net Realized Gains (Losses) on Sales | Total Realized Gains (Losses) | Impairments Recognized in Earnings | Net Realized Gains (Losses) on Sales | Total Realized Gains (Losses) |
| Fixed maturities       | \$(590)                            | ) \$875                              | \$285                         | \$(33)                             | ) \$1,246                            | \$1,213                       |
| Equities               | 0                                  | 1,098                                | 1,098                         | 0                                  | 1,273                                | 1,273                         |
| Short-term investments | 0                                  | 0                                    | 0                             | 0                                  | 5                                    | 5                             |
| Total                  | \$(590)                            | ) \$1,973                            | \$1,384                       | \$(33)                             | ) \$2,524                            | \$2,491                       |

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.

## Interest Expense

At June 30, 2015, we had \$275 million of Senior Notes outstanding that accrue interest at 5.0% (the "5.0% Senior Notes"). We recognized \$3.4 million and \$6.9 million of interest expense on the 5.0% Senior Notes in the Consolidated Statements of Earnings for the three and six months ended June 30, 2015 and 2014, respectively. Refer to Note 5 to the Consolidated Financial Statements for additional information on the 5.0% Senior Notes.

## Income Taxes

Our GAAP effective tax rate for both the three and six months ended June 30, 2015, was 31.4%, compared with 29.6% and 29.5% for the three and six months ended June 30, 2014. The GAAP effective tax rate has increased in 2015 primarily as a result of an improvement in the underwriting profit, which is taxed at 35%. Refer to Note 6 to the Consolidated Financial Statements for additional information on income taxes.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

LIQUIDITY AND CAPITAL RESOURCES

Sources of Funds

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

Funds to meet expenditures at the holding company level come primarily from dividends and tax payments from the insurance subsidiaries, as well as cash and investments held by the holding company. As of June 30, 2015, the holding company had \$141.7 million of cash and investments. In 2015 our insurance subsidiaries may pay us up to \$68.1 million in ordinary dividends without prior regulatory approval. For the six months ended June 30, 2015, our insurance subsidiaries have paid us ordinary dividends of \$30.0 million.

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 \$1.4 billion investment portfolio. Our insurance subsidiaries generated positive cash flows from operations of \$22.1 million and \$56.1 million during the three and six months ended June 30, 2015, respectively, compared with positive operating cash flows of \$8.0 million and \$62.5 million, respectively, during the three and six months ended June 30, 2014.

At June 30, 2015, we had \$275 million principal outstanding of 5.0% Senior Notes. The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually each March and September. Refer to Note 5 to the Consolidated Financial Statements for more information on our long-term debt.

In August 2014 we renewed our agreement for a \$50 million three-year revolving credit facility (the "Credit Agreement") that requires us to meet certain financial and other covenants. We are currently in compliance with all covenants under the Credit Agreement. At June 30, 2015, there were no borrowings outstanding under the credit agreement.

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

Uses of Funds

In February 2015 we increased our quarterly dividend to \$0.43 per share from \$0.36 per share. At this current amount, our 2015 annualized dividend payments would be approximately \$19.7 million.

On November 4, 2014, our Board of Directors increased the authority of our share and debt repurchase program to a total of \$75 million and extended the date to execute the program from December 31, 2014, to December 31, 2016. During the first quarter of 2015 we repurchased 25,800 shares at an average cost, excluding commissions, of \$77.46 per share. During the second quarter of 2015 we repurchased 60,300 shares at an average cost, excluding commissions, of \$75.56 per share. As of June 30, 2015 we had \$67.5 million of authority remaining under this program.

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

Reinsurance

We use excess of loss, catastrophe and extra-contractual loss reinsurance to mitigate the financial impact of large or catastrophic losses. During 2015 our catastrophe reinsurance protection covers 100% of \$55 million in excess of \$5 million. Our excess of loss reinsurance provides protection for commercial auto losses up to \$700,000 for claims in excess of \$300,000 per occurrence. Our extra-contractual loss reinsurance provides protection for losses up to \$10 million in excess of \$5 million for any single extra-contractual loss. We also use reinsurance to mitigate losses on our Classic Collector business.

Premium ceded under all reinsurance agreements for the three and six months ended June 30, 2015, was \$3.9 million and \$7.5 million, compared with \$3.5 million and \$6.5 million for the same periods of 2014.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

Investments

Our consolidated investment portfolio at June 30, 2015, contained approximately \$1.4 billion in fixed maturity securities, \$94.4 million in equity securities and \$4.1 million in short-term investments. All of these are 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, 2015, we had pre-tax net unrealized gains of \$11.8 million on fixed maturities and pre-tax net unrealized gains of \$17.7 million on equity securities. Combined, the pre-tax net unrealized gain declined by \$6.4 million for the six months ended June 30, 2015. This decrease occurred primarily in the fixed portfolio due to higher market interest rates. The average option adjusted duration of our fixed maturity portfolio was 3.3 years at June 30, 2015, compared with 3.1 years at December 31, 2014.

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

Approximately 91.5% of our fixed maturity investments at June 30, 2015, were rated "investment grade," and as of the same date, the average credit rating of our fixed maturity portfolio was AA-. Investment grade securities generally bear lower yields and have lower degrees of risk than those that are unrated or non-investment grade. We believe that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

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

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

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

Our 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, 2015, was as follows (\$ in thousands):

|  | Amortized<br>Cost | Fair Value  | % of<br>Total Fair<br>Value |   |
|--|-------------------|-------------|-----------------------------|---|
| Fixed Maturities:                      |                   |             |                             |   |
| U.S. government                        | \$68,979          | \$69,279    | 4.5                         | % |
| State and municipal                    | 494,780           | 502,276     | 32.6                        | % |
| Mortgage- and asset-backed:            |                   |             |                             |   |
| Residential mortgage-backed securities | 342,421           | 344,411     | 22.4                        | % |
| Commercial mortgage-backed securities  | 72,179            | 72,025      | 4.7                         | % |
| Asset-backed securities:               |                   |             |                             |   |
| Auto loans                             | 42,886            | 43,011      | 2.8                         | % |
| Equipment leases                       | 9,690             | 9,734       | 0.6                         | % |
| Credit card receivables                | 4,515             | 4,515       | 0.3                         | % |
| Whole business                         | 753               | 756         | 0.0                         | % |
| Home equity                            | 505               | 522         | 0.0                         | % |
| Student loans                          | 110               | 117         | 0.0                         | % |
| Total ABS                              | 58,459            | 58,654      | 3.8                         | % |
| Total mortgage- and asset-backed       | 473,059           | 475,089     | 30.9                        | % |
| Corporates                             |                   |             |                             |   |
| Investment grade                       | 268,503           | 270,991     | 17.6                        | % |
| Non-investment grade                   | 123,623           | 123,136     | 8.0                         | % |
| Total corporates                       | 392,125           | 394,127     | 25.6                        | % |
| Total fixed maturities                 | 1,428,944         | 1,440,771   | 93.6                        | % |
| Equity securities                      | 76,691            | 94,397      | 6.1                         | % |
| Short-term investments                 | 4,123             | 4,121       | 0.3                         | % |
| Total investments                      | \$1,509,758       | \$1,539,290 | 100.0                       | % |

We categorize securities by rating based upon ratings issued by Moody's, Standard & Poor's or Fitch, where available. If all three ratings are available but not equivalent, we exclude the lowest rating and the lower of the remaining ratings is used. If ratings are only available from two agencies, the lowest is used. This methodology is consistent with that used by the major bond indices.

The following table presents the credit rating and fair value of our fixed maturity portfolio by major security type at June 30, 2015, (\$ in thousands):

|                               | Rating    |           |           |           | Non-<br>investment<br>Grade | Total Fair<br>Value | % of<br>Total<br>Exposure |
|-------------------------------|-----------|-----------|-----------|-----------|-----------------------------|---------------------|---------------------------|
|                               | AAA       | AA        | A         | BBB       |                             |                     |                           |
| U.S. government               | \$66,965  | \$2,314   | \$0       | \$0       | \$0                         | \$69,279            | 4.8 %                     |
| State and municipal           | 121,003   | 294,232   | 87,031    | 0         | 10                          | 502,276             | 34.9 %                    |
| Mortgage- and<br>asset-backed | 430,537   | 35,962    | 6,375     | 2,215     | 0                           | 475,089             | 33.0 %                    |
| Corporates                    | 1,693     | 17,625    | 120,617   | 131,057   | 123,136                     | 394,127             | 27.4 %                    |
| Total fair value              | \$620,198 | \$350,134 | \$214,022 | \$133,272 | \$123,146                   | \$1,440,771         | 100.0 %                   |
| % of total fair value         | 43.0      | % 24.3    | % 14.9    | % 9.3     | % 8.5                       | % 100.0             | %                         |



Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

ITEM 3

Quantitative and Qualitative Disclosures about Market Risk

As of June 30, 2015, there were no material changes to the information provided in our Form 10-K for the year ended December 31, 2014, 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, 2014.

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 our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2015. 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, 2015, 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.



Table of Contents

## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## 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, 2014. For a description of our previously reported legal proceedings, refer to Part I, Item 3, Legal Proceedings, in our Form 10-K for the year ended December 31, 2014.

## 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, 2014. For a description of our previously reported risk factors, refer to Part I, Item 1A, Risk Factors, in our Form 10-K for the year ended December 31, 2014.

## ITEM 2

## Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

| Period                         | Total Number of Shares Purchased (a) | Average Price Paid per Share (b) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs (c) |
|--------------------------------|--------------------------------------|----------------------------------|--|--|
| April 1, 2015 - April 30, 2015 | 29,617                               | \$ 79.79                         | 12,900   | \$ 71,036,639  |
| May 1, 2015 - May 31, 2015     | 17,800                               | 73.08                            | 17,800   | 69,735,279   |
| June 1, 2015 - June 30, 2015   | 29,600                               | 75.25                            | 29,600   | 67,506,931   |
| Total                          | 77,017                               | \$ 76.49                         | 60,300   | \$ 67,506,931  |

(a) Includes 16,717 shares surrendered to cover the withholding taxes related to the issuance of shares under the performance share plan.

(b) Average price paid per share excludes commissions.

(c) On November 4, 2014, our Board of Directors increased the authority under our current share and debt repurchase plan to a total of \$75.0 million and extended the date to execute the program from December 31, 2014, to December 31, 2016.

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

ITEM 6

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

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

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

Exhibit 101.INS - XBRL Instance Document

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

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

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

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

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

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

Table of Contents

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Signature

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

Infinity Property and Casualty Corporation

BY: /s/ ROGER SMITH

Roger Smith

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

August 6, 2015