

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

May 07, 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 March 31, 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 April 30, 2015 there were 11,466,399 shares of the registrant's common stock outstanding.

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

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## PART I

## FINANCIAL INFORMATION

## ITEM 1

## Financial Statements

## INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

(\$ in thousands, except per share data)

(unaudited)

	Three months ended March 31,			
	2015	2014	% Change	
Revenues:				
Earned premium	\$332,106	\$327,679	1.4	%
Installment and other fee income	24,561	24,340	0.9	%
Net investment income	8,736	8,798	(0.7)	)%
Net realized gains on investments <sup>1</sup>	1,169	645	81.4	%
Other income	400	151	164.9	%
Total revenues	366,973	361,613	1.5	%
Costs and Expenses:				
Losses and loss adjustment expenses	255,643	253,702	0.8	%
Commissions and other underwriting expenses	88,828	87,973	1.0	%
Interest expense	3,459	3,453	0.2	%
Corporate general and administrative expenses	1,903	1,526	24.7	%
Other expenses	903	312	189.5	%
Total costs and expenses	350,737	346,966	1.1	%
Earnings before income taxes	16,236	14,647	10.9	%
Provision for income taxes	5,082	4,320	17.7	%
Net Earnings	\$11,154	\$10,327	8.0	%
Net Earnings per Common Share:				
Basic	\$0.98	\$0.90	8.9	%
Diluted	0.97	0.89	9.0	%
Average Number of Common Shares:				
Basic	11,427	11,429	0.0	%
Diluted	11,551	11,580	(0.2)	)%
Cash Dividends per Common Share	\$0.43	\$0.36	19.4	%
<sup>1</sup> Net realized gains before impairment losses	\$1,551	\$672	130.9	%
Total other-than-temporary impairment (OTTI) losses	(381)	(893)	(57.3)	)%
Non-credit portion in other comprehensive income	0	885	(100.0)	)%
OTTI losses reclassified from other comprehensive income	0	(19)	(100.0)	)%
Net impairment losses recognized in earnings	(381)	(27)	NM	
Total net realized gains on investments	\$1,169	\$645	81.4	%

NM = Not Meaningful

See Condensed Notes to Consolidated Financial Statements.



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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

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

(\$ in thousands)

(unaudited)

	Three months ended March 31,	
	2015	2014
Net earnings	\$11,154	\$10,327
Other comprehensive income before tax:		
Net change in postretirement benefit liability	16	657
Unrealized gains on investments:		
Unrealized holding gains arising during the period	8,416	7,852
Less: Reclassification adjustments for losses included in net earnings	(1,169)	(645)
Unrealized gains on investments, net	7,247	7,208
Other comprehensive income, before tax	7,263	7,865
Income tax expense related to components of other comprehensive income	(2,542)	(2,753)
Other comprehensive income, net of tax	4,721	5,112
Comprehensive income	\$15,875	\$15,439

See Condensed Notes to Consolidated Financial Statements.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

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

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturities – at fair value (amortized cost \$1,407,631 and \$1,412,417)	\$1,433,022	\$1,431,843
Equity securities – at fair value (cost \$76,625 and \$77,862)	94,453	94,408
Short-term investments - at fair value (amortized cost \$1,820 and \$803)	1,819	803
Total investments	1,529,294	1,527,054
Cash and cash equivalents	96,434	84,541
Accrued investment income	12,031	12,976
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$14,648 and \$15,510	529,969	483,638
Property and equipment, net of accumulated depreciation of \$66,507 and \$63,929	54,923	55,880
Prepaid reinsurance premium	5,386	4,809
Recoverables from reinsurers (includes \$733 and \$161 on paid losses and LAE)	14,715	14,530
Deferred policy acquisition costs	98,164	90,428
Current and deferred income taxes	13,148	20,022
Receivable for securities sold	3,650	4,549
Other assets	13,714	11,108
Goodwill	75,275	75,275
Total assets	\$2,446,702	\$2,384,812
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$675,755	\$668,177
Unearned premium	644,433	589,260
Long-term debt (fair value \$294,674 and \$291,044)	275,000	275,000
Commissions payable	19,274	18,673
Payable for securities purchased	9,370	17,173
Other liabilities	115,542	118,870
Total liabilities	1,739,374	1,687,153
Commitments and contingencies (See Note 9)		
Shareholders' equity:		
Common stock, no par value (50,000,000 shares authorized; 21,729,057 and 21,728,032 shares issued)	21,756	21,745
Additional paid-in capital	373,082	372,368
Retained earnings	731,873	725,651
Accumulated other comprehensive income, net of tax	28,216	23,494
Treasury stock, at cost (10,270,472 and 10,244,672 shares)	(447,598)	(445,599)
Total shareholders' equity	707,328	697,659
Total liabilities and shareholders' equity	\$2,446,702	\$2,384,812

See Condensed Notes to Consolidated Financial Statements.





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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

(\$ in thousands)

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Treasury Stock	Total
Balance at December 31, 2013	\$21,684	\$368,902	\$685,011	\$ 16,624	\$(435,463)	\$656,758
Net earnings	—	—	10,327	—	—	10,327
Net change in postretirement benefit liability	—	—	—	427	—	427
Change in unrealized gain on investments	—	—	—	5,055	—	5,055
Change in non-credit component of impairment losses on fixed maturities	—	—	—	(370 )	—	(370 )
Comprehensive income	—	—	—	—	—	15,439
Dividends paid to common shareholders	—	—	(4,139 )	—	—	(4,139 )
Shares issued and share-based compensation expense, including tax benefit	12	417	—	—	—	429
Acquisition of treasury stock	—	—	—	—	(2,000 )	(2,000 )
Balance at March 31, 2014	\$21,696	\$369,319	\$691,199	\$ 21,737	\$(437,463)	\$666,488
Net earnings	—	—	46,874	—	—	46,874
Net change in postretirement benefit liability	—	—	—	(274 )	—	(274 )
Change in unrealized gain on investments	—	—	—	1,755	—	1,755
Change in non-credit component of impairment losses on fixed maturities	—	—	—	276	—	276
Comprehensive income	—	—	—	—	—	48,632
Dividends paid to common shareholders	—	—	(12,423 )	—	—	(12,423 )
Shares issued and share-based compensation expense, including tax benefit	49	3,049	—	—	—	3,098
Acquisition of treasury stock	—	—	—	—	(8,136 )	(8,136 )
Balance at December 31, 2014	\$21,745	\$372,368	\$725,651	\$ 23,494	\$(445,599)	\$697,659
Net earnings	—	—	11,154	—	—	11,154
Net change in postretirement benefit liability	—	—	—	11	—	11
Change in unrealized gain on investments	—	—	—	4,497	—	4,497
Change in non-credit component of impairment losses on fixed maturities	—	—	—	213	—	213
Comprehensive income	—	—	—	—	—	15,875
Dividends paid to common shareholders	—	—	(4,932 )	—	—	(4,932 )
	11	714	—	—	—	725

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

Acquisition of treasury stock	—	—	—	—	(1,999 )	(1,999 )
Balance at March 31, 2015	\$21,756	\$373,082	\$731,873	\$ 28,216	\$(447,598)	\$707,328

See Condensed Notes to Consolidated Financial Statements.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

(\$ in thousands)

(unaudited)

	Three months ended March 31,	
	2015	2014
Operating Activities:		
Net earnings	\$11,154	\$10,327
Adjustments:		
Depreciation	2,982	2,540
Amortization	5,888	5,767
Net realized gains on investments	(1,169)	(645)
Loss (gain) on disposal of property and equipment	115	(27)
Share-based compensation expense	659	(168)
Excess tax benefits from share-based payment arrangements	0	(56)
Activity related to rabbi trust	27	18
Change in accrued investment income	946	386
Change in agents' balances and premium receivable	(46,331)	(41,657)
Change in reinsurance receivables	(761)	(1,146)
Change in deferred policy acquisition costs	(7,736)	(6,449)
Change in other assets	1,732	2,555
Change in unpaid losses and loss adjustment expenses	7,578	16,313
Change in unearned premium	55,173	47,008
Change in other liabilities	(2,790)	5,553
Net cash provided by operating activities	27,467	40,318
Investing Activities:		
Purchases of fixed maturities	(150,155)	(183,528)
Purchases of equity securities	(2,000)	(2,600)
Purchases of short-term investments	(1,032)	(200)
Purchases of property and equipment	(2,140)	(5,249)
Maturities and redemptions of fixed maturities	46,727	41,201
Maturities and redemptions of short-term investments	0	1,400
Proceeds from sale of fixed maturities	95,432	64,959
Proceeds from sale of equity securities	4,489	0
Proceeds from sale of property and equipment	0	30
Net cash used in investing activities	(8,678)	(83,986)
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases	66	541
Excess tax benefits from share-based payment arrangements	0	56
Principal payments under capital lease obligation	(118)	(134)
Acquisition of treasury stock	(1,912)	(1,975)
Dividends paid to shareholders	(4,932)	(4,139)
Net cash used in financing activities	(6,896)	(5,650)
Net increase (decrease) in cash and cash equivalents	11,893	(49,319)
Cash and cash equivalents at beginning of period	84,541	134,211

Cash and cash equivalents at end of period	\$96,434	\$84,892
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See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

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| 3. <u>Fair Value</u>                            | 9. <u>Commitments and Contingencies</u>           |
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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 March 31, 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 April 2015 the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (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 impact on our results of operations or financial position.

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, which is effective for fiscal years beginning after December 15, 2016. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 2 Computation of Net Earnings per Share

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

	Three months ended March 31,	
	2015	2014
Net earnings	\$11,154	\$10,327
Average basic shares outstanding	11,427	11,429
Basic net earnings per share	\$0.98	\$0.90
Average basic shares outstanding	11,427	11,429
Restricted stock not yet vested	11	57
Dilutive effect of assumed option exercises	0	2
Dilutive effect of Performance Share Plan	113	92
Average diluted shares outstanding	11,551	11,580
Diluted net earnings per share	\$0.97	\$0.89

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 3 Fair Value

Fair values of instruments are based on:

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

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

March 31, 2015	Fair Value				Total
	Level 1	Level 2	Level 3		
Cash and cash equivalents	\$96,434	\$0	\$0		\$96,434
Fixed maturity securities:					
U.S. government	66,511	58	0		66,569
State and municipal	0	504,690	10		504,700
Mortgage-backed securities:					
Residential	0	345,884	0		345,884
Commercial	0	66,992	0		66,992
Total mortgage-backed securities	0	412,876	0		412,876
Asset-backed securities	0	62,302	46		62,348
Corporates	0	383,583	2,946		386,529
Total fixed maturities	66,511	1,363,509	3,002		1,433,022
Equity securities	94,453	0	0		94,453
Short-term investments	0	1,819	0		1,819
Total cash and investments	\$257,398	\$1,365,328	\$3,002		\$1,625,728
Percentage of total cash and investments	15.8	% 84.0	% 0.2	% 100.0	%

December 31, 2014	Fair Value				Total
	Level 1	Level 2	Level 3		
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	%





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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

We do not report our long-term debt at fair value in the Consolidated Balance Sheets. The \$294.7 million and \$291.0 million fair value of our long-term debt at March 31, 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. We review the third party pricing methodologies quarterly and test for significant differences between the market price used to value the security and recent sales activity.

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

	Three months ended March 31, 2015			
	State and Municipal	Corporates	Asset-Backed 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	) (95	) 0	(95
Included in other comprehensive income	0	(14	) 0	(14
Settlements	0	(80	) (105	) (184
Transfers in	10	0	0	10
Balance at end of period	\$ 10	\$ 2,946	\$ 46	\$ 3,002

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

Of the \$3.0 million fair value of securities in Level 3 at March 31, 2015, which consists of eight securities, we priced five based on non-binding broker quotes, one price was 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 three months ended March 31, 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.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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 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):

	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$96,434	\$96,434	\$84,541	\$84,541
Investments				
Fixed maturities	1,433,022	1,433,022	1,431,843	1,431,843
Equity securities	94,453	94,453	94,408	94,408
Short-term	1,819	1,819	803	803
Total cash and investments	\$1,625,728	\$1,625,728	\$1,611,594	\$1,611,594
Liabilities:				
Long-term debt	\$275,000	\$294,674	\$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.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

Note 4 Investments

We consider all fixed maturity and equity securities to be available-for-sale and report them at fair value with the net unrealized gains or losses reported after-tax (net of any valuation allowance) as a component of other comprehensive income. The proceeds from sales of securities for the three months ended March 31, 2015, and March 31, 2014, were \$99.9 million and \$65.0 million, respectively. The proceeds for the three months ended March 31, 2015, were net of \$3.6 million of receivable for securities sold during the first quarter of 2015 that had not settled at March 31, 2015. The proceeds for the three months ended March 31, 2014, were net of \$0.2 million of receivable for securities sold during the first quarter of 2014 that had not settled at March 31, 2014.

Gross gains of \$2.1 million and gross losses of \$0.6 million were realized on sales of available for sale securities during the three months ended March 31, 2015, compared with gross gains of \$0.8 million and gross losses of \$0.1 million realized on sales during the three months ended March 31, 2014. Gains or losses on securities are determined on a specific identification basis.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

March 31, 2015

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Recognized in Accumulated OCI <sup>(1)</sup>
Fixed maturities:					
U.S. government	\$66,013	\$582	\$(26)	) \$66,569	\$0
State and municipal	493,901	10,923	(124)	) 504,700	(69)
Mortgage-backed securities:					
Residential	339,035	7,487	(638)	) 345,884	(2,781)
Commercial	66,885	315	(208)	) 66,992	0
Total mortgage-backed securities	405,920	\$7,802	(846)	) \$412,876	(2,781)
Asset-backed securities	62,107	259	(19)	) 62,348	(8)
Corporates	379,689	7,684	(843)	) 386,529	(246)
Total fixed maturities	1,407,631	27,249	(1,858)	) 1,433,022	(3,105)
Equity securities	76,625	17,828	0	94,453	0
Short-term investments	1,820	0	(1)	) 1,819	0
Total	\$1,486,075	\$45,077	\$(1,859)	) \$1,529,294	\$(3,105)

December 31, 2014

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Recognized in Accumulated OCI <sup>(1)</sup>
Fixed maturities:					
U.S. government	\$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.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

	Less than 12 Months				12 Months or More				
	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses as % of Cost	Number of Securities with Unrealized Losses	Fair Value	Gross Unrealized Losses	Unrealized Losses as % of Cost	
March 31, 2015									
Fixed maturities:									
U.S. government	3	\$10,945	\$(9)	0.1 %	4	\$5,172	\$(17)	0.3 %	
State and municipal	22	49,505	(124)	0.2 %	0	0	0	0.0 %	
Mortgage-backed securities:									
Residential	34	24,701	(94)	0.4 %	70	52,776	(544)	1.0 %	
Commercial	8	24,585	(135)	0.5 %	5	21,091	(73)	0.3 %	
Total mortgage-backed securities	42	49,286	(230)	0.5 %	75	73,867	(616)	0.8 %	
Asset-backed securities	11	8,417	(9)	0.1 %	2	1,150	(10)	0.8 %	
Corporates	39	49,860	(739)	1.5 %	7	9,711	(104)	1.1 %	
Total fixed maturities	117	168,014	(1,110)	0.7 %	88	89,900	(747)	0.8 %	
Equity securities	0	0	0	0.0 %	0	0	0	0.0 %	
Short-term investments	2	1,531	(1)	0.1 %	0	0	0	0.0 %	
Total	119	\$169,545	\$(1,111)	0.7 %	88	\$89,900	\$(747)	0.8 %	

	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 %	

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Short-term investments	2	803	(1	)	0.1	%	0	0	0	0.0	%	
Total	208	\$308,689	\$(2,341	)	0.8	%	142	\$156,521	\$(2,232	)	1.4	%



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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

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

- 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.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

	March 31, 2015	December 31, 2014		
Number of positions held with unrealized:				
Gains	930	778		
Losses	207	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	85	% 84		%
Percentage of fair value held with unrealized:				
Gains that were investment grade	92	% 94		%
Losses that were investment grade	86	% 86		%

The following table sets forth the amount of unrealized loss, excluding the rabbi trust, by age and severity at March 31, 2015 (\$ in thousands):

Age of Unrealized Losses:	Fair Value of Securities with Unrealized Losses	Total Gross Unrealized Losses	Less Than 5%*	5% - 10%*	Greater Than 10%*
Three months or less	\$121,145	\$(469)	\$(396)	\$(73)	\$0
Four months through six months	30,368	(351)	(270)	(37)	(45)
Seven months through nine months	17,986	(291)	(291)	0	0
Ten months through twelve months	4,828	(16)	(16)	0	0
Greater than twelve months	85,117	(731)	(731)	0	0
Total	\$259,444	\$(1,859)	\$(1,704)	\$(110)	\$(45)

\* As a percentage of amortized cost or cost.

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

	Pre-tax Fixed Maturities	Equity Securities	Short-Term Investments	Tax Effects	Net
Three months ended March 31, 2015					
Unrealized holding gains (losses) on securities arising during the period	\$6,036	\$2,380	\$(0)	\$(2,946)	\$5,470
Realized gains on securities sold	(452)	(1,098)	0	543	(1,008)
Impairment loss recognized in earnings	381	0	0	(134)	248
Change in unrealized gains (losses) on marketable securities, net	\$5,966	\$1,282	\$(0)	\$(2,536)	\$4,711
Three months ended March 31, 2014					
Unrealized holding gains on securities arising during the period	\$7,389	\$458	\$5	\$(2,748)	\$5,104
Realized gains on securities sold	(666)	0	(5)	235	(437)
Impairment loss recognized in earnings	27	0	0	(9)	17
	\$6,750	\$458	\$(1)	\$(2,523)	\$4,685

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

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

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

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

	Three months ended March 31,	
	2015	2014
Beginning balance	\$852	\$956
Additions for:		
Previously impaired securities	0	19
Newly impaired securities	0	8
Reductions for:		
Securities sold and paid down	(52	) (40
Ending balance	\$799	\$943

The table below sets forth the scheduled maturities of fixed maturity securities at March 31, 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	\$93,229	\$12,491	\$3,206	\$108,925	\$108,112
After one year through five years	504,782	57,388	0	562,170	551,461
After five years through ten years	219,377	55,314	467	275,158	269,159
After ten years	11,545	0	0	11,545	10,871
Mortgage- and asset-backed securities	342,503	132,720	0	475,224	468,027
Total	\$1,171,436	\$257,913	\$3,673	\$1,433,022	\$1,407,631

## Note 5 Long-Term Debt

In September 2012 we issued \$275 million principal of senior notes due September 2022 (the “5.0% Senior Notes”). The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually. At the time we issued the 5.0% Senior Notes, we capitalized \$2.2 million of debt issuance costs, which we are amortizing over the term of the 5.0% Senior Notes. We calculated the March 31, 2015, fair value of \$294.7 million using a 196 basis point spread to the ten-year U.S. Treasury Note of 1.925%.

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 March 31, 2015, there were no borrowings outstanding under the Credit Agreement.

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## 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 March 31,		
	2015	2014	
Earnings before income taxes	\$16,236	\$14,647	
Income taxes at statutory rate	5,683	5,126	
Effect of:			
Dividends-received deduction	(104	) (107	)
Tax-exempt interest	(724	) (702	)
Other	228	3	
Provision for income taxes as shown on the Consolidated Statements of Earnings	\$5,082	\$4,320	
GAAP effective tax rate	31.3	% 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 March 31,	
	2015	2014
Income tax payments	\$750	\$0
Interest payments on debt	6,875	6,875
Interest payments on capital leases	22	16

## Negative Cash Book Balances

Negative cash book balances, included in the line item "Other liabilities" in the Consolidated Balance Sheets, were \$54.5 million and \$51.2 million, respectively, at March 31, 2015, and December 31, 2014.

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## INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

## Condensed Notes to Consolidated Financial Statements

## Note 8 Insurance Reserves

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

	Three months ended March 31,	
	2015	2014
Balance at Beginning of Period		
Unpaid losses on known claims	\$235,037	\$221,447
IBNR losses	277,482	262,660
LAE	155,658	162,469
Total unpaid losses and LAE	668,177	646,577
Reinsurance recoverables	(14,370)	(14,431)
Unpaid losses and LAE, net of reinsurance recoverables	653,808	632,146
Current Activity		
Loss and LAE incurred:		
Current accident year	257,785	256,776
Prior accident years	(2,142)	(3,074)
Total loss and LAE incurred	255,643	253,702
Loss and LAE payments:		
Current accident year	(81,907)	(80,818)
Prior accident years	(165,770)	(156,683)
Total loss and LAE payments	(247,677)	(237,502)
Balance at End of Period		
Unpaid losses and LAE, net of reinsurance recoverables	661,773	648,346
Add back reinsurance recoverables	13,982	14,544
Total unpaid losses and LAE	675,755	662,890
Unpaid losses on known claims	241,483	226,659
IBNR losses	278,863	272,159
LAE	155,409	164,072
Total unpaid losses and LAE	\$675,755	\$662,890

The \$2.1 million of favorable reserve development during the three months ended March 31, 2015, was primarily due to decreases in loss adjustment expense in Florida bodily injury coverages and in California property damage and bodily injury coverages related to accident year 2013.

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

## Note 9 Commitments and Contingencies

## Commitments

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





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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 FASB. 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.

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## 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 March 31, 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	16	(6)	11	657	(230)	427
Accumulated change in postretirement benefit liability, end of period	190	(66)	123	595	(208)	387
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	8,416	(2,946)	5,470	7,852	(2,748)	5,104
Reclassification adjustment for other-than-temporary impairments included in net income	381	(134)	248	27	(9)	17
Reclassification adjustment for realized gains included in net income	(1,551)	543	(1,008)	(672)	235	(437)
Effect on other comprehensive income	7,247	(2,536)	4,711	7,208	(2,523)	4,685
Accumulated unrealized gains on investments, net, end of period	43,218	(15,126)	28,092	32,846	(11,496)	21,350
Accumulated other comprehensive income, beginning of period	36,145	(12,651)	23,494	25,576	(8,952)	16,624
Change in postretirement benefit liability	16	(6)	11	657	(230)	427
Change in unrealized gains on investments, net	7,247	(2,536)	4,711	7,208	(2,523)	4,685
Effect on other comprehensive income	7,263	(2,542)	4,721	7,865	(2,753)	5,112
Accumulated other comprehensive income, end of period	\$ 43,408	\$(15,193)	\$ 28,216	\$ 33,441	\$(11,704)	\$ 21,737

## Note 11 Subsequent Event

On April 21, 2015, we closed on a \$20 million purchase for a 120,493 square foot building located in Birmingham, Alabama. The purchase was made with internally generated funds. The building will serve as our new headquarters, replacing our currently leased building. We expect to see a reduction in net operating expenses once employees are relocated to the new headquarters, which is currently planned for the first half of 2016, although no assurances can be made in this regard.



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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

Condensed Notes to Consolidated Financial Statements

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

ITEM 2

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

The primary events or circumstances that could cause actual results to differ materially from what we expect include determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio (including other-than temporary impairments for credit losses), loss cost trends, 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 first three months of 2015 total gross written premium grew 3.6% compared with the same period of 2014. The majority of this growth came from California personal auto and countrywide Commercial Vehicle, which grew a combined 14.6% compared with the prior year. Partially offsetting premium growth in these two areas was premium decline of 42.7% 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 March 31, 2015, were \$11.2 million and \$0.97, respectively, compared with \$10.3 million and \$0.89, respectively, for the three months ended March 31, 2014. The increase in diluted earnings per share for the three months ended March 31, 2015, was primarily due to an improvement in underwriting profitability.

Included in net earnings for the three months ended March 31, 2015, was \$1.4 million (\$2.1 million pre-tax) of favorable development on prior accident year loss and LAE reserves. The development was primarily due to decreases in loss adjustment expense in Florida bodily injury coverages and in California property damage and bodily injury coverages related to accident year 2013. Included in net earnings for the three months ended March 31, 2014, was \$2.0 million (\$3.1 million pre-tax) of favorable development on prior accident year loss and LAE reserves.



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## 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 March 31, 2015.

Accident Year	Accident Year Combined Ratio Developed Through				Prior Accident Year (Favorable) / Unfavorable Development YTD 2015	(\$ in millions) Prior Accident Year (Favorable) / Unfavorable Development YTD 2015
	Dec 2013	Mar 2014	Dec 2014	Mar 2015		
Prior						\$0.3
2007	92.2	% 92.2	% 92.1	% 92.1	% (0.0)	)% (0.2 )
2008	91.3	% 91.3	% 91.2	% 91.1	% (0.0)	)% (0.4 )
2009	92.3	% 92.3	% 92.4	% 92.4	% 0.1	% 0.5
2010	99.6	% 99.5	% 99.2	% 99.3	% 0.1	% 0.7
2011	100.3	% 100.2	% 100.1	% 100.1	% 0.0	% 0.1
2012	99.8	% 100.1	% 100.1	% 100.0	% (0.0)	)% (0.5 )
2013	97.7	% 97.4	% 96.8	% 96.6	% (0.2)	)% (2.3 )
2014		97.8	% 96.4	% 96.4	% (0.0)	)% (0.3 )
2015 YTD				97.0	%	\$(2.1 )

See Results of Operations – Underwriting – Profitability for a more detailed discussion of our underwriting results. Pre-tax net investment income for the three months ended March 31, 2015, was \$8.7 million compared with \$8.8 million for the three months ended March 31, 2014.

Our book value per share increased 1.6% from \$60.75 at December 31, 2014, to \$61.73 at March 31, 2015. This increase was primarily due to an increase in unrealized gains and earnings partially offset by dividends for the three months ended March 31, 2015.

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

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

## RESULTS OF OPERATIONS

## Underwriting

## Premium

Our insurance subsidiaries provide personal automobile insurance products with a concentration on nonstandard auto insurance. While there is no industry-recognized definition of nonstandard auto insurance, we believe that it is generally understood to mean coverage for drivers who, because of their driving record, age or vehicle type, represent higher than normal risks and pay higher rates for comparable coverage. We also write commercial vehicle insurance and insurance for classic collectible automobiles ("Classic Collector").

We 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" – Includes 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.

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

	Three months ended March 31,				
	2015	2014	Change	% Change	
Net earned premium					
Gross written premium					
Personal Auto:					
Focus States	\$341,302	\$322,454	\$18,848	5.8	%
Other States	14,927	26,357	(11,429)	(43.4)	)%
Total Personal Auto	356,229	348,811	7,418	2.1	%
Commercial Vehicle	31,276	25,464	5,812	22.8	%
Classic Collector	3,141	2,906	234	8.1	%
Total gross written premium	390,645	377,181	13,464	3.6	%
Ceded reinsurance	(3,572)	(2,931)	(641)	21.9	)%
Net written premium	387,073	374,249	12,823	3.4	%
Change in unearned premium	(54,966)	(46,570)	(8,396)	18.0	)%
Net earned premium	\$332,106	\$327,679	\$4,427	1.4	%

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## 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 March 31,				
	2015	2014	Change	% Change	
Policies in Force					
Personal Auto					
Focus States	773,928	781,107	(7,179	) (0.9	)%
Other States	41,744	68,052	(26,308	) (38.7	)%
Total Personal Auto	815,672	849,159	(33,487	) (3.9	)%
Commercial Vehicle	46,357	40,750	5,607	13.8	%
Classic Collector	40,983	39,705	1,278	3.2	%
Total policies in force	903,012	929,614	(26,602	) (2.9	)%

Gross written premium grew 3.6% during the first three months of 2015 when compared with the same period of 2014. During the first three months of 2015 Infinity implemented rate revisions in various states with an overall rate increase of 1.5%. Excluding the effect of rate changes in California and Florida, the states in which we write the most premium, the overall rate increase was 0.8%. Policies in force at March 31, 2015, decreased 2.9% 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 first three months of 2015 personal auto insurance gross written premium in our Focus States grew 5.8% when compared with the same period of 2014. The increase in gross written premium was primarily due to growth in California, which grew 13.3% during the first three months of 2015 when compared with the first three months of 2014, and was primarily due to our focus on territories with higher average written premium and an increase in new business. The growth in the Focus States during the first three 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 22.8% during the first three months of 2015 when compared with the same period of 2014. This growth was primarily due to new and renewal policy growth and higher average premium in Florida, California and Texas.

Gross written premium in our Classic Collector product grew 8.1% during the first three months of 2015 when compared with the same period of 2014. This growth was primarily due to growth in renewal business in Florida, Texas, North Carolina and California.



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## 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.

The following tables present the statutory and GAAP combined ratios:

	Three months ended March 31,						% Point Change					
	2015			2014			Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio
Personal Auto:												
Focus States	77.2	% 17.2	% 94.4	% 78.6	% 17.5	% 96.1	% (1.4)	%) (0.3)	%) (1.8)	%)		
Other States	90.4	% 16.1	% 106.5	% 76.4	% 17.8	% 94.3	% 14.0	% (1.7)	%) 12.2	%		
Total Personal Auto	78.0	% 17.1	% 95.1	% 78.4	% 17.5	% 95.9	% (0.4)	%) (0.4)	%) (0.8)	%)		
Commercial Vehicle	71.7	% 16.9	% 88.6	% 73.7	% 17.6	% 91.3	% (2.0)	%) (0.7)	%) (2.7)	%)		
Classic Collector	39.4	% 30.3	% 69.7	% 45.8	% 34.1	% 79.9	% (6.4)	%) (3.8)	%) (10.2)	%)		
Total statutory ratios	77.2	% 17.3	% 94.5	% 77.5	% 17.8	% 95.3	% (0.4)	%) (0.4)	%) (0.8)	%)		
Total statutory ratios excluding development	77.8	% 17.3	% 95.2	% 78.5	% 17.8	% 96.2	% (0.7)	%) (0.4)	%) (1.1)	%)		
GAAP ratios	77.0	% 19.4	% 96.3	% 77.4	% 19.4	% 96.8	% (0.4)	%) (0.1)	%) (0.5)	%)		
GAAP ratios excluding development	77.6	% 19.4	% 97.0	% 78.4	% 19.4	% 97.8	% (0.7)	%) (0.1)	%) (0.8)	%)		

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 months ended March 31, 2015, decreased by 0.8 point from the same period of 2014. The first three months of 2015 included \$2.1 million of favorable development on prior accident year loss and LAE reserves, while the first three months of 2014 included \$3.1 million of favorable development on prior accident year loss and LAE reserves. Excluding the effect of development, the statutory combined ratio decreased 1.1 points for the three months ended March 31, 2015, compared with the same period of 2014.

The GAAP combined ratio for the three months ended March 31, 2015, decreased by 0.5 point from the same period of 2014. Excluding the effect of development, the GAAP combined ratio decreased by 0.8 point for the three months ended March 31, 2015, compared with the same period of 2014. The decline in both the statutory and GAAP combined ratios excluding development is primarily due to a decrease in the California accident year combined ratio. Losses from catastrophes were \$0.1 million for the three months ended March 31, 2015. There were no catastrophe losses for the three months ended March 31, 2014.

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The 1.4 points decline in the Focus States loss & LAE ratio for the three months ended March 31, 2015, is primarily due to improvement in calendar year loss ratios in Florida, Texas and California as a result of favorable development from prior accident year loss and LAE reserves as well as an increase in average earned premiums.

The combined ratio in the Other States increased by 12.2 points during the three months ended March 31, 2015. The increase is primarily due to unfavorable development from prior accident year loss and LAE reserves in the states of Georgia and Nevada.

The combined ratio in Commercial Vehicle decreased by 2.7 points, during the three months ended March 31, 2015, compared with the same period of 2014, primarily due to favorable development from prior accident year loss and LAE reserves.

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## Installment and Other Fee Income

Installment and other fee income, which is primarily made up of installment and other fees charged to policyholders, was relatively flat for the three months ended March 31, 2015, compared with the same period of 2014, increasing from \$24.3 million to \$24.6 million.

## 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 March 31,	
	2015	2014
Investment income:		
Interest income on fixed maturities, cash and cash equivalents	\$8,815	\$8,833
Dividends on equity securities	500	514
Gross investment income	9,314	9,347
Investment expenses	(578	) (549
Net investment income	8,736	8,798
Average investment balance, at cost	\$1,578,750	\$1,556,841
Annualized returns excluding realized gains and losses	2.2	% 2.3
Annualized returns including realized gains and losses	2.5	% 2.4

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 March 31, 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	\$53,054	\$104,270	\$157,323	2.3%
2016	78,348	141,030	219,378	2.4%
2017	95,036	202,032	297,068	2.2%
2018	51,183	97,760	148,944	2.5%
2019	33,410	119,467	152,877	2.6%
Thereafter	138,593	222,011	360,604	3.0%
Total	\$449,623	\$886,571	\$1,336,193	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.



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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 March 31, 2015			Three months ended March 31, 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	\$(381 )	\$452	\$71	\$(27 )	\$666	