

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

November 06, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2009

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File No. 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated under

the Laws of Ohio
(State or other jurisdiction of

03-0483872
(I.R.S. Employer

incorporation or organization)

Identification No.)

3700 Colonnade Parkway, Birmingham, Alabama 35243

(Address of principal executive offices and zip code)

(205) 870-4000

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant 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 October 30, 2009, there were 13,602,267 shares of the registrant's common stock outstanding.

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Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****PART I****FINANCIAL INFORMATION****ITEM 1****Financial Statements****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS****(In thousands, except per share data)****(unaudited)**

	Three months ended September 30			Nine months ended September 30		
	2009	2008	% Change	2009	2008	% Change
Revenues:						
Earned premium	\$ 210,337	\$ 231,094	(9.0)%	\$ 638,734	\$ 699,521	(8.7)%
Net investment income	12,107	14,098	(14.1)%	37,904	44,245	(14.3)%
Realized losses on investments*	(12,113)	(11,623)	4.2%	(18,070)	(14,788)	22.2%
Other income	25	233	(89.3)%	96	1,880	(94.9)%
Total revenues	210,357	233,802	(10.0)%	658,665	730,858	(9.9)%
Costs and Expenses:						
Losses and loss adjustment expenses	141,057	164,909	(14.5)%	443,151	500,281	(11.4)%
Commissions and other underwriting expenses	47,127	51,091	(7.8)%	139,778	160,600	(13.0)%
Interest expense	2,769	2,768	0.0%	8,306	8,303	0.0%
Corporate general and administrative expenses	1,590	1,746	(8.9)%	5,170	5,538	(6.6)%
Restructuring charges		72	(100.0)%	2	480	(99.6)%
Other expenses	404	1,196	(66.2)%	1,818	3,951	(54.0)%
Total costs and expenses	192,946	221,782	(13.0)%	598,225	679,153	(11.9)%
Earnings before income taxes	17,411	12,020	44.9%	60,440	51,705	16.9%
Provision for income taxes	9,187	7,651	20.1%	24,508	21,191	15.7%
Net Earnings	\$ 8,224	\$ 4,369	88.2%	\$ 35,932	\$ 30,514	17.8%
Earnings per Common Share:						
Basic	\$ 0.61	\$ 0.29	110.3%	\$ 2.62	\$ 1.93	35.8%
Diluted	0.60	0.28	114.3%	2.58	1.90	35.8%
Average number of Common Shares:						

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Basic	13,534	15,260	(11.3)%	13,713	15,838	(13.4)%
Diluted	13,753	15,499	(11.3)%	13,921	16,066	(13.4)%
Cash dividends per Common Share	\$ 0.12	\$ 0.11	9.1%	\$ 0.36	\$ 0.33	9.1%
* Realized (losses) gains before impairment losses	\$ (1,077)	\$ 2,174	(149.5)%	\$ 1,311	\$ 6,706	(80.5)%
Total other-than-temporary impairment (OTTI) losses	(250)	(13,797)	(98.2)%	(11,832)	(21,494)	(45.0)%
Non-credit portion in other comprehensive income			0.0%	3,783		0.0%
OTTI losses reclassified from other comprehensive income	(10,786)		0.0%	(11,332)		0.0%
Net impairment losses recognized in earnings	(11,037)	(13,797)	(20.0)%	(19,381)	(21,494)	(9.8)%
Total realized losses on investments	\$ (12,113)	\$ (11,623)	4.2%	\$ (18,070)	\$ (14,788)	22.2%

See Notes to Consolidated Financial Statements.

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

	September 30, 2009 (unaudited)	December 31, 2008
Assets		
Investments:		
Fixed maturities - at fair value (amortized cost \$1,106,733 and \$1,024,121)	\$ 1,134,811	\$ 1,032,237
Equity securities - at fair value (amortized cost \$33,244 and \$31,157)	39,436	31,157
Total investments	1,174,248	1,063,394
Cash and cash equivalents	104,215	109,274
Accrued investment income	10,166	11,028
Agents' balances and premium receivable, net of allowances for doubtful accounts of \$10,391 and \$11,652	309,700	300,751
Property, plant and equipment, net of accumulated depreciation of \$39,490 and \$49,989	29,675	33,342
Prepaid reinsurance premium	1,927	1,661
Recoverables from reinsurers (includes \$532 and \$2,898 on paid losses and loss adjustment expenses)	18,439	23,413
Deferred policy acquisition costs	71,174	70,101
Current and deferred income taxes	13,155	20,920
Receivable for securities sold	2,336	
Prepaid expenses, deferred charges and other assets	8,396	14,779
Goodwill	75,275	75,275
Total assets	\$ 1,818,706	\$ 1,723,938
Liabilities and shareholders' equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 532,025	\$ 544,756
Unearned premium	388,020	380,425
Payable to reinsurers		954
Long-term debt (fair value \$194,400 and \$179,063)	199,623	199,567
Commissions payable	23,549	22,568
Payable for securities purchased	36,873	293
Accounts payable, accrued expenses and other liabilities	45,959	50,042
Total liabilities	1,226,050	1,198,607
Commitments and contingencies (See Note 11)		
Shareholders' equity:		
Common stock, no par value 50,000,000 shares authorized 21,079,354 and 21,041,444 shares issued	21,056	20,999
Additional paid-in capital	343,732	341,889
Retained earnings	508,132	439,051
Accumulated other comprehensive income, net of tax	22,914	5,987
Treasury stock, at cost (7,474,062 and 6,895,262 shares)	(303,178)	(282,594)

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Total shareholders' equity	592,656	525,331
Total liabilities and shareholders' equity	\$ 1,818,706	\$ 1,723,938

See Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

(unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax	Treasury Stock	Total
Balance at December 31, 2007	\$ 20,942	\$ 340,195	\$ 426,638	\$ 8,353	\$ (194,904)	\$ 601,224
Net earnings	\$	\$	\$ 30,514	\$	\$	\$ 30,514
Net change in post-retirement benefit liability, net of tax				(48)		(48)
Change in unrealized gain on investments, net of tax				(18,710)		(18,710)
Comprehensive income						\$ 11,756
Dividends paid to common shareholders			(5,242)			(5,242)
Employee stock purchases, including tax benefit	6	198				204
Exercise of stock options, including tax benefit	17	429				446
Share-based compensation expense	34	1,708				1,742
Acquisition of treasury stock					(53,640)	(53,640)
Accelerated share repurchase plan settlement payment		(768)				(768)
Balance at September 30, 2008	\$ 20,999	\$ 341,762	\$ 451,910	\$ (10,405)	\$ (248,544)	\$ 555,722
Net earnings	\$	\$	\$ (11,257)	\$	\$	\$ (11,257)
Net change in post-retirement benefit liability, net of tax				242		242
Change in unrealized gain on investments, net of tax				16,150		16,150
Comprehensive income						\$ 5,135
Dividends paid to common shareholders			(1,568)			(1,568)
Employee stock purchases, including tax benefit	1	50				52
Exercise of stock options, including tax benefit	3	104				107
Share-based compensation expense	(4)	(27)				(31)
Acquisition of treasury stock					(34,051)	(34,051)
Other			(34)			(34)
Balance at December 31, 2008	\$ 20,999	\$ 341,889	\$ 439,051	\$ 5,987	\$ (282,594)	\$ 525,331
Net earnings	\$	\$	\$ 35,932	\$	\$	\$ 35,932
Net change in post-retirement benefit liability, net of tax				(73)		(73)
Change in unrealized gain on investments, net of tax				29,834		29,834
Non-credit component of impairment losses on fixed maturities, net of tax				11,936		11,936

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Comprehensive income						\$ 77,629
Reclassification of non-credit component of previously recognized impairment losses on fixed maturities		38,107	(38,107)			
Tax benefit on reclassification			13,338			13,338
Dividends paid to common shareholders		(4,958)				(4,958)
Employee stock purchases, including tax benefit	4	160				164
Exercise of stock options, including tax benefit	24	601				625
Share-based compensation expense	29	1,082				1,111
Acquisition of treasury stock					(20,583)	(20,583)
Balance at September 30, 2009	\$ 21,056	\$ 343,732	\$ 508,132	\$ 22,914	\$ (303,178)	\$ 592,656

See Notes to Consolidated Financial Statements.

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(unaudited)**

	Three months ended September 30,	
	2009	2008
Operating activities:		
Net earnings	\$ 8,224	\$ 4,369
Adjustments:		
Depreciation and amortization	2,706	3,001
Realized losses on investing activities	12,113	11,623
Loss on disposal of fixed assets	2	455
Share-based compensation expense	321	448
Decrease in accrued investment income	156	1,836
(Increase) decrease in agents' balances and premium receivable	(3,091)	8,605
Decrease in reinsurance receivables	1,514	2,004
Decrease in deferred policy acquisition costs	45	2,119
Decrease in other assets	1,218	5,237
Decrease in insurance claims and reserves	(913)	(14,262)
Decrease in payable to reinsurers		(102)
Increase in other liabilities	(1,259)	(6,570)
Net cash provided by operating activities	21,035	18,763
Investing activities:		
Purchases of and additional investments in:		
Fixed maturities	(236,935)	(96,031)
Equity securities	(1,700)	(108)
Property and equipment	(1,433)	(4,082)
Maturities and redemptions of fixed maturity investments	51,757	15,000
Sales:		
Fixed maturities	152,044	156,300
Net cash (used in) provided by investing activities	(36,266)	71,079
Financing activities:		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	529	306
Acquisition of treasury stock	(1,692)	(46,107)
Dividends paid to shareholders	(1,633)	(1,676)
Net cash used in financing activities	(2,796)	(47,477)
Net (decrease) increase in cash and cash equivalents	(18,026)	42,365
Cash and cash equivalents at beginning of period	122,241	36,645

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Cash and cash equivalents at end of period	\$	104,215	\$	79,010
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See Notes to Consolidated Financial Statements.

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	For the nine months ended September 30,	
	2009	2008
Operating Activities:		
Net earnings	\$ 35,932	\$ 30,514
Adjustments:		
Depreciation and amortization	7,343	9,179
Realized losses on investing activities	18,070	14,788
Loss on disposal of fixed assets	98	455
Share-based compensation expense	1,111	1,742
Decrease in accrued investment income	862	2,311
(Increase) decrease in agents' balances and premium receivable	(8,949)	7,630
Decrease in reinsurance receivables	4,708	5,897
Increase in deferred policy acquisition costs	(1,073)	(86)
Decrease in other assets	4,995	76
Decrease in insurance claims and reserves	(5,137)	(41,448)
Decrease in payable to reinsurers	(954)	(44)
Decrease in other liabilities	(3,103)	(11,864)
Net cash provided by operating activities	53,902	19,150
Investing Activities:		
Purchases of and additional investments in:		
Fixed maturities	(393,813)	(474,545)
Equity securities	(1,817)	(588)
Property and equipment	(3,718)	(11,897)
Maturities and redemptions of fixed maturity investments	119,653	49,210
Sales:		
Fixed maturities	245,740	508,480
Net cash (used in) provided by investing activities	(33,955)	70,661
Financing Activities:		
Proceeds from stock option exercise and employee stock purchase plan, including tax benefit	790	649
Accelerated share repurchase settlement payment		(768)
Acquisition of treasury stock	(20,837)	(52,271)
Dividends paid to shareholders	(4,958)	(5,242)
Net cash used in financing activities	(25,006)	(57,632)
Net (decrease) increase in cash and cash equivalents	(5,059)	32,179
Cash and cash equivalents at beginning of period	109,274	46,831
Cash and cash equivalents at end of period	\$ 104,215	\$ 79,010

See Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

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Note 1 Reporting and Accounting Policies

Nature of Operations

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

Basis of Consolidation and Reporting

The accompanying consolidated financial statements are unaudited and should be read in conjunction with Infinity Property and Casualty Corporation's Annual Report on Form 10-K for the year ended December 31, 2008. This Quarterly Report on Form 10-Q, including the Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on Infinity's financial performance since the beginning of the year.

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

Infinity has evaluated subsequent events through November 6, 2009, the date at which the company's financial statements were issued.

Schedules may not foot due to rounding.

Estimates

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

New Accounting Standards Adopted

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In June 2009, the Financial Accounting Standards Board (FASB) approved its Accounting Standards Codification (ASC) (Codification) as the single source of authoritative accounting principles recognized by the FASB. Codification does not create new accounting and reporting standards but reorganizes their structure. The Company adopted this standard for its interim reporting period ended September 30, 2009 and the adoption had no material impact on the Company's financial statements.

For periods ending after June 15, 2009, Infinity adopted the authoritative guidance in ASC 855, Subsequent Events, (prior authoritative literature: FASB Statement No. 165, Subsequent Events) which establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This accounting standard requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of this standard had no material impact on the Company's financial statements.

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Condensed Notes to Consolidated Financial Statements

For periods ending after June 15, 2009, Infinity adopted the authoritative guidance in ASC 820, Fair Value Measurements and Disclosures, and ASC 825, Financial Instruments (prior authoritative literature: FASB Staff Position No. 107-1 and APB Opinion 28-1, Interim Disclosures about Fair Value of Financial Instruments; FASB Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly) which requires disclosures about the fair value of financial instruments for interim reporting periods. This codification also provides additional guidance in determining fair value when the volume and level of activity for the asset or liability has significantly decreased. The adoption had no material impact on the Company's financial statements.

For periods ending after June 15, 2009, Infinity adopted the authoritative guidance in ASC 320, Investments—Debt and Equity Securities, (prior authoritative literature: FASB Staff Position No. 115-2 and FASB Staff Position No. 124-2, Recognition of Other-than-Temporary-Impairments) which states that, if a fixed maturity security is considered other-than-temporarily impaired but the company does not intend to and is not more than likely to be required to sell the security prior to its recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss portion, which is the difference between the security's amortized cost and the present value of expected future cash flows, is recognized in earnings. The amount due to all other factors is recognized in other comprehensive income, net of tax. If management intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge is required to reduce the amortized cost of that security to fair value. As a result of the adoption, Infinity recorded a cumulative effect adjustment of \$38.1 million to reclassify the non-credit component of previously recognized impairments from retained earnings to accumulated other comprehensive income.

Additional disclosures required by this standard are contained in Note 5 to the Consolidated Financial Statements.

Reclassifications

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

Note 2 Share-Based Compensation

Restricted Stock Plan

Infinity's Amended Restricted Stock Plan was established in 2002 and amended on July 31, 2007. There were 500,000 shares of Infinity common stock reserved for issuance under the Restricted Stock Plan, of which 206,609 shares have been issued through September 30, 2009. The fair value of shares issued under Infinity's Restricted Stock Plan is expensed over the vesting periods of the awards based on the market value of Infinity's stock on the date of grant.

On July 31, 2007, Infinity's Compensation Committee approved the grant of 72,234 shares of restricted stock to certain officers under the Company's Amended 2002 Restricted Stock Plan. These shares will vest in full on July 31, 2011. During the vesting period, the shares will not have voting rights but will accrue dividends, which will not be paid until the shares have vested. The shares are treated as issued and outstanding for calculation of diluted earnings per share only. Until fully vested, the shares will not be considered issued and outstanding for purposes of the basic earnings per share calculation. During the third quarter and first nine months of 2009, \$0.2 million and \$0.6 million, respectively, of expense was recorded in the Consolidated Statements of Earnings related to the grant of restricted stock. During the third quarter and first nine months of 2008, \$0.2 million and \$0.6 million, respectively, of expense was recorded in the Consolidated Statements of Earnings related to the grant of restricted stock.

Non-Employee Directors' Stock Ownership Plan

In May 2005, Infinity's shareholders approved the Non-Employee Directors' Stock Ownership Plan (the Directors' Plan). The purpose of the Directors' Plan is to include Infinity common stock as part of the compensation provided to its non-employee directors and to provide for stock ownership requirements for Infinity's non-employee directors. There are 200,000 shares of Infinity common stock reserved for issuance under the Directors' Plan, of which 29,630 shares have been issued through September 30, 2009. Under the terms of the Directors' Plan, shares are granted

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on or about June 1 of each year and the recipient may not sell or transfer the shares for six months from the date of grant. On June 2, 2008, a total of 7,494 shares of common stock, determined pursuant to the Directors' Plan and valued at \$300,000, were issued to Infinity's non-employee directors. On June 1, 2009, a total of 9,583 shares of common stock, determined pursuant to the Directors' Plan and valued at \$350,000, were issued to Infinity's non-employee directors.

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Condensed Notes to Consolidated Financial Statements

Employee Stock Purchase Plan

Infinity established the Employee Stock Purchase Plan (the ESPP) in 2004. Under this plan, all eligible full-time employees may purchase shares of Infinity common stock at a 15% discount to the current market price. Employees may allocate up to 25% of their base salary with a maximum annual participation amount of \$25,000. The source of shares issued to participants is treasury shares or authorized but previously unissued shares. The maximum number of shares which may be issued under the ESPP is 1,000,000, of which 36,263 have been issued through September 30, 2009. Infinity's ESPP is qualified under Section 423 of the Internal Revenue Code of 1986, as amended. The 15% discount for shares purchased during the three-month periods ended September 30, 2009 and 2008 approximated \$8,000 and \$11,000, respectively. The 15% discount for shares purchased during the nine-month periods ended September 30, 2009 and 2008 approximated \$24,000 and \$35,000, respectively. The discounts were recognized as compensation expense in the Consolidated Statements of Earnings in each period. Participants shares are treated as issued and outstanding for earnings per share calculations.

Performance Share Plan

On May 20, 2008, Infinity's shareholders approved the Performance Share Plan (the Plan). The purpose of the Plan is to further align the interest of management with the long-term shareholders of the company by including performance-based compensation, payable in shares of common stock, as a component of an executive's annual compensation. The Plan is administered by the Compensation Committee (Committee), which is composed solely of three outside directors as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. No member of the Committee, while serving as such, is eligible to be granted performance share units. The Committee will (i) establish the performance goals, which may include but are not limited to, combined ratio, premium growth, growth within certain specific geographic areas and earnings per share or return on equity over the course of the upcoming three year period (a Performance Measurement Cycle), (ii) determine the Plan participants, (iii) set the performance share units to be awarded to such participants, and (iv) set the rate at which performance share units will convert to shares of common stock based upon attainment of the performance goals. The number of shares of common stock that may be issued under the Plan is limited to 500,000 shares. No shares have been issued under this plan.

A review of the 2008 Performance Share Plan during the third quarter of 2009 indicated that the established 2008 to 2010 premium growth goals will likely not be met and no performance share units are expected to be awarded under this plan. Accordingly, Infinity did not record any expense for the plan during the third quarter of 2009. Infinity recorded \$(0.2) million of expense during the first nine months of 2009 to reverse expense previously recorded for the plan. During the third quarter and first nine months of 2008, \$0.2 million and \$0.5 million, respectively, of expense was recognized in the Consolidated Statements of Earnings for the 2008 Performance Share Plan.

During the third quarter and first nine months of 2009, approximately \$0.1 million and \$0.4 million, respectively, of expense was recognized in the Consolidated Statements of Earnings related to the 2009 Performance Share Plan.

Stock Option Plan

Infinity's Stock Option Plan (SOP) was amended in May 2008 to prohibit any future grant of stock options from the plan after May 20, 2008. No options have been granted since 2004. Options were generally granted with an exercise price equal to the closing price of Infinity's stock at the date of grant and have a 10-year contractual life. All of the options under this plan have fully vested. Subject to specific limitations contained in the SOP, Infinity's Board of Directors has the ability to amend, suspend or terminate the plan at any time without shareholder approval. The SOP will continue in effect until the exercise or expiration of all options granted under the plan.

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

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

	2004 Grants	2003 Grants
Weighted-average grant date fair value	\$ 13.87	\$ 5.97
Dividend yield	0.7%	1.4%
Expected volatility	33.0%	33.0%
Risk-free interest rate	4.3%	4.0%
Expected life	7.5 years	7.5 years
Weighted-average grant exercise price	\$ 33.56	\$ 16.11
Outstanding as of September 30, 2009	123,800	190,640

The following chart describes activity for Infinity's Stock Option Plan for the nine months ended September 30, 2009:

	Number of Options	Weighted-average Exercise Price	Weighted-average Remaining Term (in years)	Aggregate Intrinsic Value (a) (in millions)
Outstanding at December 31, 2008	338,560	\$ 22.81		
Granted				
Exercised	(24,120)	\$ 19.50		
Forfeited				
Outstanding at September 30, 2009	314,440	\$ 23.06	3.78	\$ 6.1
Vested or expected to vest as of September 30, 2009	314,440	\$ 23.06	3.78	\$ 6.1
Exercisable as of September 30, 2009	314,440	\$ 23.06	3.78	\$ 6.1

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

The Stock Compensation topic of the FASB Accounting Standards codification requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As of September 30, 2009, Infinity used an estimated forfeiture rate of 0%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

Cash received from option exercises for the nine months ended September 30, 2009 and 2008 was approximately \$0.5 million and \$0.3 million, respectively. The actual tax benefit realized for the tax deductions from options exercised of share-based payment arrangements was approximately \$0.2 million and \$0.1 million, respectively, for the nine months ended September 30, 2009 and 2008. The total intrinsic value of options exercised during the nine months ended September 30, 2009 and 2008, was approximately \$0.5 million and \$0.4 million, respectively.

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

Table of Contents**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Note 3 Computation of Earnings Per Share**

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net earnings for basic and diluted earnings per share	\$ 8,224	\$ 4,369	\$ 35,932	\$ 30,514
Average basic shares outstanding	13,534	15,260	13,713	15,838
Basic earnings per share	\$ 0.61	\$ 0.29	\$ 2.62	\$ 1.93
Average basic shares outstanding	13,534	15,260	13,713	15,838
Restricted stock not yet vested	72	72	72	72
Dilutive effect of assumed option exercises	146	167	136	156
Average diluted shares outstanding	13,753	15,499	13,921	16,066
Diluted earnings per share	\$ 0.60	\$ 0.28	\$ 2.58	\$ 1.90

Note 4 Fair Value

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

The following table presents for each of the fair-value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring basis at September 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 104,215	\$	\$	\$ 104,215
Available-for-sale securities				
Fixed maturities	233,557	879,215	22,039	1,134,811
Equity securities	39,436			39,436
Total assets	\$ 377,208	\$ 879,215	\$ 22,039	\$ 1,278,462
Percentage of total	29.5%	68.8%	1.7%	100.0%

Level 1 includes cash and cash equivalents, U.S. Treasury securities and an exchange-traded fund that makes up Infinity's equity portfolio. Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Level 3 securities are comprised of (i) securities for which there is no active or inactive market for similar instruments, (ii) securities whose fair value is determined based on unobservable inputs and (iii) securities, other than securities backed by the U.S. Government, that are not rated by a nationally recognized statistical rating organization.

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The following table presents the changes in the Level 3 fair value category at September 30, 2009 (in thousands):

	Available-for-Sale Securities	
	For the three months ended September 30, 2009	For the nine months ended September 30, 2009
Balance at beginning of period	\$ 24,042	\$ 45,556
Total gains or losses (realized or unrealized)		
Included in net earnings	(713)	(2,942)
Included in other comprehensive income	3,112	4,101
Purchases, sales, issuances and settlements	(3,018)	(12,887)
Transfers in to Level 3		1,671
Transfers out of Level 3	(1,383)	(13,460)
Balance at September 30, 2009	\$ 22,039	\$ 22,039

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

Of the \$22.0 million fair value of securities in Level 3, which consists of 18 securities, 14 are priced based on non-binding broker quotes or prices from various outside sources. When there are multiple prices obtained for the same security, a hierarchy is used that determines the best price, which is used as the basis for the fair value presented in the financial statements. The remaining four securities, which have a fair value of \$3.9 million, are manually calculated based on expected principal repayments from Bloomberg, the zero spot Treasury curve at September 30, 2009 and the average spreads to Treasury for the type and rating of the security being priced. For one security with a fair value of \$2.0 million, which is no longer rated, the assumed rating for valuation purposes was D .

The following table presents the carrying value and estimated fair value of Infinity's financial instruments (in thousands):

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$ 104,215	\$ 104,215	\$ 109,274	\$ 109,274
Available-for-sale securities				
Fixed maturities	1,134,811	1,134,811	1,032,237	1,032,237
Equity securities	39,436	39,436	31,157	31,157
Total assets	\$ 1,278,462	\$ 1,278,462	\$ 1,172,668	\$ 1,172,668
Liabilities:				
Long-term debt	\$ 199,623	\$ 194,400	\$ 199,567	\$ 179,063

See Note 5 of the Consolidated Financial Statements for additional information on investments and Note 6 for additional information on long-term debt.

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All fixed maturity and equity securities are considered available-for-sale and reported 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 nine months ended September 30, 2009 were \$152.0 million and \$245.7 million, respectively. Proceeds from sales of securities for the three and nine months ended September 30, 2008 were \$156.3 million and \$508.5 million, respectively.

Summarized information for the major categories of Infinity's investment portfolio follows (in thousands):

	September 30, 2009				Fair Value
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Temporary Unrealized Losses	Other-than-temporary Impairment Recognized in Accumulated OCI	
Fixed maturities:					
U.S. government	\$ 228,234	\$ 5,517	\$ (194)	\$	\$ 233,557
Government-sponsored entities	78,452	1,650	(2)		80,099
State and municipal	231,937	10,710	(99)		242,548
Mortgage-backed securities:					
Residential	166,694	4,631			171,326
Commercial	32,968	601			33,569
Total mortgage-backed securities	\$ 199,662	\$ 5,232	\$	\$	\$ 204,894
Collateralized mortgage obligations	112,723	878	(325)	(981)	112,297
Asset-backed securities	10,810	13	(25)	(4)	10,795
Corporates	244,914	8,095	(103)	(2,284)	250,621
Total fixed maturities	\$ 1,106,733	\$ 32,095	\$ (748)	\$ (3,268)	\$ 1,134,811
Equity securities	33,244	6,192			39,436
Total	\$ 1,139,977	\$ 38,287	\$ (748)	\$ (3,268)	\$ 1,174,248

	December 31, 2008			Fair Value
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Fixed maturities:				
U.S. government	\$ 159,031	\$ 9,232	\$	\$ 168,263
Government-sponsored entities	33,210	1,652		34,861
State and municipal	217,951	4,344	(1,696)	220,598
Mortgage-backed securities:				
Residential	129,664	5,268		134,932
Commercial	37,754	59	(2,325)	35,488

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Total mortgage-backed securities	\$ 167,419	\$ 5,327	\$ (2,325)	\$ 170,420
Collateralized mortgage obligations	162,100	1,199	(5,680)	157,619
Asset-backed securities	22,926	28	(375)	22,578
Corporates	261,486	3,218	(6,807)	257,898
Total fixed maturities	\$ 1,024,121	\$ 25,000	\$ (16,883)	\$ 1,032,237
Equity securities	31,157			31,157
Total	\$ 1,055,278	\$ 25,000	\$ (16,883)	\$ 1,063,394

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

	Number of Securities with Unrealized Losses	Less than 12 Months			Unrealized Loss as % of Cost	12 Months or More		
		Fair Value	Gross Unrealized Losses	Unrealized Loss as % of Cost		Fair Value	Gross Unrealized Losses	Unrealized Loss as % of Cost
September 30, 2009								
Fixed maturities:								
U.S. government	1	\$ 5,872	\$ (194)	3.2%		\$	\$	0.0%
Government-sponsored entities	1	1,012	(2)	0.2%				0.0%
State and municipal	4	7,137	(56)	0.8%	1	2,373	(44)	1.8%
Mortgage-backed securities:								
Residential				0.0%				0.0%
Commercial				0.0%				0.0%
Total mortgage-backed securities		\$	\$	0.0%		\$	\$	0.0%
Collateralized mortgage obligations	2	2,867	(310)	9.7%	9	27,025	(996)	3.6%
Asset-backed securities				0.0%	3	602	(28)	4.5%
Corporate	41	20,601	(313)	1.5%	13	8,034	(2,074)	20.5%
Total fixed maturities	49	\$ 37,489	\$ (875)	2.3%	26	\$ 38,034	\$ (3,142)	7.6%
Equity securities				0.0%				0.0%
Total	49	\$ 37,489	\$ (875)	2.3%	26	\$ 38,034	\$ (3,142)	7.6%

	Number of Securities with Unrealized Losses	Less than 12 Months			Unrealized Loss as % of Cost	12 Months or More		
		Fair Value	Gross Unrealized Losses	Unrealized Loss as % of Cost		Fair Value	Gross Unrealized Losses	Unrealized Loss as % of Cost
December 31, 2008								
Fixed maturities:								
U.S. government		\$	\$	0.0%		\$	\$	0.0%
Government-sponsored entities				0.0%				0.0%
State and municipal	31	57,901	(1,696)	2.9%				0.0%
Mortgage-backed securities:								
Residential				0.0%				0.0%
Commercial	8	28,101	(2,325)	7.6%				0.0%
Total mortgage-backed securities	8	\$ 28,101	\$ (2,325)	7.6%		\$	\$	0.0%
Collateralized mortgage obligations	14	56,556	(5,680)	9.1%				0.0%
Asset-backed securities	14	5,257	(369)	7.0%	2	698	(6)	0.9%
Corporate	93	114,945	(6,447)	5.3%	4	3,613	(360)	9.1%

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Total fixed maturities	160	\$ 262,759	\$ (16,518)	5.9%	6	\$ 4,311	\$ (366)	7.8%
Equity securities				0.0%				0.0%
Total	160	\$ 262,759	\$ (16,518)	5.9%	6	\$ 4,311	\$ (366)	7.8%

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

Condensed Notes to Consolidated Financial Statements

Gross unrealized losses at September 30, 2009 are primarily attributable to the following:

Unrealized losses in collateralized mortgage obligations, particularly in non-GSE Whole Loan securities which have declined in value due to widening credit spreads-to-Treasury securities for non-GSE collateralized mortgage obligations;

A \$1.9 million non-credit impairment loss on an investment grade corporate bond with a fair value of \$1.3 million. The determination of whether unrealized losses are other-than-temporary requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include:

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

the 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.

Management regularly evaluates for potential impairment each security position that has any of the following: a fair value of less than 95% of its book value, an unrealized loss that equals or exceeds \$100,000 or one or more impairment charges recorded in the past. In addition, management reviews positions held related to an issuer of a previously impaired security.

	September 30, 2009	December 31, 2008
Number of positions held with unrealized:		
Gains	408	229
Losses	75	166
Number of positions held that individually exceed unrealized:		
Gains of \$500,000	7	9
Losses of \$500,000	1	5
Percentage of positions held with unrealized:		
Gains that were investment grade	83%	96%
Losses that were investment grade	36%	80%
Percentage of fair value held with unrealized:		
Gains that were investment grade	97%	99%
Losses that were investment grade	71%	94%

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The following table sets forth the amount of unrealized loss by age and severity at September 30, 2009 (in thousands):

Age of unrealized loss:	Fair Value of Securities with Unrealized Losses	Total Gross Unrealized Losses	Less than 5%*	5% - 10%*	Total Gross Greater than 10%*
Less than or equal to:					
Three months	20,112	(124)	(124)		
Six months	9,068	(307)	(230)	(77)	
Nine months	7,213	(140)	(107)	(33)	
Twelve months	10,520	(2,444)	(75)	(165)	(2,204)
Greater than twelve months	28,611	(1,001)	(337)	(526)	(139)
Total	75,522	(4,017)	(873)	(801)	(2,343)

* As compared to amortized cost or cost.

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

	Pre-tax			Net
	Fixed Maturities ¹	Equity Securities	Tax Effects	
<u>Nine months ended September 30, 2009</u>				
Unrealized holding gains (losses) on securities arising during the period	\$ 39,999	\$ 6,192	\$ (16,167)	\$ 30,024
Realized (gains) losses on securities sold	(1,311)		459	(852)
Impairment loss recognized in earnings	19,381		(6,783)	12,598
Change in unrealized gains (losses) on marketable securities, net	\$ 58,069	\$ 6,192	\$ (22,491)	\$ 41,770
<u>Nine months ended September 30, 2008</u>				
Unrealized holding gains (losses) on securities arising during the period	\$ (34,450)	\$ (9,121)	\$ 15,250	\$ (28,321)
Realized (gains) losses included in net earnings	14,788		(5,176)	9,612
Change in unrealized gains (losses) on marketable securities, net	\$ (19,662)	\$ (9,121)	\$ 10,074	\$ (18,710)

¹ Excludes \$38.1 million reclass of the non-credit component of previously recognized impairments from retained earnings to accumulated other comprehensive income on April 1, 2009 as part of the adoption of FASB ASC 320-10-65

For fixed maturity securities that are other-than-temporarily impaired, Infinity assesses its intent to sell and the likelihood that the company will be required to sell the security before recovery of its amortized cost. If a fixed maturity security is considered other-than-temporarily impaired but the company does not intend to and is not more than likely to be required to sell the security prior to its recovery to amortized cost, the

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amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss component of an impairment charge on a fixed maturity security is determined by the excess of the amortized cost over the present value of the expected cash flows. 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 varies depending on the type of security. The credit loss component of an impairment charge is recognized in net earnings while the non-credit component is recognized in accumulated other comprehensive income.

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The following table is a progression of credit losses on fixed maturity securities for which a portion was recognized in other accumulated other comprehensive income (in thousands):

Balance at April 1, 2009	\$ 1,635
Additional credit impairments on:	
Previously impaired securities	2,948
Securities without prior impairments	520
Reductions for securities sold	(729)
Additions for previously all credit	7,910
Other adjustments ¹	(5)
Balance at September 30, 2009	\$ 12,279

¹ Other adjustments include reductions to the beginning balance for securities that no longer have a non-credit component. The table below sets forth the scheduled maturities of fixed maturity securities at September 30, 2009, based on their fair values (in thousands). Securities that do not have a single maturity date are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

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	\$ 66,848	\$ 256	\$ 3,909	\$ 71,013	\$ 70,073
After one year through five years	468,126	8,223	3,293	479,643	467,321
After five years through ten years	163,954	30,444	453	194,852	187,009
After ten years	49,503	6,105	5,710	61,318	59,134
MBS, CMO and ABS	246,877	30,493	50,616	327,986	323,196
Total	\$ 995,307	\$ 75,522	\$ 63,982	\$ 1,134,811	\$ 1,106,733

Note 6 Long-term Debt

In February 2004, Infinity issued \$200 million principal of senior notes due February 2014 (the Senior Notes). The Senior Notes accrue interest at an effective yield of 5.55% and bear a coupon of 5.5%, payable semiannually. At the time the notes were issued, Infinity capitalized \$2.1 million of debt issuance costs, which are being amortized over the term of the Senior Notes. The September 30, 2009 fair value of \$194.4 million was calculated using a 293 basis point spread to the ten-year U.S. Treasury Note of 3.307%.

In August 2008, Infinity entered into an agreement for a \$50 million three-year revolving credit facility (the Credit Agreement) that requires Infinity to meet certain financial and other covenants. Infinity is currently in compliance with all covenants under the Credit Agreement. At

September 30, 2009, there were no borrowings outstanding under the Credit Agreement.

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Income tax expense for the three and nine months ended September 30, 2009 was \$9.2 million and \$24.5 million, respectively, compared to \$7.7 million and \$21.2 million for the same periods of 2008. The following table reconciles Infinity's statutory federal income tax rate to its effective tax rate (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Earnings before income taxes	\$ 17,411	\$ 12,020	\$ 60,440	\$ 51,705
Income taxes at statutory rates	6,094	4,207	21,154	18,097
Effect of:				
Dividends-received deduction	(38)	(43)	(111)	(133)
Tax-exempt interest	(601)	(650)	(1,846)	(2,235)
Adjustment to valuation allowance	3,708	4,083	5,277	5,159
Other	24	54	34	303
Provision for income taxes as shown on the Consolidated Statements of Earnings	\$ 9,187	\$ 7,651	\$ 24,508	\$ 21,191
GAAP effective tax rate	52.8%	63.7%	40.6%	41.0%

In the third quarter and first nine months of 2009, Infinity increased its tax valuation allowance by approximately \$3.7 million and \$5.3 million, respectively, primarily due to an increase in the deferred tax asset related to other-than-temporary impaired securities.

In the third quarter and first nine months of 2008, Infinity increased its tax valuation allowance by approximately \$4.1 million and \$5.2 million, respectively, primarily due to an increase in the deferred tax asset related to other-than-temporary impaired securities.

In June 2008, the Internal Revenue Service began an examination of the 2005 tax year. In August 2008, the examination was expanded to include the 2006 tax year. In December 2008, the examination was completed with one issue identified, which related to whether corporate litigation losses are deductible for tax purposes when reserved versus paid. The Company filed a protest regarding this issue with the Internal Revenue Service and the appeals settlement was finalized in September 2009. The appeals settlement did not have a material impact on Infinity's financial position.

No notice has been received for the 2007 or 2008 tax year.

Note 8 Supplemental Cash Flow Information

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008

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Income tax payments	\$ 8,500	\$ 1,000	\$ 25,700	\$ 16,700
Interest payments on debt	5,500	5,500	11,000	11,000

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Balance at Beginning of Period				
Unpaid losses on known claims	\$ 169,753	\$ 203,025	\$ 179,530	\$ 225,415
IBNR losses	196,830	185,028	196,891	186,402
LAE	167,419	193,092	168,335	206,592
Total unpaid losses and LAE	534,002	581,145	544,756	618,409
Reinsurance recoverables	(18,557)	(24,031)	(20,516)	(28,219)
Unpaid losses and LAE, net of reinsurance recoverables	515,445	557,114	524,241	590,190
Current Activity				
Loss and LAE incurred:				
Current accident year	154,269	166,190	476,515	513,789
Prior accident years	(13,211)	(1,281)	(33,364)	(13,508)
Total loss and LAE incurred	141,057	164,909	443,151	500,281
Loss and LAE payments:				
Current accident year	(101,870)	(113,623)	(239,046)	(269,578)
Prior accident years	(40,514)	(55,812)	(214,227)	(268,305)
Total loss and LAE payments	(142,384)	(169,435)	(453,273)	(537,883)
Balance at End of Period				
Unpaid losses and LAE, net of reinsurance recoverables	514,118	552,588	514,118	552,588
Add back reinsurance recoverables	17,907	23,548	17,907	23,548
Total unpaid losses and LAE	\$ 532,025	\$ 576,136	\$ 532,025	\$ 576,136
Unpaid losses and LAE, net of reinsurance recoverables				
Unpaid losses on known claims	\$ 169,814	\$ 207,321	\$ 169,814	\$ 207,321
IBNR losses	196,715	190,087	196,715	190,087
LAE	165,497	178,728	165,497	178,728
Total unpaid losses and LAE	\$ 532,025	\$ 576,136	\$ 532,025	\$ 576,136

The \$13.2 million and \$33.4 million of favorable development during the three and nine months ended September 30, 2009, respectively, primarily relates to liability coverages on the nonstandard personal auto programs in California, Connecticut and Florida in accident years 2006 through 2008. In addition, there was favorable development on loss and LAE reserves relating to liability coverages in the Commercial Vehicle program. Included in the favorable development for the three and nine months ended September 30, 2009 is \$2.4 million and \$2.6 million,

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pre-tax respectively, related to the cancellation of non-escheatable claim checks that accumulated over several periods. The accumulation of cancelable checks was the result of an error that occurred over multiple quarters and the impact to any previously reported annual or quarterly period was immaterial.

The \$1.3 million and \$13.5 million of favorable development during the three and nine months ended September 30, 2008, respectively, primarily relates to liability coverages of the personal insurance business assumed through a reinsurance contract (the Assumed Agency Business) from Infinity's former parent company's principal property and casualty subsidiary, Great American Insurance Company. In addition, there was favorable development on LAE reserves relating to liability coverages in the California, Florida and Pennsylvania non-standard programs.

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

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

Restructuring costs incurred in 2006, 2007, 2008 and the three and nine months ended September 30, 2009 are as follows (in thousands):

	2006	2007	2008	Three months ended September 30, 2009	Nine months ended September 30, 2009	Total
Employee related costs	\$ 4,782	\$ (562)	\$ 331	\$	\$ 2	\$ 4,553
Contract termination costs		1,929	389			2,318
Other exit costs		326	68			394
Total	\$ 4,782	\$ 1,693	\$ 788	\$	\$ 2	\$ 7,265

Infinity does not expect to incur any additional costs related to the restructuring.

Activities related to accrued restructuring charges as of September 30, 2009 are as follows (in thousands):

	Employee related costs	Contract termination costs	Total liability
Balance at December 31, 2008	\$ 139	\$ 1,229	\$ 1,368
Incurred	6		6
Costs paid or settled	(141)	(541)	(682)
Net adjustments	(4)		(4)
Balance at September 30, 2009	\$	\$ 687	\$ 687

Note 11 Commitments and Contingencies**Commitments**

In December 2006, Infinity entered into an eleven year operating lease for a call center facility in Birmingham, Alabama. This lease provides Infinity the right and option to purchase the property for \$16.9 million in July 2011. This option expires on October 1, 2010. Infinity has made an offer to purchase the building for \$16.1 million in advance of the July 2011 date. This offer has been accepted but is contingent upon the resolution of several legal issues by the current building owner, due diligence by Infinity and the successful execution of the sales contract. Infinity intends to use current funds to complete the purchase.

Contingencies

For material changes from the contingencies discussed in the Form 10-K for the year ended December 31, 2008, refer to Part II, Item 1, Legal Proceedings and other-than-temporary impairments on investments contained in Note 5 Investments.

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

ITEM 2

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Actual results could differ materially from those expected by Infinity depending on: changes in economic conditions and financial markets (including interest rates), the adequacy or accuracy of Infinity's pricing methodologies, determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio including other-than-temporary impairments for credit losses, actions of competitors, the approval of requested form and rate changes, judicial and regulatory developments affecting the automobile insurance industry, the outcome of pending litigation against Infinity, weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions), changes in driving patterns and loss trends. Infinity undertakes no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements see Risk Factors contained in Part II, Item 1A of this report, as well as in Part I, Item 1A of Infinity's Annual Report on Form 10-K for the twelve months ended December 31, 2008.

OVERVIEW

Weak economic conditions and rising unemployment continued to pose a challenge with regard to growing revenue in the third quarter of 2009. However, favorable loss costs trends throughout the year have contributed to strong earnings.

Net earnings and diluted earnings per share for the three months ended September 30, 2009 were \$8.2 million and \$0.60, respectively, compared to \$4.4 million and \$0.28, respectively, for the three months ended September 30, 2008. Net earnings and diluted earnings per share for the nine months ended September 30, 2009 were \$35.9 million and \$2.58, respectively, compared to \$30.5 million and \$1.90, respectively, for the nine months ended September 30, 2008. The increase in diluted earnings per share for the three and nine months ended September 30, 2009 is primarily due to an increase in underwriting income.

Included in net earnings for the three and nine months ended September 30, 2009 were \$8.6 million (\$13.2 million pre-tax) and \$21.7 million (\$33.4 million pre-tax), respectively, of favorable development on prior accident period loss and LAE reserves compared to \$0.8 million (\$1.3 million pre-tax) and \$8.8 million (\$13.5 million pre-tax), respectively, for the three and nine months ended September 30, 2008. See *Results of Operations - Underwriting Profitability* for a more detailed discussion of Infinity's underwriting results.

Net realized losses on investments were \$18.1 million for the first nine months of 2009 as compared to \$14.8 million for the same period of 2008. Infinity had net realized losses on investments of \$12.1 million for the third quarter of 2009 compared to losses of \$11.6 million in the third quarter of 2008. Included in the net realized loss for the first nine months of 2009 is \$19.4 million of other-than-temporary impairments on fixed income securities compared with \$21.5 million of impairments during the first nine months of 2008. Included in the net realized loss for the third quarter of 2009 is \$11.0 million of other-than-temporary impairments on fixed income securities compared with \$13.8 million of impairments during the third quarter of 2008.

Total revenues declined 10.0% and 9.9% for the three and nine months ended September 30, 2009 compared with the same periods in 2008. The decline for both periods is primarily attributable to a decline in earned premiums as a result of decreases in gross written premiums in states such as Arizona, Florida and Georgia. See *Results of Operations - Underwriting Premiums* for a more detailed discussion of Infinity's gross written premium growth.

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Infinity's book value per share increased \$6.51 or 17.6% from \$37.05 at September 30, 2008 to \$43.56 at September 30, 2009. This increase was primarily due to earnings and change in unrealized net gains on investments, net of shareholder dividends, for the twelve months ended September 30, 2009. Also increasing book value per share over this period by approximately \$0.89 per share was the \$13.3 million reduction in the deferred tax valuation reserve associated with the \$38.1 million reclassification of other-than-temporary

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impairment reserve to unrealized losses required under FASB ASC 320-10-65 on April 1, 2009. Annualized return on equity for the three and nine months ended September 30, 2009 was 5.7% and 8.6%, respectively, compared with 3.0% and 7.0% for the three and nine months ended September 30, 2008.

RESULTS OF OPERATIONS

Underwriting

Premium

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

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

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

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

Maintenance States Infinity is maintaining its writings in these states which include: Alabama, Colorado, Connecticut, Missouri, Ohio, South Carolina, and Tennessee. Infinity believes each state offers the Company an opportunity for underwriting profit.

Other States Includes all remaining states.

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

Urban Zones include the following urban areas:

Arizona Phoenix and Tucson

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

Florida Jacksonville, Miami, Orlando, Sarasota and Tampa

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Georgia Atlanta

Illinois Chicago

Nevada Las Vegas

Pennsylvania Allentown and Philadelphia

Texas Dallas, Fort Worth, Houston and San Antonio

Non-Urban Zones include all remaining areas in the Focus States located outside of a designated Urban Zone. Infinity continually evaluates its market opportunities; thus the Focus States, Urban Zones, Maintenance States and Other States may change over time as new market opportunities arise, as the allocation of resources changes or as regulatory environments change. In the tables below, Infinity has restated 2008 premium, policies-in-force and combined ratios to be consistent with the 2009 definition of Urban Zones, Focus States, Maintenance States and Other States.

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The following table shows Infinity's net earned premium for the three months ended September 30, 2009 and 2008 (\$ in thousands):

	Three months ended September 30,			
	2009	2008	\$ Change	Change
Net earned premium				
Gross written premium				
Personal auto insurance:				
Focus States:				
Urban Zones	\$ 166,928	\$ 168,741	\$ (1,813)	(1.1)%
Non-Urban Zones	21,799	25,535	(3,736)	(14.6)%
Total Focus States	188,727	194,276	(5,549)	(2.9)%
Maintenance States	7,151	10,600	(3,449)	(32.5)%
Other States	418	837	(419)	(50.0)%
Subtotal	196,297	205,713	(9,417)	(4.6)%
Commercial Vehicle	13,331	11,086	2,245	20.3%
Classic Collector	2,956	5,876	(2,920)	(49.7)%
Other	(1)	177	(178)	(100.4)%
Total gross written premium	212,583	222,852	(10,269)	(4.6)%
Ceded reinsurance	(1,236)	(916)	(319)	34.9%
Net written premium	211,348	221,936	(10,588)	(4.8)%
Change in unearned premium	(1,010)	9,158	(10,169)	(111.0)%
Net earned premium	\$ 210,337	\$ 231,094	\$ (20,757)	(9.0)%

The following table shows Infinity's net earned premium for the nine months ended September 30, 2009 and 2008 (\$ in thousands):

	Nine months ended September 30,			
	2009	2008	\$ Change	Change
Net earned premium				
Gross written premium				
Personal auto insurance:				
Focus States:				
Urban Zones	\$ 505,501	\$ 531,935	\$ (26,433)	(5.0)%
Non-Urban Zones	66,905	82,956	(16,052)	(19.3)%
Total Focus States	572,406	614,891	(42,485)	(6.9)%
Maintenance States	24,408	35,946	(11,538)	(32.1)%
Other States	1,347	2,839	(1,492)	(52.6)%
Subtotal	598,160	653,676	(55,516)	(8.5)%

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Commercial Vehicle	40,533	32,742	7,791	23.8%
Classic Collector	11,131	16,766	(5,635)	(33.6)%
Other	111	685	(574)	(83.8)%
Total gross written premium	649,936	703,868	(53,932)	(7.7)%
Ceded reinsurance	(3,813)	(3,125)	(688)	22.0%
Net written premium	646,123	700,743	(54,620)	(7.8)%
Change in unearned premium	(7,389)	(1,222)	(6,167)	504.8%
Net earned premium	\$ 638,734	\$ 699,521	\$ (60,787)	(8.7)%

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The following table shows Infinity's policies-in-force as of September 30, 2009 and 2008:

	2009	As of September 30, 2008	Change	Change
Policies-in-force				
Personal auto insurance:				
Focus States:				
Urban Zones	593,003	597,378	(4,375)	(0.7)%
Non-Urban Zones	68,025	82,053	(14,028)	(17.1)%
			 	