INFINITY PROPERTY & CASUALTY CORP
Form 10-Q
April 30, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2018
OR
o 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)

Ohio	03-0483872
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2201 4th Avenue North, Birmingham, Alabama 35203
(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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer	o (Do not check if smaller reporting company)	Smaller reporting company	¨
Emerging growth company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of April 26, 2018, there were 10,941,936 shares of the registrant's common stock outstanding.

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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,		
	2018	2017	% Change
		(as adjusted)	
Revenues:			
Earned premium	$353,987	$341,368	3.7 %
Installment and other fee income	27,395	26,739	2.5 %
Net investment income	9,786	8,695	12.5 %
Net realized (losses) gains on investments [(1)]	(2,832)	509	(656.2)%
Other income	430	275	56.3 %
Total revenues	388,766	377,587	3.0 %
Costs and Expenses:			
Losses and loss adjustment expenses	264,552	270,676	(2.3)%
Commissions and other underwriting expenses	90,521	85,939	5.3 %
Interest expense	3,509	3,512	(0.1)%
Corporate general and administrative expenses	4,743	2,271	108.9 %
Other expenses	505	322	56.9 %
Total costs and expenses	363,829	362,719	0.3 %
Earnings before income taxes	24,937	14,868	67.7 %
Provision for income taxes	4,853	4,358	11.4 %
Net Earnings	$20,083	$10,510	91.1 %
Net Earnings per Common Share:			
Basic	$1.84	$0.96	91.7 %
Diluted	1.82	0.94	93.6 %
Average Number of Common Shares:			
Basic	10,915	10,998	(0.8)%
Diluted	11,009	11,127	(1.1)%
Cash Dividends per Common Share	$0.58	$0.58	0.0 %
[(1)] Net realized gains on sales	$1,363	$519	162.6 %
Net holding period losses on equity securities	(2,607)	0	NM
Total other-than-temporary impairment (OTTI) losses	(1,468)	(46)	NM
Non-credit portion in other comprehensive income	158	36	341.9 %
OTTI losses reclassified from other comprehensive income	(278)	0	NM
Net impairment losses recognized in earnings	(1,588)	(10)	NM
Total net realized (losses) gains on investments	$(2,832)	$509	(656.2)%

NM = Not Meaningful

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in thousands)
(unaudited)

	Three months ended March 31,	
	2018	2017 (as adjusted)
Net earnings	$20,083	$10,510
Other comprehensive income before tax:		
Net change in post-retirement benefit liability	(2)	(13)
Unrealized gains on investments[1]:		
Unrealized holding (losses) gains arising during the period	(18,344)	10,664
Less: Reclassification adjustments for losses (gains) included in net earnings	2,106	(509)
Unrealized (losses) gains on investments, net	(16,238)	10,155
Other comprehensive (loss) income, before tax	(16,240)	10,143
Income tax benefit (expense) related to components of other comprehensive income	3,410	(3,550)
Other comprehensive (loss) income, net of tax	(12,829)	6,593
Comprehensive income	$7,254	$17,102

[1] The amounts for 2018 are for fixed maturities only.
See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts in line descriptions)

	March 31, 2018 (unaudited)	December 31, 2017 (as adjusted)
Assets		
Investments:		
Fixed maturities – at fair value (amortized cost $1,512,939 and $1,439,878)	$1,497,930	$1,441,107
Equity securities – at fair value (cost $65,913 and $68,812)	90,498	96,004
Short-term investments – at fair value (amortized cost $0 and $2,541)	0	2,541
Total investments	1,588,428	1,539,653
Cash and cash equivalents	88,793	107,589
Accrued investment income	10,098	13,079
Agents' balances and premium receivable, net of allowances for doubtful accounts of $13,238 and $15,262	557,206	507,963
Property and equipment, net of accumulated depreciation of $87,945 and $84,776	78,732	82,453
Prepaid reinsurance premium	482	1,032
Recoverables from reinsurers (includes $3,124 and $(1,269) on paid losses and LAE)	22,674	30,340
Deferred policy acquisition costs	98,672	88,300
Current and deferred income taxes	9,091	10,543
Receivable for securities sold	120	1,700
Other assets	21,896	16,557
Goodwill	75,275	75,275
Total assets	$2,551,466	$2,474,484
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	$701,006	$715,098
Unearned premium	691,464	627,575
Long-term debt (fair value $286,330 and $290,824)	273,865	273,809
Commissions payable	15,844	16,743
Payable for securities purchased	40,375	5,615
Other liabilities	110,996	119,831
Total liabilities	1,833,550	1,758,672
Commitments and contingencies (See Note 9)		
Shareholders' equity:		
Common stock, no par value (50,000,000 shares authorized; 21,879,505 and 21,867,436 shares issued)	21,908	21,888
Additional paid-in capital	385,346	383,567
Retained earnings	824,932	793,077
Accumulated other comprehensive income, net of tax	(11,202)	19,756
Treasury stock, at cost (10,937,569 and 10,932,539 shares)	(503,069)	(502,475)
Total shareholders' equity	717,916	715,812
Total liabilities and shareholders' equity	$2,551,466	$2,474,484

See Condensed Notes to Consolidated Financial Statements.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 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, Net of Tax	Treasury Stock	Total
Balance at December 31, 2016	$21,829	$378,745	$777,695	$ 7,907	$(486,990)	$699,187
Cumulative effect of change in accounting principle	—	—	(3,808)	—	—	(3,808)
Net earnings	—	—	10,510	—	—	10,510
Net change in post-retirement benefit liability	—	—	—	(8)	—	(8)
Change in unrealized gain on investments	—	—	—	6,579	—	6,579
Change in non-credit component of impairment losses on fixed maturities	—	—	—	22	—	22
Comprehensive income						17,102
Dividends paid to common shareholders	—	—	(6,402)	—	—	(6,402)
Shares issued and share-based compensation expense	18	1,430	—	—	—	1,449
Acquisition of treasury stock	—	—	—	—	(2,303)	(2,303)
Balance at March 31, 2017, as adjusted	$21,848	$380,175	$777,994	$ 14,500	$(489,293)	$705,225
Net earnings	—	—	34,214	—	—	34,214
Net change in post-retirement benefit liability	—	—	—	(124)	—	(124)
Change in unrealized gain on investments	—	—	—	5,074	—	5,074
Change in non-credit component of impairment losses on fixed maturities	—	—	—	306	—	306
Comprehensive income						39,469
Dividends paid to common shareholders	—	—	(19,131)	—	—	(19,131)
Shares issued and share-based compensation expense	40	3,391	—	—	—	3,432
Acquisition of treasury stock	—	—	—	—	(13,182)	(13,182)
Balance at December 31, 2017, as adjusted	$21,888	$383,567	$793,077	$ 19,756	$(502,475)	$715,812
Cumulative effect of change in accounting principle	$—	$—	18,118	$ (18,128)	$—	(10)
Net earnings	—	—	20,083	—	—	20,083
Net change in post-retirement benefit liability	—	—	—	(1)	—	(1)
Change in unrealized gain on fixed maturity investments	—	—	—	(12,980)	—	(12,980)
Change in non-credit component of impairment losses on fixed maturities	—	—	—	152	—	152
Comprehensive income						7,254
Dividends paid to common shareholders	—	—	(6,346)	—	—	(6,346)
Shares issued and share-based compensation expense	21	1,779	—	—	—	1,800
Acquisition of treasury stock	—	—	—	—	(594)	(594)

Balance at March 31, 2018	$21,908	$385,346	$824,932	$ (11,202)	$(503,069)	$717,916

See Condensed Notes to Consolidated Financial Statements.

INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands, unaudited)

	Three months ended March 31,	
	2018	2017 (as adjusted)
Operating Activities:		
Net earnings	$20,083	$10,510
Adjustments:		
Depreciation	3,696	4,177
Amortization	4,840	5,327
Net realized losses (gains) on investments	2,832	(509)
Loss (gain) on disposal of property and equipment	10	(2)
Share-based compensation expense	1,731	1,384
Activity related to rabbi trust	(13)	69
Change in accrued investment income	2,980	246
Change in agents' balances and premium receivable	(49,243)	(17,118)
Change in reinsurance receivables	8,216	917
Change in deferred policy acquisition costs	(10,372)	(2,957)
Change in other assets	(804)	(4,505)
Change in unpaid losses and loss adjustment expenses	(14,092)	(6,508)
Change in unearned premium	63,889	26,943
Change in other liabilities	(9,815)	5,565
Net cash provided by operating activities	23,939	23,538
Investing Activities:		
Purchases of fixed maturities	(403,516)	(120,831)
Purchases of equity securities	0	(1,900)
Purchases of property and equipment	(313)	(889)
Maturities and redemptions of fixed maturities	32,497	43,319
Proceeds from sale of fixed maturities	328,064	37,671
Proceeds from sale of equity securities	5,013	2,002
Proceeds from sale of short-term investments	2,528	2,400
Proceeds from sale of property and equipment	0	19
Net cash used in investing activities	(35,727)	(38,209)
Financing Activities:		
Proceeds from stock options exercised and employee stock purchases	70	65
Principal payments under capital lease obligations	(138)	(135)
Acquisition of treasury stock	(594)	(2,296)
Dividends paid to shareholders	(6,346)	(6,402)
Net cash used in financing activities	(7,009)	(8,768)
Net decrease in cash and cash equivalents	(18,796)	(23,438)
Cash and cash equivalents at beginning of period	107,589	92,800
Cash and cash equivalents at end of period	$88,793	$69,361

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, 2018
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Note 1 Significant Reporting and Accounting Policies

Nature of Operations

We are a holding company that provides insurance through our subsidiaries for personal auto with a concentration on nonstandard risks, commercial auto and classic collectors. 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 (Form 10-K) for the year ended December 31, 2017. 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 accurately match expenses with their related revenue streams and the elimination of all significant intercompany transactions and balances.

We have evaluated events that occurred after March 31, 2018, 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 Adopted Accounting Standards

In February 2018 the FASB issued an ASU allowing a reclassification from accumulated other comprehensive income to retained earnings and consequently eliminating the stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. We elected to early adopt the ASU and applied the amendment in the period of adoption, with a cumulative-effect adjustment of $0.4 million reclassified from accumulated other comprehensive income to retained earnings.

In October 2016 the FASB issued an ASU related to the recognition of income tax on intra-entity transfers of assets other than inventory. The guidance requires the income tax to be recognized when the transfer occurs rather than when the asset is sold to an

outside party. We adopted the change on a modified retrospective basis, with a cumulative-effect adjustment of less than $(0.1) million recorded to retained earnings as of January 1, 2018.

In January 2016 the FASB issued an ASU amending the guidance on classifying and measuring financial instruments. The guidance requires equity securities to be measured at fair value and changes in that fair value to be recognized through net income. We adopted the change on a modified retrospective basis as of January 1, 2018, with a cumulative-effect adjustment of $17.7 million reclassified from other comprehensive income to retained earnings.

In May 2014 the FASB issued an ASU related to the accounting for revenue from contracts with customers. Insurance contracts were excluded from the scope of the guidance. As an insurance-entity, we are largely exempt from the provisions of this standard, with only fee income subject to this new standard. Processing and policy fees were generally earned at the inception of the policy under previous guidance but are earned over the life of the policy under current guidance. The guidance was adopted as of January 1, 2018, using a full retrospective approach with a cumulative-effect adjustment to the balance sheet, which reduced shareholders' equity by $4.5 million.

The following table illustrates the effect of adopting this standard on the Consolidated Balance Sheets ($ in millions):

	December 31, 2017		
	As Reported	As Adjusted	Difference
Agents' balances and premium receivable	$508.1	$ 508.0	$ (0.1)
Current and deferred income taxes	9.4	10.5	1.2
Total assets	2,473.4	2,474.5	1.1
Other liabilities	114.3	119.8	5.5
Shareholders' equity	720.3	715.8	(4.5)
Total liabilities and shareholders' equity	2,473.4	2,474.5	1.1

The following table illustrates the effect of adopting this standard on the Consolidated Statements of Earnings (in millions, except per share amounts):

	Three months ended March 31, 2017		
	As Reported	As Adjusted	Difference
Installment and other fee income	$26.9	$ 26.7	$ (0.2)
Total revenues	377.8	377.6	(0.2)
Earnings before income taxes	15.1	14.9	(0.2)
Provision for income taxes	4.4	4.4	(0.1)
Net earnings	10.6	10.5	(0.1)
Net earnings per common share:			
Basic	$0.97	$ 0.96	$ (0.01)
Diluted	0.96	0.94	(0.02)

We also adjusted the Consolidated Statements of Changes in Shareholders' Equity and the Consolidated Statements of Cash Flows for these changes for the three months ended March 31, 2017.

Recently Issued Accounting Standards

In March 2017 the FASB issued an ASU related to the amortization of premium on purchased callable debt securities. The guidance amends the amortization period for certain purchased callable debt securities held at a premium. Securities that contain explicit, noncontingent call features that are callable at fixed prices and on preset dates should shorten the amortization period for the premium to the earliest call date (and if the call option is not exercised, the effective yield is reset using the payment terms of the debt security). The standard is effective for fiscal years, and interim period within those years, beginning after December 15, 2018, and is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In June 2016 the FASB issued an ASU related to the accounting for credit losses. The guidance generally requires credit losses on available-for-sale debt securities to be recognized as an allowance rather than as a reduction to the amortized cost of a security.

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The standard is effective for fiscal periods beginning after December 15, 2019, and interim periods within the year of adoption, with prospective application of the ASU required for debt securities for which an other-than-temporary impairment has been recognized before the implementation date. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In February 2016 the FASB issued an ASU related to the accounting for leases. The guidance requires lessees to recognize lease assets and liabilities on the balance sheet. The standard is effective for fiscal years beginning after December 15, 2018, and is to be applied retrospectively, with an option to use a modified retrospective approach for leases which commenced prior to the effective date of this ASU. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

Note 2 Computation of Net Earnings per Share

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

	Three months ended March 31,	
	2018	2017
Net earnings	$20,083	$10,510
Average basic shares outstanding	10,915	10,998
Basic net earnings per share	$1.84	$0.96
Average basic shares outstanding	10,915	10,998
Restricted stock not vested	8	33
Dilutive effect of Performance Share Plan	86	96
Average diluted shares outstanding	11,009	11,127
Diluted net earnings per share	$1.82	$0.94

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Note 3 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 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):

	Fair Value			
March 31, 2018	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$88,793	$0	$0	$88,793
Fixed maturity securities:				
U.S. government	124,757	0	0	124,757
State and municipal	0	296,048	766	296,814
Mortgage-backed securities:				
Residential	0	365,007	0	365,007
Commercial	0	59,204	2,857	62,061
Total mortgage-backed securities	0	424,211	2,857	427,068
Asset-backed securities	0	110,836	17,647	128,484
Corporates	0	520,698	109	520,807
Total fixed maturities	124,757	1,351,794	21,379	1,497,930
Equity securities	90,498	0	0	90,498
Short-term investments	0	0	0	0
Total cash and investments	$304,048	$1,351,794	$21,379	$1,677,221
Percentage of total cash and investments	18.1 %	80.6 %	1.3 %	100.0 %
December 31, 2017				
Cash and cash equivalents	$107,589	$0	$0	$107,589
Fixed maturity securities:				
U.S. government	60,528	0	0	60,528
State and municipal	0	490,724	3,488	494,211
Mortgage-backed securities:				
Residential	0	350,992	0	350,992
Commercial	0	30,569	0	30,569
Total mortgage-backed securities	0	381,561	0	381,561
Asset-backed securities	0	62,266	152	62,418
Corporates	0	442,281	108	442,390
Total fixed maturities	60,528	1,376,832	3,748	1,441,107
Equity securities	96,004	0	0	96,004
Short-term investments	0	2,541	0	2,541
Total cash and investments	$264,121	$1,379,373	$3,748	$1,647,242
Percentage of total cash and investments	16.0 %	83.7 %	0.2 %	100.0 %

We do not report our long-term debt at fair value in the Consolidated Balance Sheets. The $286.3 million and $290.8 million fair value of our long-term debt at March 31, 2018, and December 31, 2017, respectively, would be included in Level 2 of the fair value hierarchy if it were reported at fair value.

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

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

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

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

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

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

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

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

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

Three months ended March 31, 2018	State and Municipal	Mortgage-Backed Securities	Asset-Backed Securities	Corporates	Total
Balance at beginning of period	$ 3,488	$ 0	$ 152	$ 108	$3,748
Total (losses) gains, unrealized or realized					
Included in net earnings	(10)	0	(0)	(0)	(10)
Included in other comprehensive income	3	10	27	1	41
Purchases	0	2,847	17,729	0	20,576
Sales	(3,360)	0	0	0	(3,360)
Settlements	0	0	(261)	0	(261)
Transfers in	645	0	0	0	645
Balance at end of period	$ 766	$ 2,857	$ 17,647	$ 109	$21,379
Three months ended March 31, 2017					
Balance at beginning of period	$ 3,860	$ 0	$ 412	$ 666	$4,938
Total (losses) gains, unrealized or realized					
Included in net earnings	(31)	0	0	1	(30)
Included in other comprehensive income	15	0	1	(22)	(6)
Purchases	0	0	4,259	2,000	6,259
Sales	(694)	0	0	0	(694)
Settlements	0	0	(88)	(92)	(180)
Transfers in	329	0	0	0	329
Balance at end of period	$ 3,479	$ 0	$ 4,584	$ 2,553	$10,616

Of the $21.4 million fair value of securities in Level 3 at March 31, 2018, which consisted of eleven securities, we priced six based on non-binding broker quotes, one was priced based on our unaffiliated money manager and four 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, 2018, eight securities were purchased and are new issues. One security, which was an exchange of a rated municipal bond for an unrated refunded bond, was transferred from Level 2 into Level 3. There were no transfers of securities between Levels 1 and 2. During the three months ended March 31, 2017, one security, which was an exchange of a rated municipal bond for an unrated refunded bond, was transferred from Level 2 into Level 3.

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

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

	March 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	$88,793	$88,793	$107,589	$107,589
Available-for-sale securities:				
Fixed maturities	1,497,930	1,497,930	1,441,107	1,441,107
Equity securities	90,498	90,498	96,004	96,004
Short-term investments	0	0	2,541	2,541
Total cash and investments	$1,677,221	$1,677,221	$1,647,242	$1,647,242
Liabilities:				
Long-term debt	$273,865	$286,330	$273,809	$290,824

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

Note 4 Investments

We consider all fixed maturity and equity securities to be available-for-sale and report them at fair value. Net unrealized gains or losses on equity securities prior to January 1, 2018, and on fixed maturities are reported after-tax (net of any valuation allowance) as a component of other comprehensive income. As of January 1, 2018, changes in fair value of equity securities are recognized through net income. The proceeds from sales of securities for the three months ended March 31, 2018, and March 31, 2017, were $335.6 million and $42.1 million, respectively. Sales of securities were higher during the first quarter of 2018 as a result of our transition to a new investment policy statement and related portfolio repositioning. The proceeds for the three months ended March 31, 2018, were net of $0.1 million of receivable for securities sold as of March 31, 2018. The proceeds for the three months ended March 31, 2017, were net of $5.2 million of receivable for securities sold during the first quarter of 2017 that had not settled as of March 31, 2017.

Gross gains of $2.9 million and gross losses of $1.6 million were realized on sales of available-for-sale securities during the three months ended March 31, 2018, compared with gross gains of $0.7 million and gross losses of $0.2 million realized on sales during the three months ended March 31, 2017. Gains or losses on securities are determined on a specific identification basis.

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

March 31, 2018	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI Recognized in Accumulated OCI(1)
Fixed maturities:					
U.S. government	$125,887	$ 58	$(1,188)	$124,757	$ 0
State and municipal	297,994	1,031	(2,211)	296,814	0
Mortgage-backed securities:					
Residential	372,319	669	(7,981)	365,007	(72)
Commercial	63,053	23	(1,016)	62,061	0
Total mortgage-backed securities	435,372	693	(8,996)	427,068	(72)
Asset-backed securities	129,010	104	(630)	128,484	0
Corporates	524,676	1,726	(5,595)	520,807	0
Total fixed maturities	1,512,939	3,612	(18,621)	1,497,930	(72)
Short-term investments	0	0	0	0	0
Total	$1,512,939	$ 3,612	$(18,621)	$1,497,930	$ (72)
December 31, 2017					
Fixed maturities:					
U.S. government	$61,196	$ 0	$(668)	$60,528	$ 0
State and municipal	492,442	2,768	(999)	494,211	(46)
Mortgage-backed securities:					
Residential	353,277	1,812	(4,097)	350,992	(1,479)
Commercial	31,204	18	(653)	30,569	0
Total mortgage-backed securities	384,481	1,830	(4,750)	381,561	(1,479)
Asset-backed securities	62,552	62	(196)	62,418	(8)
Corporates	439,208	4,610	(1,429)	442,390	(31)
Total fixed maturities	1,439,878	9,271	(8,042)	1,441,107	(1,564)
Equity securities	68,812	27,192	0	96,004	0
Short-term investments	2,541	0	0	2,541	0
Total	$1,511,232	$ 36,463	$(8,042)	$1,539,653	$ (1,564)

(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.

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			
March 31, 2018	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
Fixed maturities:								
U.S. government	28	$48,202	$(881)	1.8 %	16	$12,743	$(307)	2.4 %
State and municipal	99	184,046	(2,147)	1.2 %	4	4,573	(64)	1.4 %
Mortgage-backed securities:								
Residential	263	144,098	(2,250)	1.5 %	272	119,273	(5,730)	4.6 %
Commercial	15	30,658	(177)	0.6 %	8	23,206	(839)	3.5 %
Total mortgage-backed securities	278	174,756	(2,427)	1.4 %	280	142,480	(6,569)	4.4 %
Asset-backed securities	43	74,670	(628)	0.8 %	1	1,458	(2)	0.1 %
Corporates	232	367,660	(5,168)	1.4 %	15	18,126	(427)	2.3 %
Total fixed maturities	680	849,333	(11,252)	1.3 %	316	179,380	(7,369)	3.9 %
Short-term investments	0	0	0	0.0 %	0	0	0	0.0 %
Total	680	$849,333	$(11,252)	1.3 %	316	$179,380	$(7,369)	3.9 %
December 31, 2017								
Fixed maturities:								
U.S. government	25	$46,160	$(422)	0.9 %	16	$14,368	$(246)	1.7 %
State and municipal	82	163,997	(939)	0.6 %	5	10,529	(60)	0.6 %
Mortgage-backed securities:								
Residential	154	81,841	(453)	0.6 %	279	127,317	(3,644)	2.8 %
Commercial	2	3,578	(30)	0.8 %	9	23,066	(623)	2.6 %
Total mortgage-backed securities	156	85,419	(483)	0.6 %	288	150,383	(4,267)	2.8 %
Asset-backed securities	31	35,407	(193)	0.5 %	2	1,561	(3)	0.2 %
Corporates	104	158,788	(1,197)	0.7 %	13	16,468	(232)	1.4 %
Total fixed maturities	398	489,771	(3,233)	0.7 %	324	193,309	(4,809)	2.4 %
Equity securities	0	0	0	0.0 %	0	0	0	0.0 %
Short-term investments	0	0	0	0.0 %	0	0	0	0.0 %
Total	398	$489,771	$(3,233)	0.7 %	324	$193,309	$(4,809)	2.4 %

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.

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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.
The following table summarizes those securities with unrealized gains or losses (2018 includes fixed maturity securities only):

	March 31, 2018	December 31, 2017
Number of positions held with unrealized:		
Gains	302	496
Losses	996	722
Number of positions held that individually exceed unrealized:		
Gains of $500,000	0	2
Losses of $500,000	0	0
Percentage of positions held with unrealized:		
Gains that were investment grade	84 %	81 %
Losses that were investment grade	94 %	97 %
Percentage of fair value held with unrealized:		
Gains that were investment grade	88 %	81 %
Losses that were investment grade	93 %	95 %

The following table sets forth the amount of unrealized losses by age and severity at March 31, 2018, ($ in thousands):

Age of Unrealized Losses	Fair Value of Securities with Unrealized Losses	Total Gross Unrealized Losses	Less Than 5%*	5% - 10%*	Total Gross Greater Than 10%*
Three months or less	$ 454,565	$ (3,506)	$ (3,394)	$ (112)	$ 0
Four months through six months	247,851	(4,193)	(4,007)	(185)	0
Seven months through nine months	139,484	(3,392)	(3,392)	0	0
Ten months through twelve months	7,432	(161)	(161)	0	0
Greater than twelve months	179,380	(7,369)	(4,846)	(2,523)	0
Total	$ 1,028,713	$ (18,621)	$ (15,801)	$ (2,820)	$ 0

* As a percentage of amortized cost or cost.

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The change in unrealized gains (losses) on marketable securities recognized through accumulated other comprehensive income included the following ($ in thousands):

Three months ended March 31, 2018	Pre-tax Fixed Maturities	Short-Term Investments	Tax Effects	Net
Unrealized holding (losses) gains on securities arising during the period	$(18,346)	$ 1	3,852	(14,492)
Realized losses (gains) on securities sold	519	(1)	(109)	409
Impairment loss recognized in earnings	1,588	0	(334)	1,255
Change in unrealized, net	$(16,238)	$ 0	$3,410	$(12,828)

Three months ended March 31, 2017	Pre-tax Fixed Maturities	Equity Securities	Short-Term Investments	Tax Effects	Net
Unrealized holding gains on securities arising during the period	$4,368	$ 6,294	$ 3	$(3,733)	$6,932
Realized losses (gains) on securities sold	52	(569)	(1)	182	(337)
Impairment loss recognized in earnings	10	0	0	(3)	6
Change in unrealized, net	$4,429	$ 5,725	$ 1	$(3,554)	$6,601

For fixed maturity securities that are other-than-temporarily impaired, we assess our intent to sell and the likelihood that we will be required to sell the security before recovery of our amortized cost. If a fixed maturity security is considered other-than-temporarily impaired but we do not intend to and are not more than likely to be required to sell the security before our recovery to amortized cost, the amount of the impairment is separated 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 (i) the effective interest rate implicit at the date of acquisition for non-structured securities; or (ii) 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, the entire amount of the impairment is treated as a credit loss.

For our securities held with unrealized losses, we believe, based on our analysis, that we will recover our cost basis in these securities and we do not intend to sell the securities nor is it more likely than not that there will be a requirement to sell the securities before they recover in value.

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,	
	2018	2017
Beginning balance	$753	$557
Additions for:		
Previously impaired securities	278	0
Newly impaired securities	7	10
Reductions for:		
Securities sold and paid down	(41)	(24)
Ending balance	$996	$542

The table below sets forth the scheduled maturities of fixed maturity securities at March 31, 2018, 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.

	Fair Value				Amortized Cost
Maturity	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	$9,473	$24,024	$ 1,353	$34,850	$34,848
After one year through five years	188,968	453,537	7,187	649,692	653,913
After five years through ten years	68,219	157,207	649	226,075	228,286
After ten years	31,179	582	0	31,761	31,510
Mortgage- and asset-backed securities	143,210	393,363	18,979	555,552	564,382
Total	$441,049	$1,028,713	$ 28,168	$1,497,930	$1,512,939

The portion of unrealized gains and losses recorded during the three months ended March 31, 2018, that relate to equities still held at the end of the reporting date are as follows ($ in thousands):

Net losses recognized during the period on equity securities	$(726)
Less: Net gains recognized during the period on equity securities sold	(1,881)
Unrealized losses recognized during the period on equity securities still held at the reporting date	$(2,607)

Note 5 Long-Term Debt

($ in thousands)	March 31, 2018	December 31, 2017
Principal	$275,000	$ 275,000
Unamortized debt issuance costs	1,135	1,191
Long-term debt less unamortized debt issuance costs	$273,865	$ 273,809

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, 2018, fair value of $286.3 million using a 124 basis point spread to the 10-year U.S. Treasury Note of 2.741%.

In August 2017 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, and as of March 31, 2018, there were no borrowings outstanding against it.

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Note 6 Income Taxes
The following is a reconciliation of income taxes at the statutory rate of 21% and 35% for 2018 and 2017, respectively, to the effective provision for income taxes as shown in the Consolidated Statements of Earnings ($ in thousands):

	Three months ended March 31,	
	2018	2017
Earnings before income taxes	$24,937	$14,868
Income taxes at statutory rate	5,237	5,204
Effect of:		
Dividends-received deduction	(25)	(79)
Tax-exempt interest	(279)	(633)
Other	(80)	(134)
Provision for income taxes as shown on the Consolidated Statements of Earnings	$4,853	$4,358
GAAP effective tax rate	19.5 %	29.3 %

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,	
	2018	2017
Income tax payments	$0	$3,100
Interest payments on debt	6,875	6,875
Interest payments on capital leases	15	21

Negative Cash Book Balances
Negative cash book balances, included in the line item “Other liabilities” in the Consolidated Balance Sheets, were $49.2 million and $49.7 million at March 31, 2018, and December 31, 2017, respectively.

Merger with Kemper Corporation

On February 13, 2018, Kemper Corporation (“Kemper”), a wholly owned subsidiary of Kemper (“Kemper Merger Sub”) and Infinity entered into a merger agreement (the “Merger Agreement”) under which Kemper will acquire Infinity in a cash and stock transaction valued at approximately $1.4 billion, plus assumption of certain of Infinity’s debt, or $129.00 per Infinity share; the exchange ratio for stock consideration to be issued in the merger is fixed and was determined based on Kemper’s 20-trading day volume weighted average price as of February 12, 2018 of $64.40. Based on Kemper’s February 12, 2018 closing stock price of $57.75, the implied total consideration is approximately $1.3 billion, or $121.01 per Infinity share. Pursuant to the Merger Agreement, Kemper Merger Sub will merge with and into Infinity, with Infinity surviving as a wholly owned subsidiary of Kemper. Kemper is a diversified insurance holding company, with subsidiaries that provide automobile, homeowners, life, health, and other insurance products to individuals and businesses. Kemper conducts its operations through two operating segments: Property & Casualty Insurance and Life & Health Insurance. Kemper conducts its operations solely in the United States with approximately 5,550 full-time associates supporting their operations.

Under the terms of the Merger Agreement, as of the effective time of the merger (the “Effective Time”), each share of Infinity common stock issued and outstanding as of immediately prior to the Effective Time (other than as set forth in the Merger Agreement) will be canceled and converted into, at the election of the holder of such share and subject to an automatic adjustment as described below, the right to, receive (i) $51.60 in cash and 1.2019 Kemper common shares for each share of Infinity common stock, without interest (the “Mixed Consideration”), (ii) an amount of cash for each share of Infinity common stock, without interest, equal to $129.00 (the “Cash Consideration”) or (iii) a number of shares of Kemper common stock equal to 2.0031 (the “Stock Consideration”). Holders of Infinity common stock who do not make an election will receive the Mixed Consideration. The consideration to be paid to holders of Infinity common stock electing to receive the Cash Consideration or the Stock Consideration in connection with the merger is subject to automatic adjustment, as applicable, to ensure that the total amount of cash paid and the total number of shares of Kemper common stock issued in the merger is the same as what would be paid and issued if all holders of Infinity common stock were to receive the Mixed Consideration. Following the close of the merger, Infinity shareholders are expected to own approximately 20% of the combined company on a pro-forma basis.

The merger has been approved by the Board of Directors of each company and is expected to close in the third quarter of 2018, subject to the satisfaction or waiver of applicable closing conditions. During the first quarter of 2018, Kemper and Infinity received notice from the U.S. Federal Trade Commission granting early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, thereby satisfying one of the applicable closing conditions. Remaining closing conditions to which the completion of the merger is subject include, among others, (i) adoption by Infinity shareholders of the Merger Agreement, (ii) approval by Kemper stockholders of the issuance of Kemper common stock in connection with the merger, (iii) the receipt of certain other regulatory approvals, (iv) the absence of any effective order issued by any court of competent jurisdiction or other legal restraint prohibiting or preventing the consummation of the merger and (v) other closing conditions.

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,	
	2018	2017
Balance at Beginning of Period		
Unpaid losses on known claims	$264,470	$238,412
IBNR losses	312,516	306,641
LAE	138,112	140,402
Total unpaid losses and LAE	715,098	685,455
Reinsurance recoverables	(31,609)	(17,130)
Unpaid losses and LAE, net of reinsurance recoverables	683,489	668,325
Current Activity		
Loss and LAE incurred:		
Current accident year	273,408	277,044
Prior accident years	(8,856)	(6,368)
Total loss and LAE incurred	264,552	270,676
Loss and LAE payments:		
Current accident year	(89,106)	(96,869)
Prior accident years	(177,479)	(179,319)
Total loss and LAE payments	(266,585)	(276,187)
Balance at End of Period		
Unpaid losses and LAE, net of reinsurance recoverables	681,457	662,814
Add back reinsurance recoverables	19,549	16,133
Total unpaid losses and LAE	701,006	678,947
Unpaid losses on known claims	247,940	233,303
IBNR losses	318,281	307,932
LAE	134,786	137,712
Total unpaid losses and LAE	$701,006	$678,947

The $8.9 million of favorable reserve development during the three months ended March 31, 2018, was primarily due to decreases in accident year 2017 estimates from California, with lower ultimate frequency estimates in collision and comprehensive coverages along with lower ultimate severity estimates for collision coverage, and from Florida, with decreased ultimate frequency estimates in collision, comprehensive and personal injury protection coverages.

The $6.4 million of favorable reserve development during the three months ended March 31, 2017, was primarily due to decreases in frequency estimates in California and Florida material damage coverages related to accident year 2016, partially offset by increases in severity estimates in personal injury protection coverages and in bodily injury coverages in our commercial auto product related to accident years 2016 and prior.

Note 9 Commitments and Contingencies

Commitments

There have been no material changes from the commitments discussed on Form 10-K for the year ended December 31, 2017. For a description of our previously reported commitments, refer to Note 14 Commitments and Contingencies of our Form 10-K for the year ended December 31, 2017.

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 Accounting Standards Codification. 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 or range of the loss. When disclosing litigation or claims where 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 loss adjustment expenses” 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 loss adjustment expenses” for extra-contractual claims and “Other expenses” for class action and other non-claims related lawsuits.

Certain claims and regulatory or legal actions have been threatened or 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 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.

As of March 31, 2018, pending putative (i.e., not certified) class action lawsuits that challenge certain of Infinity’s business operations and practices included the following:

- allegations we sold a lessor liability endorsement affording only illusory coverage.
- a challenge to denial of personal injury protection benefits to a class of injured third parties in vehicle accidents.
- a challenge to our payment of a percentage of arbitration awards to collection agencies in successful intercompany arbitrations.
- allegations that we are obligated to reimburse Medicare or secondary payers for accident-related medical payments in which personal injury protection benefits were denied.

In addition to lawsuits, regulatory bodies, including state insurance departments and the Securities and Exchange Commission, among others, may make inquiries, investigate consumer complaints or conduct on-site examinations concerning specific business practices or compliance more generally. Such inquiries, investigations or examinations have in the past and may in the future directly or indirectly result in regulatory orders requiring remedial, injunctive or other actions or the assessment of substantial fines or other penalties.

For a description of previously reported contingencies, refer to Note 14 Commitments and Contingencies of our Form 10-K for the year ended December 31, 2017.

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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,					
	2018			2017		
	Before Tax	Income Tax	Net	Before Tax	Income Tax	Net
Accumulated change in post-retirement benefit liability, beginning of period	$829	$(290)	$539	$1,033	$(361)	$671
Cumulative effect of change in accounting principle	0	116	116	0	0	0
Effect on other comprehensive income	(2)	0	(1)	(13)	4	(8)
Accumulated change in post-retirement benefit liability, end of period	827	(174)	653	1,020	(357)	663
Accumulated unrealized gains on investments, net, beginning of period	28,421	(9,204)	19,217	11,133	(3,896)	7,236
Cumulative effect of change in accounting principle	(27,192)	8,948	(18,244)	0	0	0
Other comprehensive (loss) income before reclassification (1)	(18,344)	3,852	(14,492)	10,664	(3,733)	6,932
Reclassification adjustment for other-than-temporary impairments included in net income (1)	1,588	(334)	1,255	10	(3)	6
Reclassification adjustment for realized losses (gains) included in net income (1)	518	(109)	409	(519)	182	(337)
Effect on other comprehensive income	(16,238)	3,410	(12,828)	10,155	(3,554)	6,601
Accumulated unrealized (losses) gains on investments, net, end of period	(15,009)	3,154	(11,855)	21,288	(7,451)	13,837
Accumulated other comprehensive income, beginning of period	29,250	(9,494)	19,756	12,165	(4,258)	7,907
Cumulative effect of change in accounting principle	(27,192)	9,064	(18,128)	0	0	0
Change in post-retirement benefit liability	(2)	0	(1)	(13)	4	(8)
Change in unrealized (losses) gains on investments, net (1)	(16,238)	3,410	(12,828)	10,155	(3,554)	6,601
Effect on other comprehensive income	(43,432)	12,474	(30,958)	10,143	(3,550)	6,593
Accumulated other comprehensive (loss) income, end of period	$(14,182)	$2,980	$(11,202)	$22,308	$(7,808)	$14,500

(1) The amounts for 2018 are for fixed maturities only.

Note 11 Segment Information
We manage our business based on product line and have three operating segments: Personal Auto, Commercial Auto and Classic Collector (our reportable segments are Personal Auto and Commercial Auto).
Our Personal Auto product provides coverage to individuals for liability to others for bodily injury and property damage and for physical damage to an insured's own vehicle from collision and various other perils. In addition, some states require policies to provide for first party personal injury protection, frequently referred to as no-fault coverage.
Our Commercial Auto product provides coverage to businesses for liability to others for bodily injury and property damage and for physical damage to vehicles from collision and various other perils. We primarily target businesses with fleets of 10 or fewer vehicles and average 1.9 vehicles per policy. We avoid businesses that are involved in what we consider to be hazardous operations or interstate commerce.
Our Classic Collector product provides coverage to individuals with classic or antique automobiles for liability to others for bodily injury and property damage and for physical damage to an insured's own vehicle from collision and various other perils.

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All segment revenues are generated from external customers. The following table provides revenues by segment and a reconciliation to "Total revenues" as reported on the Consolidated Statements of Earnings ($ in thousands):

	Three months ended March 31,	
Gross written premium:	2018	2017
Personal Auto	$370,193	$324,352
Commercial Auto	47,739	42,785
Classic Collector	3,660	3,565
Total gross written premium	421,592	370,702
Ceded reinsurance:		
Personal Auto	(2,077)	(983)
Commercial Auto	(1,379)	(1,412)
Classic Collector	(260)	(213)
Total ceded reinsurance	(3,716)	(2,608)
Net written premium:		
Personal Auto	368,116	323,369
Commercial Auto	46,360	41,373
Classic Collector	3,400	3,352
Total net written premium	417,876	368,094
Change in unearned premium:		
Personal Auto	(57,817)	(20,983)
Commercial Auto	(6,532)	(6,170)
Classic Collector	460	428
Total change in unearned premium	(63,889)	(26,726)
Earned premium:		
Personal Auto	310,298	302,386
Commercial Auto	39,828	35,203
Classic Collector	3,860	3,780
Total earned premium	353,987	341,368
Installment and other fee income:		
Personal Auto	24,281	23,937
Commercial Auto	3,114	2,802
Classic Collector	0	0
Total installment and other fee income	27,395	26,739
Net investment income	9,786	8,695
Net realized gains on investments	(2,832)	509
Other income	430	275
Total revenues	$388,766	$377,587

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Our management uses underwriting income and combined ratios calculated on a statutory accident year basis as primary measures of profitability. Statutory accident year underwriting income is calculated by subtracting losses and loss adjustment expenses and commissions and other underwriting expenses (including bad debt charge-offs on agents' balances and premium receivables) from the total of earned premium and installment and other fee income. The statutory accident year combined ratio represents the sum of the following ratios: (i) losses and LAE incurred, excluding development from prior accident years, as a percentage of net earned premium; and (ii) underwriting expenses incurred, including bad debt and net of fees, as a percentage of net written premium.
The primary differences between the calculation of the statutory accident year used by management and the statutory calendar year combined ratios is the exclusion of bad debt charge-offs and the inclusion of development on prior accident year loss and LAE reserves.
Certain expenses are treated differently under statutory accounting principles. Under GAAP, commissions, premium taxes and other variable costs incurred in connection with successfully 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 agents' balances and premium receivables are included in the GAAP combined ratios.
The following tables present the underwriting income and combined ratio on a statutory accident year basis with reconciliations to "Earnings before income taxes" as presented on the Consolidated Statements of Earnings ($ in thousands). We do not allocate assets or "Provision for income taxes" to operating segments.

	Three months ended March 31, 2018							
	Personal Auto		Commercial Auto		Classic Collector		Total	
	Pre-tax Profit (Loss)	Combined Ratio (1)	Pre-tax Profit (Loss)	Combined Ratio (1)	Pre-tax Profit (Loss)	Combined Ratio (1)	Pre-tax Profit (Loss)	Combined Ratio (1)
Statutory accident year underwriting income	$6,311	94.8 %	$812	95.2 %	$613	88.1 %	$7,737	94.7 %
Bad debt charge-offs	3,363		392		(44)		3,711	
Favorable (unfavorable) development on prior accident years	10,555		(1,362)		(337)		8,856	
Statutory calendar year underwriting income	20,229	90.5 %	(158)	97.8 %	233	98.2 %	20,304	91.3 %
Statutory-to-GAAP underwriting income differences							6,005	
GAAP calendar year underwriting income							26,309	92.6 %
Net investment income							9,786	
Net realized gains on investments							(2,832)	
Other income							430	
Interest expense							(3,509)	
Corporate general and administrative expenses							(4,743)	
Other expenses							(505)	
Earnings before income taxes							$24,937	

(1) Management includes the provision for uncollectible accounts in the underwriting income and combined ratio on both statutory accident year and GAAP calendar year bases.

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	Three months ended March 31, 2017							
	Personal Auto		Commercial Auto		Classic Collector		Total	
	Pre-tax Profit (Loss)	Combined Ratio (1)	Pre-tax Profit (Loss)	Combined Ratio (1)	Pre-tax Profit (Loss)	Combined Ratio (1)	Pre-tax Profit (Loss)	Combined Ratio (1)
Statutory accident year underwriting income	$1,594	98.3 %	$629	95.3 %	$335	95.3 %	$2,558	98.0 %
Bad debt charge-offs	2,251		291		10		2,552	
Favorable (unfavorable) development on prior accident years	6,986		(874)		256		6,368	
Statutory calendar year underwriting income	10,831	95.2 %	45	97.1 %	602	88.3 %	11,478	95.4 %
Statutory-to-GAAP underwriting income differences							14	
GAAP calendar year underwriting income							11,492	96.6 %
Net investment income							8,695	
Net realized gains on investments							509	
Other income							275	
Interest expense							(3,512)	
Corporate general and administrative expenses							(2,271)	
Other expenses							(322)	
Earnings before income taxes							$14,868	

(1) Management includes the provision for uncollectible accounts in the underwriting income and combined ratio on both statutory accident year and GAAP calendar year bases.

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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," "likel "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 (defined in Results of Operations – Underwriting – Premium). Additionally, risks and uncertainties related to the merger are set forth in the Joint Proxy Statement/Prospectus with Kemper, filed with the SEC on April 27, 2018, and incorporated herein by reference.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 refer to Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2017.

OVERVIEW

On February 13, 2018, the Company entered into the Merger Agreement with Kemper and Kemper Merger Sub. The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, Kemper Merger Sub will merge with and into the Company in accordance with the Ohio General Corporation Law (the "merger"), with the Company surviving such merger as a wholly owned subsidiary of Kemper. The Company expects the closing of the merger to occur in the third quarter of 2018.

Gross written premium grew 13.7% during the first quarter of 2018 compared with the first quarter of 2017 primarily due to an increase in new application counts and higher average premium in California, higher average premium on renewal business in Texas as well as policy growth and higher average premium in our Commercial Auto product. Partially offsetting the growth was a decline in renewal business in Florida. Refer to Results of Operations – Underwriting – Premium for a more detailed discussion of our gross written premium.

Net earnings and diluted earnings per share for the three months ended March 31, 2018, were $20.1 million and $1.82, respectively, compared with $10.5 million and $0.94, respectively, for the same period of 2017. The increase in net earnings and diluted earnings per share for the three months ended March 31, 2018, was primarily due to a decrease in the accident year combined ratio from 98.5% at March 31, 2017, to 95.1% at March 31, 2018,

Included in net earnings for the three months ended March 31, 2018, was $7.0 million ($8.9 million pre-tax) of favorable development on prior accident year loss and LAE reserves. This development was primarily due to decreases in accident year 2017 estimates from California, with lower ultimate frequency estimates in collision and comprehensive coverages along with lower ultimate severity estimates for collision coverage, and from Florida, with decreased ultimate frequency estimates in collision, comprehensive and personal injury protection coverages. Included in net earnings for the three months ended March 31, 2017, was $4.1 million ($6.4 million pre-tax) of favorable development on prior accident year loss and LAE reserves. This development was primarily due to decreases in frequency estimates in California and Florida material damage coverages related to accident year 2016, partially offset by increases in severity estimates in personal injury protection coverages and in bodily injury coverages in our commercial auto product related to accident years 2016 and prior.

The following table displays combined ratio results by accident year developed through March 31, 2018:

	Accident Year Combined Ratio Developed Through				Prior Accident Year (Favorable) Unfavorable Development ($ in millions)	
	Dec 2016	Mar 2017	Dec 2017	Mar 2018	Q1 2018	
Accident Year						
Prior						$(0.2)
2010	99.3%	99.3%	99.3%	99.3%	(0.0)%	(0.1)
2011	99.8%	99.9%	99.9%	99.9%	0.0 %	0.0
2012	99.6%	99.5%	99.4%	99.4%	(0.0)%	(0.0)
2013	94.8%	94.9%	94.8%	94.7%	(0.1)%	(1.4)
2014	94.4%	94.4%	94.5%	94.5%	(0.0)%	(0.6)
2015	98.3%	98.4%	98.5%	98.4%	(0.0)%	(0.6)
2016	98.4%	97.8%	96.7%	96.6%	(0.1)%	(0.8)
2017		98.5%	96.5%	96.1%	(0.4)%	(5.2)
2018 YTD				95.1%		
						$(8.9)

Pre-tax net investment income increased from $8.7 million during the three months ended March 31, 2017, to $9.8 million during the three months ended March 31, 2018, primarily due to lower premium amortization on municipal bonds and commercial mortgage-backed securities during 2018.

Our book value per share increased 0.2% from $65.46 at December 31, 2017, to $65.61 at March 31, 2018. This increase was primarily due to earnings partially offset by a decrease in unrealized gains on fixed maturity investments and shareholder dividends.

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, due to factors such as their driving record, driving experience, lapse in (or the absence of) prior insurance, or credit history, represent a higher than normal risk. Customers in the market for nonstandard auto insurance generally seek minimum required liability limits and are willing to accept restrictive coverages in exchange for more affordable insurance, given their risk profile. We also write commercial auto 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 that we believe offer the greatest opportunity for premium growth and profitability.

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

	Three months ended March 31,			
	2018	2017	Change	% Change
Gross written premium:				
Personal Auto	$370,193	$324,352	$45,841	14.1 %
Commercial Auto	47,739	42,785	4,954	11.6 %
Classic Collector	3,660	3,565	95	2.7 %
Total gross written premium	421,592	370,702	50,890	13.7 %
Ceded reinsurance	(3,716)	(2,608)	(1,108)	42.5 %
Net written premium	417,876	368,094	49,782	13.5 %
Change in unearned premium	(63,889)	(26,726)	(37,163)	139.1 %
Net earned premium	$353,987	$341,368	$12,618	3.7 %

The following table summarizes our policies in force:

	At March 31,			
	2018	2017	Change	% Change
Personal Auto	712,893	706,783	6,110	0.9 %
Commercial Auto	58,708	53,756	4,952	9.2 %
Classic Collector	41,009	41,547	(538)	(1.3)%
Total policies in force	812,610	802,086	10,524	1.3 %

The increase in gross written premium in Personal Auto during the first quarter of 2018 was primarily due to premium growth in California and Texas, partially offset by a decline in Florida. New business in California grew during the first quarter of 2018 due to an increase in application counts and higher average premium. Growth during the first three months in Texas was primarily due to higher average premium on renewal business. This growth was offset by a decline in renewal business in Florida primarily as a result of rate increases of 14.4% implemented during 2017.

The gross written premium growth in our Commercial Auto product during the first quarter of 2018 was primarily due to new and renewal policy growth and higher average premium in Texas, California and Florida.

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.

In addition to reporting financial results in accordance with GAAP, we report results 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 discussion of underwriting results that follows focuses on statutory ratios and the components thereof, unless otherwise indicated.

The following table presents statutory and GAAP combined ratios:

	Three months ended March 31,								
	2018			2017			% Point Change		
	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio	Loss & LAE Ratio	Underwriting Ratio	Combined Ratio
Personal Auto	74.3 %	16.2 %	90.5 %	79.6 %	15.6 %	95.2 %	(5.4)%	0.6 %	(4.7)%
Commercial Auto	81.7 %	16.1 %	97.8 %	81.0 %	16.1 %	97.1 %	0.7 %	0.0 %	0.7 %
Classic Collector	62.9 %	35.3 %	98.2 %	51.0 %	37.2 %	88.3 %	11.8 %	(1.9)%	9.9 %
Total statutory ratios	75.0 %	16.3 %	91.3 %	79.5 %	15.9 %	95.4 %	(4.5)%	0.5 %	(4.1)%
Total statutory ratios excluding development	77.5 %	16.3 %	93.8 %	81.4 %	15.9 %	97.3 %	(3.9)%	0.5 %	(3.4)%
GAAP ratios	74.7 %	17.8 %	92.6 %	79.3 %	17.3 %	96.6 %	(4.6)%	0.6 %	(4.0)%
GAAP ratios excluding development	77.2 %	17.8 %	95.1 %	81.2 %	17.3 %	98.5 %	(3.9)%	0.6 %	(3.4)%

The statutory combined ratio for the three months ended March 31, 2018, decreased by 4.1 points from the same period of 2017. The first quarter of 2018 included $8.9 million of favorable reserve development on prior accident year loss and LAE reserves primarily due to decreases in accident year 2017 estimates from California, with lower ultimate frequency estimates in collision and comprehensive coverages along with lower ultimate severity estimates for collision coverage, and from Florida, with decreased ultimate frequency estimates in collision, comprehensive and personal injury protection coverages. The first quarter of 2017 included $6.4 million of favorable development on prior accident year loss and LAE reserves primarily due to decreases in frequency estimates in California and Florida material damage coverages related to accident year 2016, partially offset by increases in severity estimates in personal injury protection coverages and in bodily injury coverages in our commercial auto product related to accident years 2016 and prior. Excluding the effect of development, the statutory combined ratio decreased 3.4 points during the first quarter of 2018, compared with the same period of 2017.

The GAAP combined ratio for the three months ended March 31, 2018, decreased by 4.0 points from the same period of 2017. Excluding the effect of development, the GAAP combined ratio decreased by 3.4 points during the first quarter of 2018 primarily due to an increase in average earned premium and lower estimates of ultimate frequency and severity.

Net recoveries from catastrophes were $0.1 million for the three months ended March 31, 2018, compared with net losses from catastrophes of $1.5 million for the same period of 2017.

The 4.7 points decrease in the Personal Auto combined ratio for the three months ended March 31, 2018, compared with the same period of 2017, was primarily due to relatively flat loss cost trends and an increase in average earned premium in California and lower frequency estimates in Florida.

The 0.7 point increase in the Commercial Auto combined ratio for the three months ended March 31, 2018, was primarily due to an increase in frequency and severity estimates in our bodily injury product.

Installment and Other Fee Income

	Three months ended March 31,	
($ in thousands)	2018	2017
Installment and other fee income	$27,395	$26,739

The increase in installment and other fee income charged to policyholders during the first three months of 2018 was primarily related to an increase in installment fees.

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Net Investment Income

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

	Three months ended March 31,	
	2018	2017
Gross investment income:		
Interest income on fixed maturities, cash and cash equivalents	$10,017	$8,890
Dividends on equity securities	317	376
Gross investment income	10,335	9,266
Investment expenses	(548)	(570)
Net investment income	9,786	8,695
Average investment balance, at cost	$1,609,057	$1,542,245
Annualized returns excluding realized gains and losses	2.4%	2.3%
Annualized returns including realized gains and losses	2.4%	2.4%

Pre-tax net investment income increased from $8.7 million during the three months ended March 31, 2017, to $9.8 million during the three months ended March 31, 2018, primarily due to lower premium amortization on municipal bonds and commercial mortgage-backed securities during 2018.

New money rates are higher than the book yield on the portfolio. Therefore, we expect investment returns will gradually increase as proceeds from maturing or prepaid investments are reinvested at the higher yields.

The following table provides information about our fixed maturity investments at March 31, 2018, 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. Mortgage Backed Securities (MBS) and sinking fund issues are included based on maturity year adjusted for expected payment patterns.

	Expected Principal Cash Flows			
($ in thousands)	MBS and ABS only	Excluding MBS and ABS	Total	Maturing Book Yield
For the period ending December 31,				
2018	$29,268	$16,050	$45,318	3.1%
2019	44,763	128,762	173,524	2.4%
2020	53,990	165,164	219,153	2.8%
2021	51,694	199,374	251,069	2.9%
2022	53,905	153,245	207,150	2.8%
Thereafter	314,171	253,941	568,112	3.1%
Total	$547,791	$916,535	$1,464,326	2.9%

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.

Net Realized Gains (Losses) on Investments

We recorded net realized gains (losses) on sales, impairments for unrealized losses deemed other-than-temporary and net holding period losses on equity securities as follows (before tax, $ in thousands):

	Three months ended March 31, 2018			
	Net Realized (Losses) Gains on Sales	Net Impairment Losses Recognized in Earnings	Net Holding Period Losses	Total Net Realized (Losses) Gains on Investments
Fixed maturities	(519)	(1,588)	0	(2,107)
Equity securities	1,881	0	(2,607)	(726)
Short-term investments	1	0	0	1
Total	1,363	(1,588)	(2,607)	(2,832)

	Three months ended March 31, 2017		
	Net Realized (Losses) Gains on Sales	Net Impairment Losses Recognized in Earnings	Total Net Realized (Losses) Gains on Investments
Fixed maturities	(52)	(10)	(62)
Equity securities	569	0	569
Short-term investments	1	0	1
Total	519	(10)	$ 509

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

Of the $1.6 million impairments recorded during the first quarter of 2018, $1.5 million were as a result of our transition to a new investment policy statement and the related repositioning of our portfolio. These securities, impaired as we have an intent to sell, are expected to be sold by the end of May 2018.

Interest Expense

	Three months ended March 31,	
($ in thousands)	2018	2017
5.0% Senior Notes	$3,438	$3,438
Amortization of debt issuance costs	56	53
Capital leases	15	21

Total	$3,509	$3,512

At March 31, 2018, we had $275 million principal outstanding of senior notes. These notes carry a coupon rate of 5.0% and require no principal payment until maturity in September 2022. Refer to Note 5 – Long-Term Debt to the Consolidated Financial Statements for additional information on the 5.0% Senior Notes.

Income Taxes

Our GAAP effective tax rate was 19.5% and 29.3% for the three months ended March 31, 2018, and 2017, respectively. The GAAP effective tax rate has decreased in 2018 primarily as a result of the enacted tax rate change from 35% to 21% under the Tax Cuts and Jobs Act of 2017 (TCJA). Refer to Note 6 – Income Taxes to the Consolidated Financial Statements for additional information on income taxes.

The TCJA also changed the interest rate used to calculate the discounted tax loss reserves and required the setup of a transition liability to be ratably recognized in income over eight years. Since neither the new interest rate nor the discount factors have not been published by the Internal Revenue Service, we believe that the estimates used to calculate the deferred tax asset and liability relating to these two items as of December 31, 2017, continue to be reasonable estimates under SAB 118.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Funds

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

Funds to meet expenditures at the holding company level come primarily from dividends and tax payments from the insurance subsidiaries, as well as cash and investments held by the holding company. As of March 31, 2018, the holding company had $170.7 million of cash and investments. In 2018 our insurance subsidiaries may pay us up to $67.9 million in ordinary dividends without prior regulatory approval. For the three months ended March 31, 2018, our insurance subsidiaries have paid us ordinary dividends of $16.8 million.

Our insurance subsidiaries generate liquidity to satisfy their obligations primarily by collecting and investing premiums in advance of paying claims and generating investment income on their $1.4 billion investment portfolio. Our insurance subsidiaries generated positive cash flows from operations of $30.9 million during the three months ended March 31, 2018, compared with positive operating cash flows of $28.4 million during the same period of 2017.

At March 31, 2018, we had $275 million principal outstanding of 5.0% Senior Notes. The 5.0% Senior Notes accrue interest at 5.0%, payable semiannually each March and September. Refer to Note 5 – Long-Term Debt to the Consolidated Financial Statements for more information on our long-term debt.

In August 2017 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, and as of March 31, 2018, there were no borrowings outstanding against it.

On February 29, 2016, we filed a "shelf" registration statement with the Securities and Exchange Commission registering securities, and as long as it remains effective, it will allow us to sell any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depositary shares, purchase contracts and units in one or more offerings should we choose to do so in the future. This shelf registration statement expires March 1, 2019.

Uses of Funds

Our quarterly dividend is currently $0.58 per share. At this current amount, our 2018 annualized dividend payments would be approximately $25.4 million.

On November 4, 2014, our Board of Directors increased the authority of our share and debt repurchase program to a total of $75 million and extended the date to execute the program to December 31, 2016, from December 31, 2014. On November 1, 2016, our Board approved the extension of the date to execute the program from December 31, 2016, to December 31, 2017, and on November 2, 2017, approved an extension to December 31, 2018. In addition, the Merger Agreement prohibits us from repurchasing shares between the signing of the Merger Agreement (i.e., February 13, 2018) and the closing of the merger. There were no share repurchases during the first three months of 2018.

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

Reinsurance

Premium ceded under all reinsurance agreements for the three months ended March 31, 2018, was $3.7 million compared with $2.6 million for the same period of 2017. Refer to Note 11 - Reinsurance to the Consolidated Financial Statements of our Form 10-K for the year ended December 31, 2017, for more information on our reinsurance contracts.

Investments

Our consolidated investment portfolio at March 31, 2018, contained approximately $1.5 billion in fixed maturity securities and $90.5 million in equity securities. All of these are carried at fair value with unrealized gains and losses on fixed maturity securities reported in accumulated other comprehensive income, a separate component of shareholders' equity, on an after-tax basis. As of January 1, 2018, unrealized gains and losses on equity securities are recognized through net income. At March 31, 2018, we had pre-tax net unrealized losses of $15.0 million on fixed maturities. The average option adjusted duration of our fixed maturity portfolio was 4.0 years at March 31, 2018, compared with 3.3 years at December 31, 2017.

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

Approximately 91.2% of our fixed maturity investments at March 31, 2018, were rated "investment grade," and, as of the same date, the average credit rating of our fixed maturity portfolio was AA-. Investment grade securities generally bear lower yields and have lower degrees of risk than those that are unrated or non-investment grade. We believe that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

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

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

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Summarized information for our investment portfolio at March 31, 2018, was as follows ($ in thousands):

	Amortized Cost	Fair Value	% of Total Fair Value
Fixed Maturities:			
U.S. government	$125,887	$124,757	7.9 %
State and municipal	297,994	296,814	18.7 %
Mortgage- and asset-backed:			
Residential mortgage-backed securities	372,319	365,007	23.0 %
Commercial mortgage-backed securities	63,053	62,061	3.9 %
Asset-backed securities (ABS):			
Collateralized loan obligations	42,042	41,996	2.6 %
Auto loans	32,383	32,162	2.0 %
Equipment leases	5,983	5,969	0.4 %
Credit card	24,785	24,530	1.5 %
All other	23,818	23,827	1.5 %
Total ABS	129,010	128,484	8.1 %
Total mortgage- and asset-backed	564,382	555,552	35.0 %
Corporates			
Investment grade	401,681	398,594	25.1 %
Non-investment grade	122,996	122,213	7.7 %
Total corporates	524,676	520,807	32.8 %
Total fixed maturities	1,512,939	1,497,930	94.3 %
Equity securities	65,913	90,498	5.7 %
Short-term investments	0	0	0.0 %
Total investments	$1,578,852	$1,588,428	100.0%

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

The following table presents the credit rating and fair value of our fixed maturity portfolio by major security type at March 31, 2018 ($ in thousands):

	Rating						
	AAA	AA	A	BBB	Non-investment Grade	Total Fair Value	% of Total Exposure
U.S. government	$124,757	$0	$0	$0	$ 0	$124,757	8.3 %
State and municipal	44,719	168,372	80,741	2,216	766	296,814	19.8 %
Mortgage- and asset-backed	480,097	49,168	10,573	6,450	9,263	555,552	37.1 %
Corporates	0	19,712	175,310	203,572	122,213	520,807	34.8 %
Total fair value	$649,573	$237,252	$266,624	$212,238	$ 132,243	$1,497,930	100.0 %
% of total fair value	43.4%	15.8%	17.8%	14.2%	8.8%	100.0%	

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ITEM 3

Quantitative and Qualitative Disclosures about Market Risk

As of March 31, 2018, there were no material changes to the information provided on Form 10-K for the year ended December 31, 2017, under the caption “Exposure to Market Risk” in Management’s Discussion and Analysis of Financial Condition and Results of Operations. Refer to Item 2 Management’s Discussion and Analysis under the caption “Investments” for updates to disclosures made under the subcaption “Credit Risk” of our Form 10-K for the year ended December 31, 2017.

ITEM 4

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of the Company’s management, including its principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2018. Based on that evaluation, we concluded that the controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission (SEC) under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended March 31, 2018, there have been no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1

Legal Proceedings

We have not become a party to any material legal proceedings and there have not been any material developments in our legal proceedings disclosed on Form 10-K for the year ended December 31, 2017. For a description of our previously reported legal proceedings, refer to Part I, Item 3, Legal Proceedings of our Form 10-K for the year ended December 31, 2017.

ITEM 1A

Risk Factors

Other than the risks relating to entering into the Merger Agreement referred to in Part I, Item 2 "Cautionary Statement Regarding Forward-Looking Statements," there have been no material changes in our risk factors as disclosed on Form 10-K for the year ended December 31, 2017. For a description of our previously reported risk factors, refer to Part I, Item 1A, Risk Factors of our Form 10-K for the year ended December 31, 2017.

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INFINITY PROPERTY AND CASUALTY CORPORATION FORM 10-Q

ITEM 2
Unregistered Sales of Equity Securities and Use of Proceeds
Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs (b)
January 1, 2018 - January 31, 2018	0	$ 0.00	0	$ 22,531,509
February 1, 2018 - February 28, 2018	0	0.00	0	22,531,509
March 1, 2018 - March 31, 2018	5,030	118.10	0	22,531,509
Total	5,030	$ 118.10	0	$ 22,531,509

(a) 5,030 shares surrendered to cover the withholding taxes related to the issuance of shares under the performance share plan.

(b) On November 4, 2014, our Board of Directors increased the authority under our current share and debt repurchase plan to a total of $75.0 million and extended the date to execute the program to December 31, 2016, from December 31, 2014. On November 1, 2016, our Board approved the extension of the date to execute the program from December 31, 2016, to December 31, 2017, and on November 2, 2017, approved an extension to December 31, 2018.

ITEM 6

Exhibit 31.1	Certification of the Chief Executive Officer under Exchange Act Rule 13a-14(a)
Exhibit 31.2	Certification of the Chief Financial Officer under Exchange Act Rule 13a-14(a)
Exhibit 32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document (1)
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

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

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Signature

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

	Infinity Property and Casualty Corporation
	BY: /s/ ROBERT H. BATEMAN
April 30, 2018	Robert H. Bateman
	Executive Vice President, Chief Financial Officer and Treasurer