

INFINITY PROPERTY & CASUALTY CORP

Form 10-Q

August 06, 2010

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2010

OR

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

Commission File No. 0-50167

**INFINITY PROPERTY AND CASUALTY CORPORATION**

(Exact name of registrant as specified in its charter)

**Incorporated under**

**the Laws of Ohio**  
(State or other jurisdiction of

**03-0483872**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**3700 Colonnade Parkway, Suite 600, Birmingham, Alabama 35243**

(Address of principal executive offices and zip code)

**(205) 870-4000**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of July 31, 2010, there were 12,649,612 shares of the registrant's common stock outstanding.

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(in thousands, except per share data)

(unaudited)

|   | Three months ended June 30, |                  |               | Six months ended June 30, |                  |              |
|---|-----------------------------|------------------|---------------|---------------------------|------------------|--------------|
|   | 2010                        | 2009             | % Change      | 2010                      | 2009             | % Change     |
| <b>Revenues:</b>                              |                             |                  |               |                           |                  |              |
| Earned premium                                | \$ 225,590                  | \$ 213,729       | 5.5%          | \$ 437,656                | \$ 428,396       | 2.2%         |
| Net investment income                         | 11,583                      | 12,152           | (4.7)%        | 22,878                    | 25,797           | (11.3)%      |
| Realized gains (losses) on investments*       | 44                          | 170              | (74.1)%       | (411)                     | (5,957)          | (93.1)%      |
| Other income                                  | 98                          | 23               | 326.1%        | 121                       | 71               | 70.4%        |
| Total revenues                                | 237,315                     | 226,075          | 5.0%          | 460,244                   | 448,308          | 2.7%         |
| <b>Costs and Expenses:</b>                    |                             |                  |               |                           |                  |              |
| Losses and loss adjustment expenses           | 153,281                     | 150,825          | 1.6%          | 299,923                   | 302,094          | (0.7)%       |
| Commissions and other underwriting expenses   | 53,855                      | 45,551           | 18.2%         | 102,009                   | 92,652           | 10.1%        |
| Interest expense                              | 2,700                       | 2,769            | (2.5)%        | 5,401                     | 5,537            | (2.5)%       |
| Corporate general and administrative expenses | 2,225                       | 1,909            | 16.6%         | 4,097                     | 3,581            | 14.4%        |
| Restructuring charges (reversals)             | 0                           | (8)              | (100.0)%      | 0                         | 2                | (100.0)%     |
| Other expenses                                | 1,824                       | 786              | 132.1%        | 2,556                     | 1,414            | 80.8%        |
| Total costs and expenses                      | 213,885                     | 201,832          | 6.0%          | 413,986                   | 405,278          | 2.1%         |
| Earnings before income taxes                  | 23,430                      | 24,243           | (3.4)%        | 46,258                    | 43,029           | 7.5%         |
| Provision for income taxes                    | 7,152                       | 7,357            | (2.8)%        | 14,358                    | 15,321           | (6.3)%       |
| <b>Net Earnings</b>                           | <b>\$ 16,278</b>            | <b>\$ 16,886</b> | <b>(3.6)%</b> | <b>\$ 31,900</b>          | <b>\$ 27,709</b> | <b>15.1%</b> |
| <b>Earnings per Common Share:</b>             |                             |                  |               |                           |                  |              |
| Basic   | \$ 1.25                     | \$ 1.24          | 0.8%          | \$ 2.42                   | \$ 2.01          | 20.4%        |
| Diluted                                       | 1.22                        | 1.22             | 0.0%          | 2.37                      | 1.98             | 19.7%        |
| <b>Average Number of Common Shares:</b>       |                             |                  |               |                           |                  |              |

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|  |         |         |          |          |            |          |
|--|---------|---------|----------|----------|------------|----------|
| Basic  | 13,054  | 13,634  | (4.3)%   | 13,186   | 13,804     | (4.5)%   |
| Diluted  | 13,347  | 13,828  | (3.5)%   | 13,484   | 14,006     | (3.7)%   |
| <b>Cash Dividends per Common Share</b>                   | \$ 0.14 | \$ 0.12 | 16.7%    | \$ 0.28  | \$ 0.24    | 16.7%    |
| * Realized gains before impairment losses                | \$ 311  | \$ 999  | (68.9)%  | \$ 1,389 | \$ 2,388   | (41.8)%  |
| Total other-than-temporary impairment (OTTI) losses      | (43)    | (4,066) | (98.9)%  | (142)    | (11,582)   | (98.8)%  |
| Non-credit portion in other comprehensive income         | 0       | 3,783   | (100.0)% | 0        | 3,783      | (100.0)% |
| OTTI losses reclassified from other comprehensive income | (224)   | (545)   | (58.9)%  | (1,659)  | (545)      | 204.4%   |
| <b>Net impairment losses recognized in earnings</b>      | (267)   | (829)   | (67.8)%  | (1,800)  | (8,345)    | (78.4)%  |
| Total realized gains (losses) on investments             | \$ 44   | \$ 170  | (74.1)%  | \$ (411) | \$ (5,957) | (93.1)%  |

See Condensed Notes to Consolidated Financial Statements.

**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

|   | June 30, 2010<br>(unaudited) | December 31, 2009 |
|---|------------------------------|-------------------|
| <b>Assets</b>   |                              |                   |
| Investments:  |                              |                   |
| Fixed maturities - at fair value (amortized cost \$1,149,907 and \$1,125,776)                             | \$ 1,190,173                 | \$ 1,146,692      |
| Equity securities - at fair value (cost \$31,327 and \$31,331)  | 36,773                       | 39,438            |
| Total investments   | 1,226,946                    | 1,186,131         |
| Cash and cash equivalents   | 63,147                       | 99,700            |
| Accrued investment income   | 11,853                       | 11,237            |
| Agents' balances and premium receivable, net of allowances for doubtful accounts of \$11,206 and \$10,853 | 335,626                      | 295,691           |
| Property and equipment, net of accumulated depreciation of \$47,307 and \$42,092                          | 28,339                       | 27,916            |
| Prepaid reinsurance premium   | 1,921                        | 1,536             |
| Recoverable from reinsurers (includes \$111 and \$316 on paid losses and loss adjustment expenses)        | 18,686                       | 18,031            |
| Deferred policy acquisition costs   | 78,143                       | 68,839            |
| Current and deferred income taxes   | 11,729                       | 10,258            |
| Other assets  | 13,955                       | 9,057             |
| Goodwill  | 75,275                       | 75,275            |
| Total assets  | \$ 1,865,619                 | \$ 1,803,671      |
| <b>Liabilities and Shareholders' Equity</b>   |                              |                   |
| Liabilities:  |                              |                   |
| Unpaid losses and loss adjustment expenses  | \$ 502,267                   | \$ 509,114        |
| Unearned premium  | 428,021                      | 376,068           |
| Payable to reinsurers   | 0                            | 58                |
| Long-term debt (fair value \$194,825 and \$192,309)   | 194,690                      | 194,651           |
| Commissions payable   | 20,159                       | 18,012            |
| Payable for securities purchased  | 4,779                        | 17,576            |
| Other liabilities   | 86,512                       | 70,032            |
| Total liabilities   | 1,236,428                    | 1,185,511         |
| Commitments and contingencies (See Note 10)   |                              |                   |
| Shareholders' equity:   |                              |                   |
| Common stock, no par value (50,000,000 shares authorized; 21,118,889 and 21,082,139 shares issued)        | 21,143                       | 21,064            |
| Additional paid-in capital  | 346,689                      | 344,031           |
| Retained earnings   | 569,380                      | 541,167           |
| Accumulated other comprehensive income, net of tax  | 30,313                       | 19,500            |
| Treasury stock, at cost (8,271,762 and 7,584,762 shares)  | (338,332)                    | (307,602)         |
| Total shareholders' equity  | 629,192                      | 618,160           |
| Total liabilities and shareholders' equity  | \$ 1,865,619                 | \$ 1,803,671      |

**See Condensed Notes to Consolidated Financial Statements.**

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## INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q

## INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

(unaudited)

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss),<br>net of tax | Treasury<br>Stock | Total      |
|---|-----------------|----------------------------------|----------------------|--|-------------------|------------|
| <b>Balance at December 31, 2008</b>   | \$ 20,999       | \$ 341,889                       | \$ 439,051           | \$ 5,987   | \$(282,594)       | \$ 525,331 |
| Net earnings  | \$              | \$                               | \$ 27,709            | \$   | \$                | \$ 27,709  |
| Net change in postretirement benefit liability  |                 |                                  |                      | (49)   |                   | (49)       |
| Change in unrealized gain on investments  |                 |                                  |                      | 16,857   |                   | 16,857     |
| Change in non-credit component of impairment losses on fixed maturities                                 |                 |                                  |                      | (1,582)  |                   | (1,582)    |
| Comprehensive income  |                 |                                  |                      |  |                   | \$ 42,934  |
| Reclassification of non-credit component of previously recognized impairment losses on fixed maturities |                 |                                  | 38,107               | (38,107)   |                   | 0          |
| Tax benefit on reclassification   |                 |                                  |                      | 13,338   |                   | 13,338     |
| Dividends paid to common shareholders   |                 |                                  | (3,325)              |  |                   | (3,325)    |
| Shares issued and share-based compensation expense  | 32              | 1,018                            |                      |  |                   | 1,050      |
| Acquisition of treasury stock   |                 |                                  |                      |  | (19,116)          | (19,116)   |
| <b>Balance at June 30, 2009</b>   | \$ 21,031       | \$ 342,908                       | \$ 501,541           | \$ (3,557)   | \$(301,710)       | \$ 560,212 |
| Net earnings  | \$              | \$                               | \$ 42,886            | \$   | \$                | \$ 42,886  |
| Net change in postretirement benefit liability  |                 |                                  |                      | (28)   |                   | (28)       |
| Change in unrealized gain on investments  |                 |                                  |                      | 4,668  |                   | 4,668      |
| Change in non-credit component of impairment losses on fixed maturities                                 |                 |                                  |                      | 18,416   |                   | 18,416     |
| Comprehensive income  |                 |                                  |                      |  |                   | \$ 65,943  |
| Dividends paid to common shareholders   |                 |                                  | (3,260)              |  |                   | (3,260)    |
| Shares issued and share-based compensation expense  | 33              | 1,123                            |                      |  |                   | 1,156      |
| Acquisition of treasury stock   |                 |                                  |                      |  | (5,892)           | (5,892)    |
| <b>Balance at December 31, 2009</b>   | \$ 21,064       | \$ 344,031                       | \$ 541,167           | \$ 19,500  | \$(307,602)       | \$ 618,160 |
| Net earnings  | \$              | \$                               | \$ 31,900            | \$   | \$                | \$ 31,900  |
| Net change in postretirement benefit liability  |                 |                                  |                      | (35)   |                   | (35)       |
| Change in unrealized gain on investments  |                 |                                  |                      | 8,020  |                   | 8,020      |
| Change in non-credit component of impairment losses on fixed maturities                                 |                 |                                  |                      | 2,827  |                   | 2,827      |
| Comprehensive income  |                 |                                  |                      |  |                   | \$ 42,713  |



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|  |           |            |            |         |          |                         |
|--|-----------|------------|------------|---------|----------|-------------------------|
| Dividends paid to common shareholders              |           |            |            | (3,687) |          | (3,687)                 |
| Shares issued and share-based compensation expense | 79        | 2,658      |            |         |          | 2,736                   |
| Acquisition of treasury stock                      |           |            |            |         | (30,730) | (30,730)                |
| <b>Balance at June 30, 2010</b>                    | \$ 21,143 | \$ 346,689 | \$ 569,380 | \$      | 30,313   | \$ (338,332) \$ 629,192 |

See Condensed Notes to Consolidated Financial Statements.

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|   | <b>Three months ended June 30,</b> |             |
|---|------------------------------------|-------------|
|   | <b>2010</b>                        | <b>2009</b> |
| <b>Operating Activities:</b>  |                                    |             |
| Net earnings  | \$ 16,278                          | \$ 16,886   |
| Adjustments:  |                                    |             |
| Depreciation and amortization   | 4,025                              | 2,889       |
| Net realized gains on investing activities  | (44)                               | (170)       |
| Loss on disposal of property and equipment  | 3                                  | 96          |
| Share-based compensation expense  | 1,371                              | 473         |
| Decrease in accrued investment income   | 366                                | 210         |
| (Increase) decrease in agents' balances and premium receivable                            | (5,242)                            | 7,016       |
| Decrease in reinsurance receivables   | 468                                | 2           |
| (Increase) decrease in deferred policy acquisition costs                                  | (2,386)                            | 2,158       |
| Increase in other assets  | (13,249)                           | (7,038)     |
| Increase (decrease) in insurance claims and reserves                                      | 5,806                              | (7,975)     |
| Decrease in payable to reinsurers   | 0                                  | (280)       |
| Increase (decrease) in other liabilities  | 20,207                             | (8,363)     |
| Net cash provided by operating activities   | 27,603                             | 5,905       |
| <b>Investing Activities:</b>  |                                    |             |
| Purchases of and additional investments in:   |                                    |             |
| Fixed maturities  | (97,534)                           | (29,906)    |
| Property and equipment  | (3,585)                            | (849)       |
| Maturities and redemptions of fixed maturities  | 31,384                             | 36,377      |
| Sales of fixed maturities   | 68,467                             | 18,690      |
| Net cash (used in) provided by investing activities                                       | (1,268)                            | 24,312      |
| <b>Financing Activities:</b>  |                                    |             |
| Proceeds from stock options exercised and employee stock purchases, including tax benefit | 56                                 | 203         |
| Acquisition of treasury stock   | (19,010)                           | (9,113)     |
| Dividends paid to shareholders  | (1,823)                            | (1,638)     |
| Net cash used in financing activities   | (20,777)                           | (10,549)    |
| Net increase in cash and cash equivalents   | 5,558                              | 19,668      |
| Cash and cash equivalents at beginning of period  | 57,589                             | 129,478     |
| Cash and cash equivalents at end of period  | \$ 63,147                          | \$ 149,146  |

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

|   | <b>Six months ended June 30,</b> |             |
|---|----------------------------------|-------------|
|   | <b>2010</b>                      | <b>2009</b> |
| <b>Operating Activities:</b>  |                                  |             |
| Net earnings  | \$ 31,900                        | \$ 27,709   |
| Adjustments:  |                                  |             |
| Depreciation and amortization   | 8,280                            | 4,637       |
| Net realized losses on investing activities   | 411                              | 5,957       |
| Loss on disposal of property and equipment  | 3                                | 96          |
| Share-based compensation expense  | 2,043                            | 790         |
| (Increase) decrease in accrued investment income  | (616)                            | 706         |
| Increase in agents' balances and premium receivable                                       | (39,934)                         | (5,858)     |
| (Increase) decrease in reinsurance receivables  | (1,040)                          | 3,194       |
| Increase in deferred policy acquisition costs   | (9,304)                          | (1,118)     |
| (Increase) decrease in other assets   | (12,208)                         | 3,776       |
| Increase (decrease) in insurance claims and reserves                                      | 45,107                           | (4,224)     |
| Decrease in payable to reinsurers   | (58)                             | (954)       |
| Increase in other liabilities   | 18,626                           | 6,767       |
| Net cash provided by operating activities   | 43,208                           | 41,477      |
| <b>Investing Activities:</b>  |                                  |             |
| Purchases of and additional investments in:   |                                  |             |
| Fixed maturities  | (193,049)                        | (156,878)   |
| Equity securities   | 0                                | (117)       |
| Property and equipment  | (5,701)                          | (2,285)     |
| Maturities and redemptions of fixed maturities  | 71,135                           | 67,896      |
| Sales of fixed maturities   | 80,184                           | 93,696      |
| Net cash (used in) provided by investing activities                                       | (47,430)                         | 2,311       |
| <b>Financing Activities:</b>  |                                  |             |
| Proceeds from stock options exercised and employee stock purchases, including tax benefit | 693                              | 260         |
| Acquisition of treasury stock   | (29,338)                         | (19,146)    |
| Dividends paid to shareholders  | (3,687)                          | (3,325)     |
| Net cash used in financing activities   | (32,332)                         | (22,210)    |
| Net (decrease) increase in cash and cash equivalents                                      | (36,553)                         | 21,578      |
| Cash and cash equivalents at beginning of period  | 99,700                           | 127,568     |
| Cash and cash equivalents at end of period  | \$ 63,147                        | \$ 149,146  |

See Condensed Notes to Consolidated Financial Statements.



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**INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2010**

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| 4. Fair Value                        | 10. Commitments and Contingencies |
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**Note 1 Reporting and Accounting Policies**

**Nature of Operations**

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

**Basis of Consolidation and Reporting**

The accompanying consolidated financial statements are unaudited and should be read in conjunction with Infinity Property and Casualty Corporation's Annual Report on Form 10-K for the year ended December 31, 2009. This Quarterly Report on Form 10-Q, including the Condensed Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, focuses on Infinity's financial performance since the beginning of the year.

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

Infinity has evaluated events that occurred subsequent to June 30, 2010 for recognition or disclosure in the Company's financial statements and the notes to the financial statements. See Note 11 to the Consolidated Financial Statements for further information.

Schedules may not foot due to rounding.

**Estimates**

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

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

**Condensed Notes to Consolidated Financial Statements**

**Note 2 Share-based Compensation**

**Restricted Stock Plan**

Infinity's Amended Restricted Stock Plan was established in 2002 and amended on July 31, 2007. There were 500,000 shares of Infinity common stock reserved for issuance under the Restricted Stock Plan, of which 206,609 shares have been issued through June 30, 2010. The fair value of shares issued under Infinity's Restricted Stock Plan is expensed over the vesting periods of the awards based on the market value of Infinity's stock on the date of grant.

On July 31, 2007, Infinity's Compensation Committee approved the grant of 72,234 shares of restricted stock to certain officers under the Amended Restricted Stock Plan. These shares will vest in full on July 31, 2011. During the vesting period, the shares will not have voting rights but will accrue dividends, which will not be paid until the shares have vested. The shares are treated as issued and outstanding for calculation of diluted earnings per share only. Until fully vested, the shares will not be considered issued and outstanding for purposes of the basic earnings per share calculation. During the second quarter and first six months of 2010, \$0.2 million and \$0.4 million, respectively, of expense was recorded in the Consolidated Statements of Earnings related to the grant of restricted stock. During the second quarter and first six months of 2009, \$0.2 million and \$0.4 million, respectively, of expense was recorded in the Consolidated Statements of Earnings related to the grant of restricted stock.

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

In May 2005, Infinity's shareholders approved the Non-employee Directors' Stock Ownership Plan (the Directors' Plan). The purpose of the Directors' Plan is to include Infinity common stock as part of the compensation provided to its non-employee directors and to provide for stock ownership requirements for Infinity's non-employee directors. There are 200,000 shares of Infinity common stock reserved for issuance under the Directors' Plan, of which 37,302 shares have been issued through June 30, 2010. Under the terms of the Directors' Plan, shares are granted on or about June 1 of each year and the recipient may not sell or transfer the shares for six months from the date of grant. On June 1, 2009, a total of 9,583 shares of common stock, determined pursuant to the Directors' Plan and valued at \$350,000, were issued to Infinity's non-employee directors. On June 1, 2010, a total of 7,672 shares of common stock, determined pursuant to the Directors' Plan and valued at \$350,000, were issued to Infinity's non-employee directors. Participants' shares are treated as issued and outstanding for earnings per share calculations.

**Employee Stock Purchase Plan**

Infinity established the Employee Stock Purchase Plan (the ESPP) in 2004. Under this plan, all eligible full-time employees may purchase shares of Infinity common stock at a 15% discount to the current market price. Employees may allocate up to 25% of their base salary with a maximum annual participation amount of \$25,000. The source of shares issued to participants is treasury shares or authorized but previously unissued shares. The maximum number of shares which may be issued under the ESPP is 1,000,000, of which 40,076 have been issued through June 30, 2010. Infinity's ESPP is qualified under Section 423 of the Internal Revenue Code of 1986, as amended. The 15% discount for shares purchased during the three-month periods ended June 30, 2010 and 2009 approximated \$8,000 and \$8,000, respectively. The 15% discount for shares purchased during the six-month periods ended June 30, 2010 and 2009 approximated \$16,000 and \$16,000, respectively. The discounts were recognized as compensation expense in the Consolidated Statements of Earnings in each period. Participants' shares are treated as issued and outstanding for earnings per share calculations.

**Performance Share Plan**

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

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the Plan participants, (iii) set the performance share units to be awarded to such participants, and (iv) set the rate at which performance share units will convert to shares of common stock based upon

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attainment of the performance goals. The number of shares of common stock that may be issued under the Plan is limited to 500,000 shares. No shares have been issued under this plan. During the second quarter and first six months of 2010, approximately \$0.8 million and \$1.3 million of expense, respectively, was recognized in the Consolidated Statements of Earnings for the Plan. During the second quarter and first six months of 2009, approximately \$(0.1) million and \$0.0 million of expense, respectively, was recognized in the Consolidated Statements of Earnings for the Plan.

**Stock Option Plan**

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

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

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

|  | 2004 Grants | 2003 Grants |
|--|-------------|-------------|
| Weighted-average grant date fair value | \$ 13.87    | \$ 5.97     |
| Dividend yield                         | 0.7%        | 1.4%        |
| Expected volatility                    | 33.0%       | 33.0%       |
| Risk-free interest rate                | 4.3%        | 4.0%        |
| Expected life                          | 7.5 years   | 7.5 years   |
| Weighted-average grant exercise price  | \$ 33.56    | \$ 16.11    |
| Outstanding as of June 30, 2010        | 116,050     | 169,340     |

The following table describes activity for Infinity's Stock Option:

|                                  | Number of Options | Weighted-average<br>Exercise<br>Price | Weighted-average<br>Remaining Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(a) (in millions) |
|----------------------------------|-------------------|---------------------------------------|--|--|
| Outstanding at December 31, 2009 | 312,840           | \$ 23.05                              |  |  |
| Granted                          | 0                 | 0                                     |  |  |
| Exercised                        | (26,450)          | \$ 19.95                              |  |  |
| Forfeited                        | (1,000)           | \$ 33.58                              |  |  |
| Outstanding at June 30, 2010     | 285,390           | \$ 23.30                              | 3.04   | \$ 6.5   |



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|                                 |         |    |       |      |    |     |
|---------------------------------|---------|----|-------|------|----|-----|
| Vested as of June 30, 2010      | 285,390 | \$ | 23.30 | 3.04 | \$ | 6.5 |
| Exercisable as of June 30, 2010 | 285,390 | \$ | 23.30 | 3.04 | \$ | 6.5 |

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

The Stock Compensation topic of the FASB Accounting Standards codification requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As of June 30, 2010, Infinity used an estimated forfeiture rate of 0%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

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Cash received from option exercises for the six months ended June 30, 2010 and 2009 was approximately \$0.5 million and \$0.1 million, respectively. The actual tax benefit realized for the tax deductions from options exercised of share-based payment arrangements totaled less than \$0.1 million for each of the six months ended June 30, 2010 and June 30, 2009. The total intrinsic value of options exercised during the six months ended June 30, 2010 and 2009 was approximately \$0.7 million and \$0.2 million, respectively.

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

**Note 3 Computation of Earnings Per Share**

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

|   | For the three months<br>ended June 30, |           | For the six months<br>ended June 30, |           |
|---|--|-----------|--------------------------------------|-----------|
|   | 2010                                   | 2009      | 2010                                 | 2009      |
| Net earnings for basic and diluted earnings per share | \$ 16,278                              | \$ 16,886 | \$ 31,900                            | \$ 27,709 |
| Average basic shares outstanding                      | 13,054                                 | 13,634    | 13,186                               | 13,804    |
| Basic earnings per share                              | \$ 1.25                                | \$ 1.24   | \$ 2.42                              | \$ 2.01   |
| Average basic shares outstanding                      | 13,054                                 | 13,634    | 13,186                               | 13,804    |
| Restricted stock not yet vested                       | 72                                     | 72        | 72                                   | 72        |
| Dilutive effect of assumed option exercises           | 142                                    | 122       | 140                                  | 130       |
| Dilutive effect of Performance Share Plan             | 78                                     | 0         | 85                                   | 0         |
| Average diluted shares outstanding                    | 13,347                                 | 13,828    | 13,484                               | 14,006    |
| Diluted earnings per share                            | \$ 1.22                                | \$ 1.22   | \$ 2.37                              | \$ 1.98   |

**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Note 4 Fair Value**

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

The following table presents for each of the fair value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2010 (in thousands):

|                                     | Fair Value |            |           | Total        |
|-------------------------------------|------------|------------|-----------|--------------|
|                                     | Level 1    | Level 2    | Level 3   |              |
| Cash and cash equivalents           | \$ 63,147  | \$ 0       | \$ 0      | \$ 63,147    |
| Fixed maturity securities:          |            |            |           |              |
| U.S. government and agencies        | 206,429    | 0          | 0         | 206,429      |
| Government-sponsored entities       | 0          | 40,461     | 5,087     | 45,548       |
| State and municipal                 | 0          | 361,808    | 0         | 361,808      |
| Mortgage-backed securities:         |            |            |           |              |
| Residential                         | 0          | 174,292    | 0         | 174,292      |
| Commercial                          | 0          | 36,332     | 0         | 36,332       |
| Total mortgage-backed securities    | \$ 0       | \$ 210,624 | \$ 0      | \$ 210,624   |
| Collateralized mortgage obligations | 0          | 54,589     | 1,703     | 56,292       |
| Asset-backed securities             | 0          | 26,968     | 0         | 26,968       |
| Corporates                          | 0          | 268,861    | 13,643    | 282,504      |
| Total fixed maturities              | \$ 206,429 | \$ 963,312 | \$ 20,433 | \$ 1,190,173 |
| Equity securities                   | 36,772     | 1          | 0         | 36,773       |
| Total                               | \$ 306,348 | \$ 963,312 | \$ 20,433 | \$ 1,290,093 |

Percentage of total 23.7% 74.7% 1.6% 100.0%

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

The fair value of securities in Level 2 is provided by a third-party, nationally recognized pricing service. Infinity periodically reviews the third-party model pricing methodologies and periodically tests sales activity to determine if there are any significant differences between the market price used to value the security as of the balance sheet date and the sales price of the security for sales that occurred around the balance sheet date.

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The following table presents the changes in the Level 3 fair value category at June 30, 2010 (in thousands):

|   | For the three months ended June 30, 2010 |                     |                            |                                     |                         |            |           |
|---|--|---------------------|----------------------------|-------------------------------------|-------------------------|------------|-----------|
|   | Government-sponsored Entities            | State and Municipal | Mortgage-backed Securities | Collateralized Mortgage Obligations | Asset-backed Securities | Corporates | Total     |
| Balance at beginning of period                  | \$ 4,062                                 | \$ 0                | \$ 0                       | \$ 1,831                            | \$ 645                  | \$ 13,031  | \$ 19,568 |
| Total gains or (losses), unrealized or realized |  |                     |                            |                                     |                         |            |           |
| Included in net earnings                        | 0  | 0                   | 0                          | (4)                                 | 0                       | (122)      | (127)     |
| Included in other comprehensive income          | 129                                      | 0                   | 0                          | 29                                  | 0                       | 948        | 1,106     |
| Purchases                                       | 0  | 0                   | 0                          | 0                                   | 0                       | 1,028      | 1,028     |
| Sales   | 0  | 0                   | 0                          | 0                                   | 0                       | (119)      | (119)     |
| Settlements                                     | 0  | 0                   | 0                          | (153)                               | 0                       | (643)      | (797)     |
| Transfers in                                    | 897                                      | 0                   | 0                          | 0                                   | 0                       | 0          | 897       |
| Transfers out                                   | 0  | 0                   | 0                          | 0                                   | (645)                   | (479)      | (1,123)   |
| Balance at end of period                        | \$ 5,087                                 | \$ 0                | \$ 0                       | \$ 1,703                            | \$ 0                    | \$ 13,643  | \$ 20,433 |

|   | For the six months ended June 30, 2010 |                     |                            |                                     |                         |            |           |
|---|--|---------------------|----------------------------|-------------------------------------|-------------------------|------------|-----------|
|   | Government-sponsored Entities          | State and Municipal | Mortgage-backed Securities | Collateralized Mortgage Obligations | Asset-backed Securities | Corporates | Total     |
| Balance at beginning of period                  | \$ 4,392                               | \$ 3,810            | \$ 6,169                   | \$ 8,888                            | \$ 576                  | \$ 13,469  | \$ 37,302 |
| Total gains or (losses), unrealized or realized |  |                     |                            |                                     |                         |            |           |
| Included in net earnings                        | 0                                      | 0                   | 0                          | (11)                                | 0                       | (1,620)    | (1,631)   |
| Included in other comprehensive income          | 76                                     | 0                   | 0                          | 87                                  | (0)                     | 2,225      | 2,388     |
| Purchases                                       | 0                                      | 0                   | 0                          | 0                                   | 645                     | 1,639      | 2,284     |
| Sales   | 0                                      | 0                   | 0                          | 0                                   | 0                       | (334)      | (334)     |
| Settlements                                     | (277)                                  | 0                   | 0                          | (394)                               | 0                       | (1,257)    | (1,928)   |
| Transfers in                                    | 897                                    | 0                   | 0                          | 0                                   | 0                       | 0          | 897       |
| Transfers out                                   | 0                                      | (3,810)             | (6,169)                    | (6,867)                             | (1,221)                 | (479)      | (18,545)  |
| Balance at end of period                        | \$ 5,087                               | \$ 0                | \$ 0                       | \$ 1,703                            | \$ 0                    | \$ 13,643  | \$ 20,433 |

Of the \$20.4 million fair value of securities in Level 3, which consists of 15 securities, 12 are priced based on non-binding broker quotes or prices from various outside sources. When there are multiple prices obtained for the same security, a hierarchy is used that determines the best price, which is used as the basis for the fair value presented in the financial statements. The remaining three securities, which have a fair value of \$3.2 million, are manually calculated based on expected principal repayments from Bloomberg, the zero spot Treasury curve at June 30, 2010 and the average spreads to Treasury for the type and rating of the security being priced.

Approximately \$18.5 million of securities in Level 3 at December 31, 2009 were transferred to Level 2 during the six months ended June 30, 2010 because a price for those securities was obtained from a third-party, nationally recognized pricing service. Approximately \$0.9 million of securities were transferred into Level 3 from Level 2 during the six months ended June 30, 2010 because the Company could not obtain a price from a third-party, nationally recognized pricing service.

The gains or losses included in net earnings are included in the line item realized gains (losses) on investments on the Consolidated Statements of Earnings. The gains or losses included in other comprehensive income are recognized in the line item change in unrealized gain on investments or the line item change in non-credit component of impairment losses on fixed maturities on the Consolidated Statements of

Changes in Shareholders' Equity.

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

|                               | June 30, 2010  |              | December 31, 2009 |              |
|-------------------------------|----------------|--------------|-------------------|--------------|
|                               | Carrying Value | Fair Value   | Carrying Value    | Fair Value   |
| <b>Assets:</b>                |                |              |                   |              |
| Cash and cash equivalents     | \$ 63,147      | \$ 63,147    | \$ 99,700         | \$ 99,700    |
| Available-for-sale securities |                |              |                   |              |
| Fixed maturities              | 1,190,173      | 1,190,173    | 1,146,692         | 1,146,692    |
| Equity securities             | 36,773         | 36,773       | 39,438            | 39,438       |
| <br>                          |                |              |                   |              |
| Total cash and investments    | \$ 1,290,093   | \$ 1,290,093 | \$ 1,285,831      | \$ 1,285,831 |
| <br>                          |                |              |                   |              |
| <b>Liabilities:</b>           |                |              |                   |              |
| Long-term debt                | \$ 194,690     | \$ 194,825   | \$ 194,651        | \$ 192,309   |

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

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All fixed maturity and equity securities are considered available-for-sale and reported at fair value with the net unrealized gains or losses reported after-tax (net of any valuation allowance) as a component of other comprehensive income. The proceeds from sales of securities for the three and six months ended June 30, 2010 were \$67.9 million and \$80.2 million, respectively. Proceeds from sales of securities for the three and six months ended June 30, 2009 were \$18.7 million and \$93.7 million, respectively. Gains or losses on securities are determined on a specific identification basis.

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

|                                     | June 30, 2010                |                              |                               | OTTI<br>Recognized<br>in<br>Accumulated<br>OCI | Fair Value   |
|-------------------------------------|------------------------------|------------------------------|-------------------------------|--|--------------|
|                                     | Amortized<br>Cost or<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |  |              |
| <b>Fixed maturities:</b>            |                              |                              |                               |  |              |
| U.S. government and agencies        | \$ 199,948                   | \$ 6,481                     | \$ 0                          | \$ 0   | \$ 206,429   |
| Government-sponsored entities       | 44,186                       | 1,365                        | (3)                           | 0  | 45,548       |
| State and municipal                 | 350,041                      | 11,879                       | (112)                         | 0  | 361,808      |
| <b>Mortgage-backed securities:</b>  |                              |                              |                               |  |              |
| Residential                         | 166,800                      | 7,492                        | 0                             | 0  | 174,292      |
| Commercial                          | 35,217                       | 1,149                        | (34)                          | 0  | 36,332       |
| Total mortgage-backed securities    | \$ 202,018                   | \$ 8,641                     | \$ (34)                       | \$ 0   | \$ 210,624   |
| Collateralized mortgage obligations | 55,281                       | 1,190                        | 0                             | (179)  | 56,292       |
| Asset-backed securities             | 26,797                       | 215                          | (42)                          | (1)  | 26,968       |
| Corporates                          | 271,635                      | 11,135                       | (263)                         | (4)  | 282,504      |
| Total fixed maturities              | \$ 1,149,907                 | \$ 40,906                    | \$ (455)                      | \$ (184)                                       | \$ 1,190,173 |
| Equity securities                   | 31,327                       | 5,446                        | 0                             | 0  | 36,773       |
| Total                               | \$ 1,181,233                 | \$ 46,352                    | \$ (455)                      | \$ (184)                                       | \$ 1,226,946 |

|                                    | December 31, 2009         |                              |                               | OTTI<br>Recognized<br>in<br>Accumulated<br>OCI | Fair Value |
|------------------------------------|---------------------------|------------------------------|-------------------------------|--|------------|
|                                    | Amortized Cost or<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |  |            |
| <b>Fixed maturities:</b>           |                           |                              |                               |  |            |
| U.S. government and agencies       | \$ 187,915                | \$ 4,063                     | \$ (717)                      | \$ 0   | \$ 191,261 |
| Government-sponsored entities      | 56,344                    | 790                          | (118)                         | 0  | 57,015     |
| State and municipal                | 342,696                   | 9,020                        | (1,640)                       | 0  | 350,076    |
| <b>Mortgage-backed securities:</b> |                           |                              |                               |  |            |
| Residential                        | 149,354                   | 3,549                        | (36)                          | 0  | 152,867    |
| Commercial                         | 53,338                    | 637                          | (49)                          | 0  | 53,926     |

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|                                     |              |           |            |            |              |
|-------------------------------------|--------------|-----------|------------|------------|--------------|
| Total mortgage-backed securities    | \$ 202,692   | \$ 4,186  | \$ (85)    | \$ 0       | \$ 206,793   |
| Collateralized mortgage obligations | 65,249       | 619       | (387)      | (901)      | 64,580       |
| Asset-backed securities             | 6,760        | 41        | (71)       | (5)        | 6,726        |
| Corporates                          | 264,120      | 8,190     | (696)      | (1,374)    | 270,241      |
| Total fixed maturities              | \$ 1,125,776 | \$ 26,909 | \$ (3,714) | \$ (2,279) | \$ 1,146,692 |
| Equity securities                   | 31,331       | 8,108     | 0          | 0          | 39,438       |
| Total                               | \$ 1,157,107 | \$ 35,017 | \$ (3,714) | \$ (2,279) | \$ 1,186,131 |



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

|                                     | Less than 12 Months                         |            |                         |                                | 12 Months or More                           |            |                         |                                |
|-------------------------------------|---|------------|-------------------------|--------------------------------|---|------------|-------------------------|--------------------------------|
|                                     | Number of Securities with Unrealized Losses | Fair Value | Gross Unrealized Losses | Unrealized Losses as % of Cost | Number of Securities with Unrealized Losses | Fair Value | Gross Unrealized Losses | Unrealized Losses as % of Cost |
| <b>June 30, 2010</b>                |   |            |                         |                                |   |            |                         |                                |
| Fixed maturities:                   |   |            |                         |                                |   |            |                         |                                |
| U.S. government and agencies        | 0   | \$ 0       | \$ 0                    | 0.0%                           | 0   | \$ 0       | \$ 0                    | 0.0%                           |
| Government-sponsored entities       | 1   | 897        | (3)                     | 0.4%                           | 0   | 0          | 0                       | 0.0%                           |
| State and municipal                 | 11  | 22,675     | (112)                   | 0.5%                           | 0   | 0          | 0                       | 0.0%                           |
| Mortgage-backed securities:         |   |            |                         |                                |   |            |                         |                                |
| Residential                         | 0   | 0          | 0                       | 0.0%                           | 0   | 0          | 0                       | 0.0%                           |
| Commercial                          | 6   | 5,712      | (34)                    | 0.6%                           | 0   | 0          | 0                       | 0.0%                           |
| Total mortgage-backed securities    | 6   | \$ 5,712   | \$ (34)                 | 0.6%                           | 0   | \$ 0       | \$ 0                    | 0.0%                           |
| Collateralized mortgage obligations | 0   | 0          | 0                       | 0.0%                           | 3   | 4,302      | (179)                   | 4.0%                           |
| Asset-backed securities             | 1   | 744        | (5)                     | 0.7%                           | 2   | 467        | (38)                    | 7.6%                           |
| Corporates                          | 26  | 18,692     | (263)                   | 1.4%                           | 2   | 448        | (4)                     | 0.9%                           |
| Total fixed maturities              | 45  | \$ 48,719  | \$ (418)                | 0.9%                           | 7   | \$ 5,217   | \$ (221)                | 4.1%                           |
| Equity securities                   | 0   | 0          | 0                       | 0.0%                           | 0   | 0          | 0                       | 0.0%                           |
| Total                               | 45  | \$ 48,719  | \$ (418)                | 0.9%                           | 7   | \$ 5,217   | \$ (221)                | 4.1%                           |

|                                     | Less than 12 Months                         |            |                         |                                | 12 Months or More                           |            |                         |                                |
|-------------------------------------|---|------------|-------------------------|--------------------------------|---|------------|-------------------------|--------------------------------|
|                                     | Number of Securities with Unrealized Losses | Fair Value | Gross Unrealized Losses | Unrealized Losses as % of Cost | Number of Securities with Unrealized Losses | Fair Value | Gross Unrealized Losses | Unrealized Losses as % of Cost |
| <b>December 31, 2009</b>            |   |            |                         |                                |   |            |                         |                                |
| Fixed maturities:                   |   |            |                         |                                |   |            |                         |                                |
| U.S. government and agencies        | 11  | \$ 46,288  | \$ (717)                | 1.5%                           | 0   | \$ 0       | \$ 0                    | 0.0%                           |
| Government-sponsored entities       | 2   | 23,440     | (118)                   | 0.5%                           | 0   | 0          | 0                       | 0.0%                           |
| State and municipal                 | 39  | 98,053     | (1,640)                 | 1.6%                           | 0   | 0          | 0                       | 0.0%                           |
| Mortgage-backed securities:         |   |            |                         |                                |   |            |                         |                                |
| Residential                         | 5   | 26,305     | (36)                    | 0.1%                           | 0   | 0          | 0                       | 0.0%                           |
| Commercial                          | 8   | 11,742     | (49)                    | 0.4%                           | 0   | 0          | 0                       | 0.0%                           |
| Total mortgage-backed securities    | 13  | \$ 38,047  | \$ (85)                 | 0.2%                           | 0   | \$ 0       | \$ 0                    | 0.0%                           |
| Collateralized mortgage obligations | 5   | 17,916     | (131)                   | 0.7%                           | 7   | 14,133     | (1,157)                 | 7.6%                           |
| Asset-backed securities             | 1   | 576        | (1)                     | 0.2%                           | 3   | 536        | (75)                    | 12.2%                          |

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|                        |     |            |            |      |    |           |            |       |
|------------------------|-----|------------|------------|------|----|-----------|------------|-------|
| Corporates             | 32  | 57,203     | (768)      | 1.3% | 18 | 8,117     | (1,301)    | 13.8% |
| Total fixed maturities | 103 | \$ 281,523 | \$ (3,460) | 1.2% | 28 | \$ 22,786 | \$ (2,533) | 10.0% |
| Equity securities      | 0   | 0          | 0          | 0.0% | 0  | 0         | 0          | 0.0%  |
| Total                  | 103 | \$ 281,523 | \$ (3,460) | 1.2% | 28 | \$ 22,786 | \$ (2,533) | 10.0% |

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

**Condensed Notes to Consolidated Financial Statements**

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

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

the length of time the security's fair value has been below its cost;

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

the intent to sell the security;

whether it is more likely than not that there will be a requirement to sell the security before its anticipated recovery;

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

issuer news releases;

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

industry research and communications with industry specialists and

third-party research and credit rating reports.

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

|   | <b>June 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|--------------------------|------------------------------|
| Number of positions held with unrealized:                     |                          |                              |
| Gains   | 518                      | 413                          |
| Losses  | 52                       | 131                          |
| Number of positions held that individually exceed unrealized: |                          |                              |
| Gains of \$500,000  | 7                        | 4                            |

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|  |     |     |
|--|-----|-----|
| Losses of \$500,000                            | 0   | 1   |
| Percentage of positions held with unrealized:  |     |     |
| Gains that were investment grade               | 82% | 76% |
| Losses that were investment grade              | 52% | 78% |
| Percentage of fair value held with unrealized: |     |     |
| Gains that were investment grade               | 93% | 94% |
| Losses that were investment grade              | 82% | 95% |

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

The following table sets forth the amount of unrealized loss by age and severity at June 30, 2010 (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%* |
|----------------------------|---|-------------------------------|---------------|-------------|-------------------------------|
| Less than or equal to:     |   |                               |               |             |                               |
| Three months               | 22,471  | (237)                         | (205)         | (32)        | 0                             |
| Six months                 | 4,637   | (56)                          | (56)          | 0           | 0                             |
| Nine months                | 16,794  | (112)                         | (112)         | 0           | 0                             |
| Twelve months              | 4,817   | (13)                          | (13)          | 0           | 0                             |
| Greater than twelve months | 5,217   | (221)                         | (65)          | (37)        | (119)                         |
| <b>Total</b>               | <b>53,936</b>                                   | <b>(639)</b>                  | <b>(451)</b>  | <b>(69)</b> | <b>(119)</b>                  |

\* As a percentage of amortized cost or cost.

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

|   | Fixed Maturities <sup>1</sup> | Pre-tax Equity Securities | Tax Effects | Net       |
|---|-------------------------------|---------------------------|-------------|-----------|
| <b>Six months ended June 30, 2010</b>                                     |                               |                           |             |           |
| Unrealized holding gains (losses) on securities arising during the period | \$ 18,943                     | \$ (2,666)                | \$ (5,697)  | \$ 10,580 |
| Realized (gains) losses on securities sold                                | (1,389)                       | 0                         | 486         | (903)     |
| Impairment loss recognized in earnings                                    | 1,796                         | 4                         | (630)       | 1,170     |
| Change in unrealized gains (losses) on marketable securities, net         | \$ 19,350                     | \$ (2,661)                | \$ (5,841)  | \$ 10,848 |
| <b>Six months ended June 30, 2009</b>                                     |                               |                           |             |           |
| Unrealized holding gains (losses) on securities arising during the period | \$ 16,468                     | \$ 1,075                  | \$ (6,140)  | \$ 11,403 |
| Realized (gains) losses on securities sold                                | (2,388)                       | 0                         | 836         | (1,552)   |
| Impairment loss recognized in earnings                                    | 8,345                         | 0                         | (2,921)     | 5,424     |
| Change in unrealized gains (losses) on marketable securities, net         | \$ 22,424                     | \$ 1,075                  | \$ (8,225)  | \$ 15,275 |

<sup>1</sup> The change in unrealized gains (losses) for the six months ended June 30, 2009 excludes a \$38.1 million reclassification of the non-credit component of previously recognized impairments from retained earnings to accumulated other comprehensive income

For fixed maturity securities that are other-than-temporarily impaired, Infinity assesses its intent to sell and the likelihood that the Company will be required to sell the security before recovery of its amortized cost. If a fixed maturity security is considered other-than-temporarily impaired but the Company does not intend to and is not more than likely to be required to sell the security prior to its recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss component of an impairment charge on a fixed maturity security is determined by the excess of the amortized cost over the present value of the expected cash

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flows. The present value is determined using the best estimate of cash flows discounted at (1) the effective interest rate implicit at the date of acquisition for non-structured securities or (2) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows varies depending on the type of security. The credit loss component of an impairment charge is recognized in net earnings while the non-credit component is recognized in accumulated other comprehensive income. If Infinity intends 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.

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

|   |          |
|---|----------|
| Balance at December 31, 2009                | \$ 3,136 |
| Additional credit impairments on:           |          |
| Previously impaired securities              | 1,652    |
| Securities without prior impairments        | 7        |
| Reductions for securities sold and paydowns | (1,304)  |
| Balance at June 30, 2010                    | \$ 3,490 |

The table below sets forth the scheduled maturities of fixed maturity securities at June 30, 2010, based on their fair values (in thousands). Securities that do not have a single maturity date are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

| Maturity  | Fair Value                       |                                   |   | Amortized Cost                |                               |
|---|----------------------------------|-----------------------------------|---|-------------------------------|-------------------------------|
|   | Securities with Unrealized Gains | Securities with Unrealized Losses | Securities with No Unrealized Gains or Losses | All Fixed Maturity Securities | All Fixed Maturity Securities |
| One year or less  | \$ 73,971                        | \$ 0                              | \$ 319  | \$ 74,290                     | \$ 73,187                     |
| After one year through five years                                     | 453,594                          | 11,437                            | 4,221   | 469,252                       | 451,084                       |
| After five years through ten years                                    | 235,947                          | 23,799                            | 2,589   | 262,335                       | 253,583                       |
| After ten years   | 82,937                           | 7,476                             | 0   | 90,412                        | 87,957                        |
| Mortgage-backed, asset-backed and collateralized mortgage obligations | 282,660                          | 11,224                            | 0   | 293,884                       | 284,096                       |
|   | \$ 1,129,108                     | \$ 53,936                         | \$ 7,130                                      | \$ 1,190,173                  | \$ 1,149,907                  |

**Note 6 Long-term Debt**

In February 2004, Infinity issued \$200 million principal of senior notes due February 2014 (the Senior Notes). The Senior Notes accrue interest at an effective yield of 5.55% and bear a coupon of 5.5%, payable semiannually. At the time the notes were issued, Infinity capitalized \$2.1 million of debt issuance costs, which are being amortized over the term of the Senior Notes. During 2009, Infinity repurchased \$5.0 million of its debt, bringing the outstanding principle to \$195.0 million. The June 30, 2010 fair value of \$194.8 million was calculated using a 259 basis point spread to the ten-year U.S. Treasury Note of 2.933%.

In August 2008, Infinity entered into an agreement for a \$50 million three-year revolving credit facility (the Credit Agreement) that requires Infinity to meet certain financial and other covenants. Infinity is currently in compliance with all covenants under the Credit Agreement. At June 30, 2010, there were no borrowings outstanding under the Credit Agreement.

**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****Condensed Notes to Consolidated Financial Statements****Note 7 Income Taxes**

Income tax expense for the three and six months ended June 30, 2010 was \$7.2 million and \$14.4 million, respectively, compared to \$7.4 million and \$15.3 million for the same periods of 2009. The following table reconciles Infinity's statutory federal income tax rate to its effective tax rate (in thousands):

|                                   | For the three months<br>ended June 30, |           | For the six months<br>ended June 30, |           |
|-----------------------------------|--|-----------|--------------------------------------|-----------|
|                                   | 2010                                   | 2009      | 2010                                 | 2009      |
| Earnings before income taxes      | \$ 23,430                              | \$ 24,243 | \$ 46,258                            | \$ 43,029 |
| Income taxes at statutory rates   | 8,201                                  | 8,485     | 16,190                               | 15,060    |
| Effect of:                        |  |           |                                      |           |
| Dividends-received deduction      | (39)                                   | (33)      | (74)                                 | (73)      |
| Tax-exempt interest               | (891)                                  | (648)     | (1,773)                              | (1,246)   |
| Adjustment to valuation allowance | (135)                                  | (466)     | (23)                                 | 1,569     |
| Other                             | 16                                     | 18        | 37                                   | 11        |
| Provision for income taxes        | \$ 7,152                               | \$ 7,357  | \$ 14,358                            | \$ 15,321 |
| GAAP effective tax rate           | 30.5%                                  | 30.4%     | 31.0%                                | 35.6%     |

During the first six months of 2009, Infinity increased its tax valuation allowance by approximately \$1.6 million primarily as a result of an increase in the reserve for other-than-temporarily impaired securities.

**Note 8 Additional Information****Supplemental Cash Flow Information**

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

|                           | For the three months ended June 30, |           | For the six months ended June 30, |           |
|---------------------------|-------------------------------------|-----------|-----------------------------------|-----------|
|                           | 2010                                | 2009      | 2010                              | 2009      |
| Income tax payments       | \$ 16,100                           | \$ 17,000 | \$ 21,600                         | \$ 17,200 |
| Interest payments on debt | 0                                   | 0         | 5,363                             | 5,500     |

**Negative Cash Book Balances**

Negative cash book balances, included in the line item "Other liabilities" in the Consolidated Balance Sheets, were \$33.8 million and \$22.1 million, respectively, at June 30, 2010 and December 31, 2009.



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

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

|   | Three months ended |                   | Six months ended  |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | June 30,           |                   | June 30,          |                   |
|   | 2010               | 2009              | 2010              | 2009              |
| <b>Balance at Beginning of Period</b>                         |                    |                   |                   |                   |
| Unpaid losses on known claims                                 | \$ 168,918         | \$ 171,700        | \$ 164,134        | \$ 179,530        |
| IBNR losses   | 185,538            | 194,121           | 193,790           | 196,891           |
| LAE   | 150,769            | 165,299           | 151,191           | 168,335           |
| <b>Total unpaid losses and LAE</b>                            | <b>505,225</b>     | <b>531,120</b>    | <b>509,114</b>    | <b>544,756</b>    |
| Reinsurance recoverables                                      | (18,735)           | (19,461)          | (17,715)          | (20,516)          |
| <b>Unpaid losses and LAE, net of reinsurance recoverables</b> | <b>486,491</b>     | <b>511,658</b>    | <b>491,399</b>    | <b>524,241</b>    |
| <b>Current Activity</b>                                       |                    |                   |                   |                   |
| Loss and LAE incurred:  |                    |                   |                   |                   |
| Current accident year   | 173,557            | 161,206           | 336,889           | 322,246           |
| Prior accident years  | (20,276)           | (10,381)          | (36,965)          | (20,153)          |
| <b>Total loss and LAE incurred</b>                            | <b>153,281</b>     | <b>150,825</b>    | <b>299,923</b>    | <b>302,094</b>    |
| Loss and LAE payments:  |                    |                   |                   |                   |
| Current accident year   | (96,894)           | (87,615)          | (147,900)         | (137,176)         |
| Prior accident years  | (59,184)           | (59,423)          | (159,729)         | (173,713)         |
| <b>Total loss and LAE payments</b>                            | <b>(156,078)</b>   | <b>(147,038)</b>  | <b>(307,629)</b>  | <b>(310,889)</b>  |
| <b>Balance at End of Period</b>                               |                    |                   |                   |                   |
| Unpaid losses and LAE, net of reinsurance recoverables        | 483,693            | 515,445           | 483,693           | 515,445           |
| Add back reinsurance recoverables                             | 18,574             | 18,557            | 18,574            | 18,557            |
| <b>Total unpaid losses and LAE</b>                            | <b>\$ 502,267</b>  | <b>\$ 534,002</b> | <b>\$ 502,267</b> | <b>\$ 534,002</b> |
| Unpaid losses on known claims                                 | \$ 170,692         | \$ 169,753        | \$ 170,692        | \$ 169,753        |
| IBNR losses   | 185,553            | 196,830           | 185,553           | 196,830           |
| LAE   | 146,022            | 167,419           | 146,022           | 167,419           |
| <b>Total unpaid losses and LAE</b>                            | <b>\$ 502,267</b>  | <b>\$ 534,002</b> | <b>\$ 502,267</b> | <b>\$ 534,002</b> |

The \$37.0 million of favorable reserve development during the six months ended June 30, 2010 is primarily driven by bodily injury and collision coverages in the states of Arizona, California, Connecticut, Florida and Georgia and is related to accident years 2009, 2008 and 2007.

The \$20.2 million of favorable development during the six months ended June 30, 2009 primarily relates to liability coverages on the nonstandard personal auto program in California and Florida. In addition, there was favorable development on loss and LAE reserves relating to

liability coverages in the commercial vehicle program.

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**Condensed Notes to Consolidated Financial Statements**

**Note 10 *Commitments and Contingencies***

**Commitments**

In late 2009, Infinity made an offer to purchase the Liberty Park call center facility. This offer was contingent upon due diligence by the Company and the successful execution of the sales contract. In May of this year, Infinity completed its due diligence and entered into a definitive sales contract to purchase the building for \$16.1 million. Infinity intends to use current funds to complete the purchase in the second half of 2010.

There have been no other material changes from the commitments discussed in the Form 10-K for the year ended December 31, 2009. For a description of the Company's previously reported commitments, refer to Note 16 Commitments and Contingencies, in the form 10-K for the year ended December 31, 2009.

**Contingencies**

There have been no material changes from the contingencies discussed in the Form 10-K for the year ended December 31, 2009. For a description of the Company's previously reported contingencies, refer to Note 16 Commitments and Contingencies, in the form 10-K for the year ended December 31, 2009.

**Note 11 *Subsequent Events***

Following the end of the second quarter, Infinity exhausted the \$9.5 million of remaining authority on the share and debt repurchase program as of June 30, 2010, purchasing 197,900 shares at an average price, excluding commissions, of \$47.91. On August 3, 2010, Infinity's Board of Directors increased the authority under the 2006 repurchase program by \$50.0 million and extended the date to execute this program to December 31, 2011.

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

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

**ITEM 2**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

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

The primary events or circumstances that could cause actual results to differ materially from those expected by Infinity include determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio including other-than-temporary impairments for credit losses, rising bodily injury loss cost trends, undesired business mix or risk profile for new business, elevated unemployment rates and the proliferation of illegal immigration legislation in key Focus States. Infinity undertakes no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements see Risk Factors contained in Part I, Item 1A of Infinity's Annual Report on Form 10-K for the twelve months ended December 31, 2009.

**OVERVIEW**

Net earnings and diluted earnings per share for the three months ended June 30, 2010 were \$16.3 million and \$1.22, respectively, compared to \$16.9 million and \$1.22, respectively, for the three months ended June 30, 2009. Net earnings and diluted earnings per share for the six months ended June 30, 2010 were \$31.9 million and \$2.37, respectively, compared to \$27.7 million and \$1.98, respectively, for the six months ended June 30, 2009. The increase in diluted earnings per share for the six months ended June 30, 2010 is primarily due to an increase in underwriting income coupled with a decline in other-than-temporary impairment losses.

Infinity had a net realized gain on investments of less than \$0.1 million for the second quarter of 2010 compared to a net realized gain of \$0.2 million in the second quarter of 2009. Net realized losses on investments were \$0.4 million for the first six months of 2010 compared to \$6.0 million for the same period of 2009. Included in the net realized loss for the first six months of 2010 is \$1.8 million of other-than-temporary impairments on fixed income securities compared with \$8.3 million of impairments during the first six months of 2009. Included in the net realized gain for the second quarter of 2010 is \$0.3 million of other-than-temporary impairments on fixed income securities compared with \$0.8 million of impairments during the second quarter of 2009.

Included in net earnings for the three and six months ended June 30, 2010 were \$13.2 million (\$20.3 million pre-tax) and \$24.0 million (\$37.0 million pre-tax), respectively, of favorable development on prior accident period loss and LAE reserves compared to \$6.8 million (\$10.4 million pre-tax) and \$13.1 million (\$20.2 million pre-tax), respectively, for the three and six months ended June 30, 2009. See *Results of Operations Underwriting Profitability* for a more detailed discussion of Infinity's underwriting results.

Total revenues grew 5.0% and 2.7% for the three and six months ended June 30, 2010 compared with the same periods in 2009. The growth in both periods is primarily attributable to an increase in earned premiums. Gross written premiums in California, Florida and Pennsylvania contributed to this growth. See *Results of Operations Underwriting Premiums* for a more detailed discussion of Infinity's gross written premium growth.

Infinity's book value per share increased 19.1% from \$41.11 at June 30, 2009 to \$48.98 at June 30, 2010. This increase was primarily due to earnings and change in unrealized net gains on investments, net of shareholder dividends, for the twelve months ended June 30, 2010. Annualized return on equity for the three and six months ended June 30, 2010 was 10.4% and 10.2%, respectively, compared with 12.4% and 10.2% for the three and six months ended June 30, 2009.



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

**RESULTS OF OPERATIONS**

*Underwriting*

**Premium**

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

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

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

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

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

**Other States** Includes all remaining states.

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

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

Arizona Phoenix and Tucson

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

Florida Jacksonville, Miami, Orlando, Sarasota and Tampa

Georgia Atlanta

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Illinois Chicago

Nevada Las Vegas

Pennsylvania Allentown and Philadelphia

Texas Dallas, Fort Worth, Houston and San Antonio

Non-Urban Zones include all remaining areas in the Focus States located outside of a designated Urban Zone. Infinity continually evaluates its market opportunities; thus the Focus States, Urban Zones, Maintenance States and Other States may change over time as new market opportunities arise, as the allocation of resources changes or as regulatory environments change. In the tables below, Infinity has restated 2009 premium, policies-in-force and combined ratios to be consistent with the 2010 definition of Urban Zones, Focus States, Maintenance States and Other States.

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The following table shows Infinity's net earned premium for the three months ended June 30, 2010 and 2009 (\$ in thousands):

|                             | 2010       | Three months ended June 30, |           |          |
|-----------------------------|------------|-----------------------------|-----------|----------|
|                             |            | 2009                        | \$ Change | % Change |
| <b>Net earned premium</b>   |            |                             |           |          |
| Gross written premium       |            |                             |           |          |
| Personal auto insurance:    |            |                             |           |          |
| Focus States:               |            |                             |           |          |
| Urban Zones                 | \$ 184,955 | \$ 157,466                  | \$ 27,489 | 17.5%    |
| Non-Urban Zones             | 26,478     | 20,240                      | 6,238     | 30.8%    |
| Total Focus States          | 211,433    | 177,706                     | 33,727    | 19.0%    |
| Maintenance States          | 5,415      | 6,752                       | (1,337)   | (19.8)%  |
| Other States                | 798        | 1,421                       | (623)     | (43.9)%  |
| Total personal auto         | 217,646    | 185,879                     | 31,767    | 17.1%    |
| Commercial Vehicle          | 14,918     | 14,361                      | 556       | 3.9%     |
| Classic Collector           | 3,050      | 3,826                       | (776)     | (20.3)%  |
| Other                       | 0          | 32                          | (32)      | (100.0)% |
| Total gross written premium | 235,614    | 204,099                     | 31,515    | 15.4%    |
| Ceded reinsurance           | (1,378)    | (1,278)                     | (100)     | 7.8%     |
| Net written premium         | 234,236    | 202,821                     | 31,415    | 15.5%    |
| Change in unearned premium  | (8,646)    | 10,909                      | (19,555)  | (179.3)% |
| Net earned premium          | \$ 225,590 | \$ 213,729                  | \$ 11,860 | 5.5%     |

The following table shows Infinity's net earned premium for the six months ended June 30, 2010 and 2009 (\$ in thousands):

|                           | 2010       | Six months ended June 30, |           |          |
|---------------------------|------------|---------------------------|-----------|----------|
|                           |            | 2009                      | \$ Change | % Change |
| <b>Net earned premium</b> |            |                           |           |          |
| Gross written premium     |            |                           |           |          |
| Personal auto insurance:  |            |                           |           |          |
| Focus States:             |            |                           |           |          |
| Urban Zones               | \$ 385,859 | \$ 338,574                | \$ 47,285 | 14.0%    |
| Non-Urban Zones           | 57,423     | 45,105                    | 12,318    | 27.3%    |
| Total Focus States        | 443,282    | 383,679                   | 59,602    | 15.5%    |
| Maintenance States        | 11,711     | 15,016                    | (3,305)   | (22.0)%  |
| Other States              | 1,736      | 3,169                     | (1,433)   | (45.2)%  |
| Total personal auto       | 456,729    | 401,864                   | 54,865    | 13.7%    |



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|                             |            |            |          |          |
|-----------------------------|------------|------------|----------|----------|
| Commercial Vehicle          | 30,217     | 27,202     | 3,015    | 11.1%    |
| Classic Collector           | 5,114      | 8,175      | (3,061)  | (37.4)%  |
| Other                       | 0          | 112        | (112)    | (100.0)% |
| Total gross written premium | 492,060    | 437,353    | 54,707   | 12.5%    |
| Ceded reinsurance           | (2,640)    | (2,578)    | (63)     | 2.4%     |
| Net written premium         | 489,419    | 434,775    | 54,644   | 12.6%    |
| Change in unearned premium  | (51,763)   | (6,379)    | (45,384) | 711.5%   |
| Net earned premium          | \$ 437,656 | \$ 428,396 | \$ 9,260 | 2.2%     |

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

The following table shows Infinity's policies-in-force:

|                                      | 2010           | As of June 30,<br>2009 | Change        | % Change    |
|--------------------------------------|----------------|------------------------|---------------|-------------|
| <b>Policies-in-force</b>             |                |                        |               |             |
| Personal auto insurance:             |                |                        |               |             |
| Focus States:                        |                |                        |               |             |
| Urban Zones                          | 647,582        | 588,366                | 59,216        | 10.1%       |
| Non-Urban Zones                      | 82,597         | 69,032                 | 13,565        | 19.7%       |
| Total Focus States                   | 730,179        | 657,398                | 72,781        | 11.1%       |
| Maintenance States                   | 18,727         | 23,225                 | (4,498)       | (19.4)%     |
| Other States                         | 2,858          | 5,148                  | (2,290)       | (44.5)%     |
| <b>Total personal auto insurance</b> | <b>751,764</b> | <b>685,771</b>         | <b>65,993</b> | <b>9.6%</b> |
| Commercial Vehicle                   | 31,472         | 24,780                 | 6,692         | 27.0%       |
| Classic Collector                    | 34,194         | 54,265                 | (20,071)      | (37.0)%     |
| Other                                | 0              | 95                     | (95)          | (100.0)%    |
| <b>Total policies-in-force</b>       | <b>817,430</b> | <b>764,911</b>         | <b>52,519</b> | <b>6.9%</b> |

Gross written premium grew 15.4% and 12.5% during the second quarter and first six months of 2010, respectively, compared with the same periods of 2009. During the first six months of 2010, Infinity implemented 13 rate revisions in various states with an overall rate decrease of less than 1%. Policies-in-force at June 30, 2010 increased 6.9% compared with the same period in 2009. Gross written premium grew more than policies-in-force due to a shift in business mix toward policies offering broader coverage. These policies typically generate a higher premium per policy than those with more restricted coverage.

During the second quarter and first six months of 2010, personal auto insurance gross written premium in Infinity's Focus States grew 19.0% and 15.5%, respectively, when compared with the same periods of 2009, with growth in all states excluding Nevada. The increase in gross written premium is primarily a result of growth in Arizona, California, Florida and Pennsylvania.

Gross written premium in Arizona grew 23.1% during the second quarter and 43.3% for the first six months of 2010 compared with the same periods of 2009. Increased marketing efforts and rate decreases taken in the state during late 2009 contributed to the substantial growth. Although the Company intends to continue the aggressive marketing campaign in Arizona, tough economic, political and legal conditions in the state will most likely slow growth in the remainder of the year.

In California, gross written premium grew 6.0% during the second quarter and 2.2% for the first six months of 2010. Infinity believes that two program revisions that became effective in California during the second quarter will allow the company to more effectively segment its rates and stimulate further growth in the state.

In Florida, gross written premium grew 81.3% and 77.6% during the second quarter and first six months of 2010, respectively, compared with the same periods of 2009. Growth in Florida is attributable to increased marketing efforts coupled with underwriting

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restrictions recently implemented by competitors. Infinity took aggressive actions in 2008 and 2009 in advance of competitors to improve profit margins in Florida. Infinity has recently increased rates and modified certain underwriting rules in the state and expects premium growth to moderate throughout the rest of 2010.

Pennsylvania gross written premium increased by 34.7% and 27.1% during the second quarter and first six months of 2010, respectively, compared with the same periods of 2009. This increase is a result of new agency appointments and rate increases taken by competitors.

Gross written premium in the Maintenance States declined 19.8% and 22.0% during the second quarter and first six months of 2010 compared with the same periods of 2009, primarily due to declines in Connecticut. Infinity has increased rates in several of the Maintenance States over the last twelve months in an effort to improve profitability.

Infinity's Commercial Vehicle gross written premium increased 3.9% and 11.1% during the second quarter and first six months of 2010, respectively, compared with the same periods of 2009, primarily from growth in California resulting from the appointment of new agents. Premium growth has slowed recently as Infinity has tightened underwriting standards in this program.

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

While financial data is reported in accordance with GAAP for shareholder and other investment purposes, it is reported on a statutory basis for insurance regulatory purposes. Infinity evaluates underwriting profitability based on a combined ratio calculated using statutory accounting principles. The statutory combined ratio represents the sum of the following ratios: (i) losses and LAE incurred as a percentage of net earned premium and (ii) underwriting expenses incurred, net of 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 are earned; on a statutory basis these items are expensed as incurred. Costs for computer software developed or obtained for internal use are capitalized under GAAP and amortized over their useful life, rather than expensed as incurred, as required for statutory purposes. Additionally, bad debt charge-offs on agent balances and premium receivables are included only in the GAAP combined ratios.

The following table presents the statutory and GAAP combined ratios:

|   | Three months ended June 30, |                       |                   |                           |                       |                   |                           |                       |                   |
|---|-----------------------------|-----------------------|-------------------|---------------------------|-----------------------|-------------------|---------------------------|-----------------------|-------------------|
|   | 2010                        |                       |                   | 2009                      |                       |                   | % Point Change            |                       |                   |
|   | Loss<br>&<br>LAE<br>Ratio   | Underwriting<br>Ratio | Combined<br>Ratio | Loss<br>&<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio | Loss<br>&<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio |
| Personal Auto Insurance:                        |                             |                       |                   |                           |                       |                   |                           |                       |                   |
| Focus States:                                   |                             |                       |                   |                           |                       |                   |                           |                       |                   |
| Urban Zones                                     | 67.6%                       | 22.0%                 | 89.6%             | 71.9%                     | 20.4%                 | 92.3%             | (4.3)%                    | 1.6%                  | (2.8)%            |
| Non-urban Zones                                 | 74.1%                       | 23.6%                 | 97.8%             | 70.6%                     | 21.3%                 | 91.9%             | 3.5%                      | 2.3%                  | 5.8%              |
| Total Focus States                              | 68.4%                       | 22.2%                 | 90.6%             | 71.8%                     | 20.5%                 | 92.3%             | (3.3)%                    | 1.7%                  | (1.7)%            |
| Maintenance States                              | 63.6%                       | 24.1%                 | 87.8%             | 74.1%                     | 21.9%                 | 96.0%             | (10.4)%                   | 2.2%                  | (8.2)%            |
| Other States                                    | NM                          | NM                    | NM                | NM                        | NM                    | NM                | NM                        | NM                    | NM                |
| Subtotal  | 67.9%                       | 22.2%                 | 90.1%             | 71.6%                     | 20.6%                 | 92.3%             | (3.7)%                    | 1.6%                  | (2.2)%            |
| Commercial Vehicle                              | 83.3%                       | 19.3%                 | 102.6%            | 62.0%                     | 21.0%                 | 83.1%             | 21.3%                     | (1.7)%                | 19.6%             |
| Classic Collector                               | 46.3%                       | 36.2%                 | 82.6%             | 47.6%                     | 37.8%                 | 85.4%             | (1.3)%                    | (1.5)%                | (2.8)%            |
| Other   | NM                          | NM                    | NM                | NM                        | NM                    | NM                | NM                        | NM                    | NM                |
| Total statutory ratios                          | 67.9%                       | 22.5%                 | 90.4%             | 70.6%                     | 20.6%                 | 91.2%             | (2.7)%                    | 1.9%                  | (0.7)%            |
| Total statutory ratios<br>excluding development | 76.9%                       | 22.5%                 | 99.4%             | 75.4%                     | 20.6%                 | 96.0%             | 1.5%                      | 1.9%                  | 3.4%              |
| GAAP ratios                                     | 67.9%                       | 23.9%                 | 91.8%             | 70.6%                     | 21.3%                 | 91.9%             | (2.7)%                    | 2.6%                  | (0.1)%            |

NM: not meaningful due to the low premium for these lines.

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|   | Six months ended June 30, |                       |                   |                        |                       |                   |                        |                       |                   |
|---|---------------------------|-----------------------|-------------------|------------------------|-----------------------|-------------------|------------------------|-----------------------|-------------------|
|   | 2010                      |                       |                   | 2009                   |                       |                   | % Point Change         |                       |                   |
|   | Loss &<br>LAE<br>Ratio    | Underwriting<br>Ratio | Combined<br>Ratio | Loss &<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio | Loss &<br>LAE<br>Ratio | Underwriting<br>Ratio | Combined<br>Ratio |
| Personal Auto Insurance:                        |                           |                       |                   |                        |                       |                   |                        |                       |                   |
| Focus States:                                   |                           |                       |                   |                        |                       |                   |                        |                       |                   |
| Urban Zones                                     | 68.3%                     | 21.2%                 | 89.5%             | 71.9%                  | 19.9%                 | 91.8%             | (3.6)%                 | 1.3%                  | (2.4)%            |
| Non-urban Zones                                 | 75.2%                     | 21.6%                 | 96.8%             | 70.2%                  | 20.7%                 | 90.9%             | 5.1%                   | 0.8%                  | 5.9%              |
| Total Focus States                              | 69.1%                     | 21.2%                 | 90.4%             | 71.7%                  | 20.0%                 | 91.7%             | (2.5)%                 | 1.2%                  | (1.3)%            |
| Maintenance States                              | 62.3%                     | 25.0%                 | 87.4%             | 75.9%                  | 23.6%                 | 99.5%             | (13.5)%                | 1.4%                  | (12.1)%           |
| Other States                                    | NM                        | NM                    | NM                | NM                     | NM                    | NM                | NM                     | NM                    | NM                |
| Subtotal  | 68.6%                     | 21.4%                 | 89.9%             | 71.8%                  | 20.3%                 | 92.0%             | (3.2)%                 | 1.1%                  | (2.1)%            |
| Commercial Vehicle                              | 79.7%                     | 19.6%                 | 99.3%             | 64.6%                  | 21.5%                 | 86.1%             | 15.1%                  | (1.9)%                | 13.2%             |
| Classic Collector                               | 39.5%                     | 39.9%                 | 79.4%             | 38.0%                  | 40.0%                 | 78.0%             | 1.5%                   | (0.1)%                | 1.4%              |
| Other   | NM                        | NM                    | NM                | NM                     | NM                    | NM                | NM                     | NM                    | NM                |
| Total statutory ratios                          | 68.5%                     | 21.6%                 | 90.1%             | 70.5%                  | 20.6%                 | 91.1%             | (2.0)%                 | 1.0%                  | (1.0)%            |
| Total statutory ratios<br>excluding development | 77.0%                     | 21.6%                 | 98.6%             | 75.2%                  | 20.6%                 | 95.8%             | 1.8%                   | 1.0%                  | 2.8%              |
| GAAP ratios                                     | 68.5%                     | 23.3%                 | 91.8%             | 70.5%                  | 21.6%                 | 92.1%             | (2.0)%                 | 1.7%                  | (0.3)%            |

NM: not meaningful due to the low premium for these lines.

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

The second quarter and first six months of 2010 benefited from \$20.3 million and \$37.0 million, respectively, of favorable development on loss and LAE reserves compared to \$10.4 million and \$20.2 million of favorable development for the same periods of 2009. Favorable development during 2010 is primarily driven by bodily injury and collision coverages in the states of California, Connecticut, Florida, Georgia and Arizona and is related to accident years 2009, 2008 and 2007. The Company believes that the favorable development recognized in 2010 has occurred as lower paid development patterns continue to emerge as a result of an increase in the claims settlement tempo over the last several years. Losses from catastrophes were \$0.3 million and \$0.5 million for the three and six months ended June 30, 2010, respectively, compared to \$0.2 million for each of the same periods of 2009.

The statutory combined ratio for the second quarter and first six months of 2010 decreased 0.7 and 1.0 points, respectively, compared with the same periods of 2009. Excluding the effect of favorable development on all periods, the statutory combined ratio increased by 3.4 and 2.8 points for the second quarter and first six months of 2010 when compared with the same periods of 2009. The GAAP combined ratio for the second quarter and first six months of 2010 decreased by 0.1 and 0.3 points, respectively. Excluding the effect of favorable development and one-time expense adjustments, the GAAP combined ratios for the second quarter and first six months of 2010 were 100.4% and 99.8%, respectively, compared to 96.7% and 96.8% for the same periods of 2009. Infinity expects the GAAP combined ratio, excluding redundancy releases, to be

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between 98.5% and 99.5% for the year as seasonality from the first half of the year moderates and tightened underwriting standards take effect.

The combined ratio in the Focus States declined 1.7 and 1.3 points in the second quarter and first six months of 2010, respectively. These declines are a result of a 4.3 and 3.6 point decline in the Urban Zone loss and LAE ratio, primarily in the California and Nevada loss ratios. Partially offsetting these declines were a 3.5 and 5.1 point increase in the loss and LAE ratio in the Non-urban Zones, primarily due to an increase in Florida. Florida's combined ratio rose as a result of growth in new business in late 2009 and into 2010. Infinity has taken actions, including raising rates and modifying certain underwriting standards, to improve the underperforming segments of the Florida business.

The loss and LAE ratio in the Maintenance States declined 10.4 and 13.5 points in the second quarter and first six months of 2010, respectively, as a result of a decline in the loss ratio in Connecticut.

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The loss and LAE ratio for the Commercial Vehicle business increased by 21.3 and 15.1 points during the second quarter and first six months of 2010 when compared with the same periods in 2009, primarily as a result of an increase in the loss ratio in California and Florida due to a shift toward new business, which typically has a higher loss ratio than renewal business. In addition, Infinity incurred several large losses in these states during the year. The Company is tightening underwriting standards in an effort to improve underperforming business.

**Net Investment Income**

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

|  | Three months ended<br>June 30, |              | Six months ended<br>June 30, |              |
|--|--------------------------------|--------------|------------------------------|--------------|
|  | 2010                           | 2009         | 2010                         | 2009         |
| Investment income:   |                                |              |                              |              |
| Interest income on fixed maturities, cash and cash equivalents       | \$ 11,889                      | \$ 12,538    | \$ 23,536                    | \$ 26,407    |
| Dividends on equity securities                                       | 188                            | 156          | 353                          | 350          |
| Gross investment income  | \$ 12,077                      | \$ 12,694    | \$ 23,889                    | \$ 26,758    |
| Investment expenses  | (494)                          | (541)        | (1,011)                      | (961)        |
| Net investment income  | \$ 11,583                      | \$ 12,152    | \$ 22,878                    | \$ 25,797    |
| Average investment balance, at cost                                  | \$ 1,234,643                   | \$ 1,212,301 | \$ 1,240,915                 | \$ 1,200,795 |
| Net investment income as a percentage of average investment balances | 0.9%                           | 1.0%         | 1.8%                         | 2.1%         |

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Net investment income for the three and six months ended June 30, 2010 declined compared to the same periods in 2009 primarily due to a decline in book yields as a result of a general decline in market interest rates for high quality bonds. Infinity expects market rates to remain low throughout 2010, which will continue to depress investment income.

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

|                  | Three months ended June 30, 2010            |                            |                         | Three months ended June 30, 2009            |                            |                         |
|------------------|---|----------------------------|-------------------------|---|----------------------------|-------------------------|
|                  | Impairments<br>recognized<br>in<br>earnings | Realized gains<br>on sales | Total realized<br>gains | Impairments<br>recognized<br>in<br>earnings | Realized gains<br>on sales | Total realized<br>gains |
| Fixed maturities | \$ (263)                                    | \$ 311                     | \$ 48                   | \$ (829)                                    | \$ 999                     | \$ 170                  |
| Equities         | (4)   | 0                          | (4)                     | 0   | 0                          | 0                       |
| Total            | \$ (267)                                    | \$ 311                     | \$ 44                   | \$ (829)                                    | \$ 999                     | \$ 170                  |

Six months ended June 30, 2010

Six months ended June 30, 2009



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|                  | Impairments<br>recognized<br>in<br>earnings | Realized<br>gains<br>on sales | Total<br>realized<br>losses | Impairments<br>recognized<br>in<br>earnings | Realized<br>gains<br>on sales | Total<br>realized<br>losses |
|------------------|---|-------------------------------|-----------------------------|---|-------------------------------|-----------------------------|
| Fixed maturities | \$ (1,796)                                  | \$ 1,389                      | \$ (407)                    | \$ (8,345)                                  | \$ 2,388                      | \$ (5,957)                  |
| Equities         | (4)   | 0                             | (4)                         | 0   | 0                             | 0                           |
| <b>Total</b>     | <b>\$ (1,800)</b>                           | <b>\$ 1,389</b>               | <b>\$ (411)</b>             | <b>\$ (8,345)</b>                           | <b>\$ 2,388</b>               | <b>\$ (5,957)</b>           |

For Infinity's securities held with unrealized losses, management believes that, based on its analysis (i) Infinity will recover its cost basis in these securities and (ii) that Infinity does not intend to sell the securities nor is it more likely than not that there will be a

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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 accurately predict if or when a specific security will become impaired, charges for other-than-temporary impairments could be material to results of operations in a future period.

***Interest Expense***

The Senior Notes accrue interest at an effective yield of 5.55% (Refer to Note 6 of the Consolidated Financial Statements for additional information on the Senior Notes). Interest expense on the Senior Notes recognized in the Consolidated Statements of Earnings for each of the three and six months ended June 30, 2010 was \$2.7 million and \$5.4 million, respectively, compared to \$2.8 million and \$5.5 million, respectively, for the same periods of 2009.

***Corporate General and Administrative Expense***

Corporate general and administrative expense was \$2.2 million and \$4.1 million, respectively, for the three and six months ended June 30, 2010, compared to \$1.9 million and \$3.6 million for the same periods of 2009. This increase was primarily due to an increase in the accrual of expense for the Performance Share Plan. Due to recent premium growth, a higher share award is indicated than was previously projected. See Note 2 of the Consolidated Financial Statements for additional information on the Performance Share Plan.

***Other Expense***

Other expense for the three months ended June 30, 2010 was \$1.8 million compared to \$0.8 million for the corresponding period of 2009. Other expense for the six months ended June 30, 2010 was \$2.6 million compared to \$1.4 million for the same period of 2009. The increase is primarily due to \$1.4 million and \$1.9 million, respectively, in sublease losses incurred during the second quarter and first six months 2010.

***Income Taxes***

The Company's GAAP effective tax rate for the three and six months ended June 30, 2010 was 30.5% and 31.0%, respectively, compared to 30.4% and 35.6% for the same periods of 2009. See Note 7 of the Consolidated Financial Statements for additional information.

**LIQUIDITY AND CAPITAL RESOURCES**

***Sources and Uses of Funds***

Infinity is organized as a holding company with all of its operations being conducted by its insurance subsidiaries. Accordingly, Infinity will have continuing cash needs for administrative expenses, the payment of interest on borrowings, shareholder dividends, share repurchases and taxes. Administrative expenses at the holding company currently average approximately \$8.2 million annually.

At June 30, 2010, Infinity had outstanding \$195 million principal of Senior Notes due 2014, bearing a fixed 5.5% interest rate. Interest payments on the Senior Notes of \$5.4 million are due each February and August through maturity in February 2014. (Refer to Note 6 of the Consolidated Financial Statements for more information on the Senior Notes).

In February 2010, Infinity increased its quarterly dividend to \$0.14 per share from \$0.12 per share. At this current amount, Infinity's 2010 annualized dividend payments would be approximately \$7.4 million.

In October 2006, the Board of Directors approved a share repurchase program whereby the Company may repurchase up to an aggregate amount of \$100 million of its outstanding common shares. On August 6, 2009, the Board of Directors increased the authority by \$28.8 million to \$50.0 million as of that date (for an aggregate of \$203.1 million since inception) and modified the authority to include the repurchase of Infinity's debt. During the first quarter of 2010, Infinity repurchased 251,900 shares at an average cost, excluding commissions, of \$41.30. During the second quarter of 2010, Infinity repurchased 435,100 shares at an average cost, excluding commissions, of \$46.67. Following the end of the second

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quarter, Infinity exhausted the \$9.5 million of remaining authority on the share and debt repurchase program as of June 30, 2010, purchasing 197,900 shares at an average price, excluding commissions, of \$47.91. On August 3, 2010, Infinity's Board of Directors increased the authority under the 2006 repurchase program by \$50.0 million and extended the date to execute this program to December 31, 2011.

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Funds to meet expenditures at the holding company come primarily from dividends and tax payments from the insurance subsidiaries as well as cash and investments held by the holding company. As of June 30, 2010, Infinity had \$199.8 million of cash and investments. In 2010, Infinity's insurance subsidiaries may pay to Infinity up to \$107.0 million in ordinary dividends without prior regulatory approval. For the six months ended June 30, 2010, \$50.0 million of dividends were paid to Infinity by its insurance subsidiaries.

In August 2008, Infinity entered into an agreement for a \$50 million three-year revolving credit facility (the Credit Agreement) that requires Infinity to meet certain financial and other covenants. Infinity is currently in compliance with all covenants under the Credit Agreement. At June 30, 2010, there were no borrowings outstanding under the Credit Agreement.

Infinity's insurance subsidiaries generate liquidity to satisfy their obligations primarily by collecting and investing premium in advance of paying claims and investment income on its \$1.1 billion investment portfolio. Infinity's insurance subsidiaries' cash flow from operations was approximately \$24.6 million and \$46.3 million for the three and six-month periods ended June 30, 2010, respectively, and approximately \$3.6 million and \$48.5 million for the three and six-month periods ended June 30, 2009, respectively.

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

***Reinsurance***

Infinity uses excess of loss, catastrophe and extra-contractual loss reinsurance to mitigate the financial impact of large or catastrophic losses. During 2010, the catastrophe reinsurance provides protection for losses up to \$15 million in excess of \$5 million for any single event. Infinity's excess of loss reinsurance provides reinsurance protection for commercial auto losses up to \$700,000 for claims in excess of \$300,000 per occurrence. Infinity's extra-contractual loss reinsurance provides for protection for losses up to \$15 million in excess of \$5 million for any single extra-contractual loss. Infinity also uses reinsurance to mitigate losses on its Classic Collector business.

Premiums ceded under all reinsurance agreements for the three months ended June 30, 2010 and 2009 were \$1.4 million and \$1.3 million, respectively. Premiums ceded under these agreements for the six months ended June 30, 2010 and 2009 were \$2.6 million and \$2.6 million, respectively.

***Investments***

Infinity's consolidated investment portfolio at June 30, 2010 contained approximately \$1.2 billion in fixed maturity securities and \$36.8 million in equity securities, all carried at fair value with unrealized gains and losses reported as a separate component of shareholders' equity on an after-tax basis. At June 30, 2010, Infinity had pre-tax net unrealized gains of \$40.3 million on fixed maturities and pre-tax net unrealized gains of \$5.4 million on equity securities. Combined, the pre-tax net unrealized gain increased by \$16.7 million for the six months ended June 30, 2010.

Approximately 94.6% of Infinity's fixed maturity investments at June 30, 2010 were rated investment grade, and as of the same date, the average credit rating of Infinity's fixed maturity portfolio was AA. Investment grade securities generally bear lower yields and have lower degrees of risk than those that are unrated or non-investment grade. Management believes that a high quality investment portfolio is more likely to generate a stable and predictable investment return.

Since all of these securities are carried at fair value in the balance sheet, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses. The average option adjusted duration of Infinity's fixed maturity portfolio is 3.2 years at June 30, 2010.

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

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significant inputs are unobservable in the marketplace (Level 3).

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

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Summarized information for Infinity's investment portfolio at June 30, 2010 is as follows (in thousands):

| <u>(in thousands)</u>                        | Amortized<br>Cost | Fair<br>Value | % of<br>Total Fair<br>Value |
|--|-------------------|---------------|-----------------------------|
| U.S. government and agencies:                |                   |               |                             |
| U.S. government                              | \$ 199,948        | \$ 206,429    | 16.8%                       |
| Government-sponsored entities                | 44,186            | 45,548        | 3.7%                        |
| Total U.S. government and agencies           | 244,134           | 251,976       | 20.5%                       |
| State and municipal                          | 350,041           | 361,808       | 29.5%                       |
| Mortgage-backed, CMOs and asset-backed:      |                   |               |                             |
| Residential mortgage-backed securities       | 166,800           | 174,292       | 14.2%                       |
| Commercial mortgage-backed securities        | 35,217            | 36,332        | 3.0%                        |
| Collateralized mortgage obligations:         |                   |               |                             |
| PAC  | 27,224            | 27,873        | 2.3%                        |
| Sequentials                                  | 19,742            | 20,213        | 1.6%                        |
| Junior                                       | 714               | 595           | 0.0%                        |
| Accretion directed                           | 1,153             | 1,108         | 0.1%                        |
| Whole loan                                   | 6,447             | 6,503         | 0.5%                        |
| Total CMO                                    | 55,281            | 56,292        | 4.6%                        |
| Asset-backed securities:                     |                   |               |                             |
| Auto loans                                   | 4,446             | 4,517         | 0.4%                        |
| Home equity                                  | 996               | 959           | 0.1%                        |
| Credit card receivables                      | 21,356            | 21,492        | 1.8%                        |
| Total ABS                                    | 26,797            | 26,968        | 2.2%                        |
| Total mortgage-backed, CMOs and asset-backed | 284,096           | 293,884       | 24.0%                       |
| Corporates                                   |                   |               |                             |
| Investment grade                             | 209,558           | 218,516       | 17.8%                       |
| Non-investment grade                         | 62,078            | 63,989        | 5.2%                        |
| Total corporates                             | 271,635           | 282,504       | 23.0%                       |
| Total fixed maturities                       | 1,149,907         | 1,190,173     | 97.0%                       |
| Equity securities                            | 31,327            | 36,773        | 3.0%                        |
| Total investment portfolio                   | \$ 1,181,233      | \$ 1,226,946  | 100.0%                      |

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The following table presents the credit rating and fair value (in thousands) of Infinity's fixed maturity portfolio by major security type:

|                                       | Rating            |                   |                   |                  |                  | Non-Investment Grade | Fair Value          | % of Total Exposure |
|---------------------------------------|-------------------|-------------------|-------------------|------------------|------------------|----------------------|---------------------|---------------------|
|                                       | AAA               | AA                | A                 | BBB              |                  |                      |                     |                     |
| U.S. government and agencies          | \$ 251,976        | \$ 0              | \$ 0              | \$ 0             | \$ 0             | \$ 0                 | \$ 251,976          | 21.2%               |
| State and municipal                   | 47,105            | 226,787           | 85,552            | 2,364            | 0                | 0                    | 361,808             | 30.4%               |
| Mortgage-backed, CMO and asset-backed | 287,136           | 6,749             | 0                 | 0                | 0                | 0                    | 293,884             | 24.7%               |
| Corporates                            | 15,555            | 11,980            | 147,412           | 43,568           | 63,989           | 0                    | 282,504             | 23.7%               |
| <b>Total Fair Value</b>               | <b>\$ 601,772</b> | <b>\$ 245,516</b> | <b>\$ 232,964</b> | <b>\$ 45,932</b> | <b>\$ 63,989</b> | <b>\$ 0</b>          | <b>\$ 1,190,173</b> | <b>100.0%</b>       |
| % of Total Fair Value                 | 50.6%             | 20.6%             | 19.6%             | 3.9%             | 5.4%             | 0.0%                 | 100.0%              |                     |

Other than securities backed by the U.S. government or issued by government-sponsored enterprises, Infinity's fixed income portfolio contains no securities issued by any single issuer that exceed 1% of the fair value of the fixed income portfolio.

Since 2007, the mortgage industry has experienced a rise in mortgage delinquencies and foreclosures, particularly among lower quality exposures ( sub-prime and Alt-A ). As a result, many securities with underlying sub-prime and Alt-A mortgages as collateral experienced significant drops in market value. Infinity has only modest exposure to these types of investments. At June 30, 2010, Infinity's fixed maturity portfolio included 6 securities, or less than 1% of the total fair value of the fixed maturity portfolio, with exposure to sub-prime and Alt-A mortgages. Although these securities have sub-prime mortgages as underlying collateral, all are rated AA or better.

The following table presents the credit rating and fair value of Infinity's MBS and CMO portfolio at June 30, 2010, excluding Government-sponsored Enterprises ( GSE ), by deal origination year (in thousands):

| Deal Origination Year   | Rating           |                 |             |             |             | Non-Investment Grade | Fair Value       | % of Total Exposure |
|-------------------------|------------------|-----------------|-------------|-------------|-------------|----------------------|------------------|---------------------|
|                         | AAA              | AA              | A           | BBB         |             |                      |                  |                     |
| 1999                    | \$ 0             | \$ 595          | \$ 0        | \$ 0        | \$ 0        | \$ 0                 | \$ 595           | 0.9%                |
| 2001                    | 1,379            | 0               | 0           | 0           | 0           | 0                    | 1,379            | 2.2%                |
| 2002                    | 5,466            | 0               | 0           | 0           | 0           | 0                    | 5,466            | 8.5%                |
| 2003                    | 4,628            | 0               | 0           | 0           | 0           | 0                    | 4,628            | 7.2%                |
| 2004                    | 12,272           | 3,477           | 0           | 0           | 0           | 0                    | 15,750           | 24.6%               |
| 2005                    | 9,769            | 2,600           | 0           | 0           | 0           | 0                    | 12,368           | 19.3%               |
| 2006                    | 16,434           | 0               | 0           | 0           | 0           | 0                    | 16,434           | 25.7%               |
| 2010                    | 7,384            | 0               | 0           | 0           | 0           | 0                    | 7,384            | 11.5%               |
| <b>Total Fair Value</b> | <b>\$ 57,332</b> | <b>\$ 6,672</b> | <b>\$ 0</b> | <b>\$ 0</b> | <b>\$ 0</b> | <b>\$ 0</b>          | <b>\$ 64,004</b> | <b>100.0%</b>       |
| % of Total Fair Value   | 89.6%            | 10.4%           | 0.0%        | 0.0%        | 0.0%        | 0.0%                 | 100.0%           |                     |





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The following table presents the credit rating and fair value of Infinity's GSE MBS and CMO portfolio at June 30, 2010 by deal origination year (in thousands):

| Deal Origination Year | Rating     |      |      |      | Non-Investment Grade | Fair Value | % of Total Exposure |
|-----------------------|------------|------|------|------|----------------------|------------|---------------------|
|                       | AAA        | AA   | A    | BBB  |                      |            |                     |
| 2002                  | \$ 5,677   | \$ 0 | \$ 0 | \$ 0 | \$ 0                 | \$ 5,677   | 2.8%                |
| 2003                  | 9,543      | 0    | 0    | 0    | 0                    | 9,543      | 4.7%                |
| 2004                  | 5,874      | 0    | 0    | 0    | 0                    | 5,874      | 2.9%                |
| 2007                  | 1,195      | 0    | 0    | 0    | 0                    | 1,195      | 0.6%                |
| 2008                  | 81,077     | 0    | 0    | 0    | 0                    | 81,077     | 40.0%               |
| 2009                  | 84,125     | 0    | 0    | 0    | 0                    | 84,125     | 41.5%               |
| 2010                  | 15,419     | 0    | 0    | 0    | 0                    | 15,419     | 7.6%                |
| Total Fair Value      | \$ 202,912 | \$ 0 | \$ 0 | \$ 0 | \$ 0                 | \$ 202,912 | 100.0%              |
| % of Total Fair Value | 100.0%     | 0.0% | 0.0% | 0.0% | 0.0%                 | 100.0%     |                     |

The following table presents the credit rating and fair value of Infinity's ABS portfolio at June 30, 2010 by deal origination year (in thousands):

| Deal Origination Year | Rating    |       |      |      | Non-Investment Grade | Fair Value | % of Total Exposure |
|-----------------------|-----------|-------|------|------|----------------------|------------|---------------------|
|                       | AAA       | AA    | A    | BBB  |                      |            |                     |
| 2001                  | \$ 70     | \$ 0  | \$ 0 | \$ 0 | \$ 0                 | \$ 70      | 0.3%                |
| 2003                  | 5,862     | 0     | 0    | 0    | 0                    | 5,862      | 21.7%               |
| 2004                  | 0         | 77    | 0    | 0    | 0                    | 77         | 0.3%                |
| 2006                  | 744       | 0     | 0    | 0    | 0                    | 744        | 2.8%                |
| 2007                  | 3,910     | 0     | 0    | 0    | 0                    | 3,910      | 14.5%               |
| 2008                  | 5,437     | 0     | 0    | 0    | 0                    | 5,437      | 20.2%               |
| 2009                  | 8,337     | 0     | 0    | 0    | 0                    | 8,337      | 30.9%               |
| 2010                  | 2,531     | 0     | 0    | 0    | 0                    | 2,531      | 9.4%                |
| Total Fair Value      | \$ 26,891 | \$ 77 | \$ 0 | \$ 0 | \$ 0                 | \$ 26,968  | 100.0%              |
| % of Total Fair Value | 99.7%     | 0.3%  | 0.0% | 0.0% | 0.0%                 | 100.0%     |                     |

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

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

Infinity's investment portfolio consists of \$361.8 million of municipal bonds, of which \$151.9 million are insured. Of the insured bonds, 45.6% are insured with MBIA, 31.1% with Assured Guaranty, 23.0% with AMBAC and 0.4% are insured with XL Capital. The following table presents the underlying ratings, represented by the lower of Standard and Poor's, Moody's or Fitch's ratings, of the municipal bond portfolio (in thousands) at June 30, 2010:

|                 | Insured           |                 | Uninsured         |                 | Total             |                 |
|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
|                 | Fair Value        | % of Fair Value | Fair Value        | % of Fair Value | Fair Value        | % of Fair Value |
| AAA             | \$ 5,482          | 3.6%            | \$ 41,623         | 19.8%           | \$ 47,105         | 13.0%           |
| AA+, AA, AA-    | 87,416            | 57.6%           | 139,371           | 66.4%           | 226,787           | 62.7%           |
| A+, A, A-       | 56,624            | 37.3%           | 28,928            | 13.8%           | 85,552            | 23.6%           |
| BBB+, BBB, BBB- | 2,364             | 1.6%            | 0                 | 0.0%            | 2,364             | 0.7%            |
| <b>Total</b>    | <b>\$ 151,887</b> | <b>100.0%</b>   | <b>\$ 209,921</b> | <b>100.0%</b>   | <b>\$ 361,808</b> | <b>100.0%</b>   |

The following table presents the credit rating and fair value of Infinity's municipal bond portfolio, by state, at June 30, 2010 (in thousands):

| State                        | Rating           |                   |                  |                 | Non-Investment Grade | Fair Value        | % of Total Exposure |
|------------------------------|------------------|-------------------|------------------|-----------------|----------------------|-------------------|---------------------|
|                              | AAA              | AA                | A                | BBB             |                      |                   |                     |
| TX                           | \$ 14,493        | \$ 15,446         | \$ 4,636         | \$ 0            | \$ 0                 | \$ 34,575         | 9.6%                |
| GA                           | 9,635            | 8,546             | 11,183           | 0               | 0                    | 29,363            | 8.1%                |
| NY                           | 0                | 25,435            | 0                | 0               | 0                    | 25,435            | 7.0%                |
| FL                           | 0                | 13,741            | 10,156           | 0               | 0                    | 23,898            | 6.6%                |
| WA                           | 1,486            | 16,257            | 0                | 0               | 0                    | 17,743            | 4.9%                |
| PA                           | 0                | 9,082             | 8,321            | 0               | 0                    | 17,403            | 4.8%                |
| MI                           | 397              | 5,943             | 8,577            | 0               | 0                    | 14,916            | 4.1%                |
| CO                           | 1,761            | 8,746             | 4,109            | 0               | 0                    | 14,616            | 4.0%                |
| IN                           | 0                | 13,141            | 0                | 0               | 0                    | 13,141            | 3.6%                |
| MO                           | 4,844            | 3,454             | 1,398            | 2,364           | 0                    | 12,059            | 3.3%                |
| All other states             | 14,490           | 106,996           | 37,173           | 0               | 0                    | 158,659           | 43.9%               |
| <b>Total Fair Value</b>      | <b>\$ 47,105</b> | <b>\$ 226,787</b> | <b>\$ 85,552</b> | <b>\$ 2,364</b> | <b>\$ 0</b>          | <b>\$ 361,808</b> | <b>100.0%</b>       |
| <b>% of Total Fair Value</b> | <b>13.0%</b>     | <b>62.7%</b>      | <b>23.6%</b>     | <b>0.7%</b>     | <b>0.0%</b>          | <b>100.0%</b>     |                     |



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

**ITEM 3**

**Quantitative and Qualitative Disclosures About Market Risk**

As of June 30, 2010, there were no material changes to the information provided in Infinity's Form 10-K for the year ended December 31, 2009 under the caption "Exposure to Market Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

**ITEM 4**

**Controls and Procedures**

Infinity's chief executive officer and chief financial officer, with assistance from management, evaluated Infinity's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15) as of June 30, 2010. Based on that evaluation, they concluded that the controls and procedures are effective. There has been no change in Infinity's internal controls during the first six months of 2010 that has materially affected, or is reasonably likely to materially affect, Infinity's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)).

**PART II**

**OTHER INFORMATION**

**ITEM 1**

**Legal Proceedings**

The Company has not become a party to any material legal proceedings nor have there been any material developments in the Company's legal proceedings disclosed in the Company's Form 10-K for the year ended December 31, 2009. For a description of the Company's previously reported legal proceedings, refer to Part I, Item 3, Legal Proceedings, in the form 10-K for the year ended December 31, 2009.

**ITEM 1A**

**Risk Factors**

There have been no material changes in the Company's risk factors as disclosed in the Company's Form 10-K for the year ended December 31, 2009. For a description of the Company's previously reported risk factors, refer to Part I, Item 1A, Risk Factors, in the Form 10-K for the year ended December 31, 2009.

**Table of Contents****INFINITY PROPERTY AND CASUALTY CORPORATION 10-Q****ITEM 2****Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

| <b>Period</b> |                | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share (a)</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)</b> | <b>Maximum Number (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs</b> |
|---------------|----------------|---|---|---|---|
| April 1, 2010 | April 30, 2010 | 48,600                                  | \$ 46.43                                | 48,600  | \$ 27,550,979   |
| May 1, 2010   | May 31, 2010   | 142,200                                 | \$ 46.22                                | 142,200   | 20,974,608  |
| June 1, 2010  | June 30, 2010  | 244,300                                 | \$ 46.98                                | 244,300   | 9,490,712   |
| Total         |                | 435,100                                 | \$ 46.67                                | 435,100   | \$ 9,490,712  |

(a) Average price paid per share excludes commissions.

(b) In October 2006, the Company announced that the Board of Directors approved a share repurchase program whereby the Company may repurchase up to an aggregate of \$100 million of its outstanding shares. Effective August 6, 2009, Infinity's Board of Directors increased this authority by \$28.8 million to \$50.0 million as of that date and modified the authority to include the repurchase of Infinity's debt. In addition to \$25.0 million in shares repurchased during 2009, Infinity repurchased approximately \$5.0 million of debt. Following the end of the second quarter, Infinity exhausted the \$9.5 million of remaining authority on the share and debt repurchase program as of June 30, 2010, purchasing 197,900 shares at an average price, excluding commissions, of \$47.91. On August 3, 2010, Infinity's Board of Directors increased the authority under the 2006 repurchase program by \$50.0 million and extended the date to execute this program to December 31, 2011.

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

**ITEM 6**

**Exhibits**

- Exhibit 10 - Amended and Restated Employee Stock Purchase Plan.
- Exhibit 31.1 - Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 - Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
- Exhibit 32 - Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 101 - XBRL Instance Document

**Sign ature**

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

Infinity Property and Casualty Corporation

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

August 6, 2010

(principal financial and accounting officer)