INFINITY PROPERTY & CASUALTY CORP
Form 10-K
February 27, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

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 number 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION
(Exact name of registrant as specified in its charter)

OHIO (State or other jurisdiction of incorporation or organization)	03-0483872 (I.R.S. Employer Identification No.)
3700 COLONNADE PARKWAY SUITE 600 BIRMINGHAM, ALABAMA (Address of principal executive offices)	35243 (Zip Code)

(205) 870-4000
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	Name of each exchange on which registered:
Common Stock, no par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
(Title of class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes ¨ No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes ý No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý 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). ý Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
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	ý
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes ý No
As of June 30, 2013, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was $661,402,558 based on the last sale price of Common Stock on that date as reported by The NASDAQ Global Select Market.
As of February 14, 2014, there were 11,502,845 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's proxy statement for the annual meeting of shareholders to be held on May 20, 2014, are incorporated by reference in Part III hereof.

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain “forward-looking statements” which 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,” “anticipates,” “estimates” or the negative version of those words and similar statements of a future or forward-looking nature identify forward-looking statements. Examples of such forward-looking statements include statements relating to expectations concerning market conditions, premium growth, earnings, investment performance, expected losses, rate changes and loss experience.

The primary events or circumstances that could cause actual results to differ materially from what we expect include determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio (including other-than-temporary impairments for credit losses), loss cost trends, undesired business mix or risk profile for new business and competitive conditions in our key Focus States. We undertake no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see “Risk Factors” contained in Item 1A.

PART I

ITEM 1

Business

Introduction

We are a holding company that, through subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance. Our headquarters is located in Birmingham, Alabama. We employed approximately 2,400 persons at December 31, 2013.

We file our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports as required with the United States Securities and Exchange Commission (“SEC”). Any of these documents may be read and copied at the SEC’s Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information regarding the operation of the SEC Public Reference Room may be obtained by calling 1-800-SEC-0330. Our filed documents may also be accessed via the SEC Internet site at http://www.sec.gov. All of our SEC filings, news releases and other information may also be accessed free of charge on our website at http://www.infinityauto.com. Information on our website is not part of this Form 10-K.

Please see Note 1 to the Consolidated Financial Statements for additional information regarding our history and organization. References to "we" or "us", unless the context requires otherwise, include the combined operations of our subsidiaries. Unless indicated otherwise, the financial information we present in this report is on a GAAP basis. Schedules may not foot due to rounding.

The Personal Automobile Market

Personal auto insurance is the largest line of property and casualty insurance, accounting for approximately 37%, or $175 billion, of the estimated $480 billion of annual industry premium. Personal auto insurance is comprised of preferred, standard and nonstandard risks. Nonstandard auto insurance is intended for drivers who, due to factors such as their driving record, age or vehicle type, represent a higher than normal risk. As a result, customers who purchase nonstandard auto insurance generally pay a higher premium for similar coverage than the drivers qualifying for standard or preferred policies. While there is no established industry-recognized distinction between nonstandard risks and all other personal auto risks, we believe that nonstandard auto risks constitute approximately 20% of the personal automobile insurance market, with this percentage fluctuating according to competitive conditions in the market. Independent agents sell approximately 27% of all personal automobile insurance. The remainder is sold by captive agents or directly by insurance companies to their customers. We believe that, relative to the standard and preferred auto insurance market, independent agents sell a disproportionately larger portion of nonstandard auto insurance.

The personal auto insurance industry is cyclical, characterized by periods of price competition and excess capacity followed by periods of higher premium rates and shortages of underwriting capacity. We believe that the current competitive environment differs by state.

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Industry-wide, rates increased 3.4% during 2011, 4.7% in 2012 and 3.3% in 2013. Our filed average rate adjustments on our personal auto business were 2.2%, 8.3% and 6.7% for 2011, 2012 and 2013, respectively.

The personal auto insurance industry is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. We generally compete with other insurers based on price, coverage offered, claims handling, customer service, agent commission, geographic coverage and financial strength ratings. We compete with both large national writers and smaller regional companies. In 2012, the five largest automobile insurance companies accounted for approximately 53% of the industry's net written premium and the largest ten accounted for approximately 70% (2013 industry data is not yet available). Approximately 334 insurance groups and unaffiliated insurance companies compete in the personal auto insurance industry according to SNL Financial, an industry news source. Some of these groups specialize in nonstandard auto insurance while others insure a broad spectrum of personal auto insurance risks.

Our Strategy

We offer personal automobile insurance in seven "Focus States": Arizona, California, Florida, Georgia, Nevada, Pennsylvania and Texas. Our target customers are urban and Hispanic drivers. This narrow geographic and demographic focus allows us to concentrate our efforts and resources on providing competitively priced products to underserved segments while generating adequate returns for our shareholders.

Operations

We are organized along functional responsibilities with the following centralized departments: product management, marketing, claims, customer service, accounting, treasury, human resources and information technology resources. Frequent executive team meetings, which include the Chief Executive Officer, the Chief Financial Officer, the Chief Legal Officer, the Chief Marketing Officer, the Chief Product Management Officer and the Chief Claims Officer, allow for sharing of information among functional departments and for setting policies and making key strategic decisions.

We estimate that approximately 78% of our personal auto business in 2013 was nonstandard auto insurance. Based on data published by A.M. Best, we believe that we are the second largest provider of nonstandard auto coverage through independent agents in the United States. We also write standard and preferred personal auto insurance, mono-line commercial auto insurance and classic collector automobile insurance.

Presented below is our summarized historical financial data (in thousands):

	Twelve months ended December 31,		
	2013	2012	2011
Gross written premium	$1,339,819	$1,254,929	$1,082,466
Net written premium	1,329,892	1,247,198	1,075,976
Net earnings	32,633	24,319	41,833

	As of December 31,	
	2013	2012
Total assets	$2,317,265	$2,303,593
Total liabilities	1,660,507	1,647,351
Total shareholders' equity	656,758	656,242

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We have a history of underwriting results that outperform the industry. The following table compares our statutory combined ratio, net of fees, in past years with those of the private passenger auto industry. The statutory combined ratio is the sum of the loss ratio (the ratio of losses and loss adjustment expenses (“LAE”) to net earned premium) and the expense ratio (when calculated on a statutory accounting basis, the ratio of underwriting expenses, net of fees, to net written premium). Underwriting results are generally considered profitable when the combined ratio is under 100%; when the ratio is over 100%, underwriting results are generally considered unprofitable. We have consistently performed better than the industry as shown below:

	2013	2012	2011	2010	2009	2009-2013	2004-2013
Infinity	96.0 %	98.3 %	95.8 %	88.4 %	87.2 %	93.8 %	92.2 %
Industry (a)	100.5 %	102.1 %	102.0 %	101.0 %	101.3 %	101.4 %	99.1 %
Percentage point difference from industry	4.5 %	3.8 %	6.2 %	12.6 %	14.1 %	7.6 %	6.9 %

(a) We obtained the private passenger auto industry combined ratios for 2004 through 2012 from A.M. Best. A.M. Best data were not available for 2013. The industry combined ratio for 2013 is an estimate based on data obtained from Conning Research and Consulting.

Products

Personal Automobile is our primary insurance product. It provides coverage to individuals for liability to others for bodily injury and property damage and for physical damage to an insured's own vehicle from collision and various other perils. In addition, many states require policies to provide for first party personal injury protection, frequently referred to as no-fault coverage. We offer three primary products to individual drivers: the Low Cost product, which offers the most restrictive coverage, the Value Added product, which offers broader coverage and higher limits, and the Premier product, which we designed to offer the broadest coverage for standard and preferred risk drivers. For the year ended December 31, 2013, our mix of personal automobile written premium was 42% Low Cost, 51% Value Added and 7% Premier.

Commercial Vehicle provides coverage to businesses for liability to others for bodily injury and property damage and for physical damage to vehicles from collision and various other perils. We offer mono-line commercial automobile insurance to businesses with fleets of 20 or fewer vehicles, averaging 1.8 vehicles per policy. We avoid businesses that are involved in what we consider hazardous operations or interstate commerce.

Classic Collector provides protection for classic collectible automobiles. Our Classic Collector program provides coverage to individuals with classic or antique automobiles for liability to others for bodily injury and property damage and for physical damage to an insured's own vehicle from collision and various other perils.

Our three product groups contributed the following percentages of total gross written premium:

	Twelve months ended December 31,		
	2013	2012	2011
Personal Automobile	93 %	93 %	93 %
Commercial Vehicle	6 %	6 %	6 %
Classic Collector	1 %	1 %	1 %
Total	100 %	100 %	100 %

Distribution and Marketing

We distribute our products primarily through a network of approximately 12,500 independent agencies and brokers (with approximately 16,300 locations). In 2013, seven independent agencies each accounted for between 1.1% and 7.1% of our gross written premium and 16% of the agency force produced 80% of our gross written premium. Countrywide, our top 10 independent agents and brokers produced 19% of our gross written premium. In California, Infinity’s largest state by premium volume, 51 independent agents and brokers produced 50% of gross written premium (which represents 24% countrywide). Our largest broker in California produced 14.9% of gross written premium in the state.

We also foster agent relationships by providing them with access to our Internet web-based software applications along with programs and services designed to strengthen and expand their marketing, sales and service capabilities. Our Internet-based software applications provide many of our agents with real-time underwriting, claims and policy information. We believe the array of services that it offers to our agents adds significant value to the agents' businesses. For example, “Easy Street” is our

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incentive-based program through which agents receive assistance in critical areas such as training, advertising and promotion. In 2013, we spent $6.5 million on co-op advertising and promotions.
In 2013, we also wrote $61.9 million of business sold directly to the consumer through sales centers and via the Internet.

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

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

- "Focus States" – These states include Arizona, California, Florida, Georgia, Nevada, Pennsylvania and Texas.
- "Other States" – Includes all other states where we are maintaining our writings. We believe each state offers us an opportunity for underwriting profit.

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

	Twelve months ended December 31,					
Personal Auto Insurance	2013		2012		2011	
Focus States:						
California	44.8	%	45.4	%	49.0	%
Florida	32.2	%	26.3	%	18.3	%
Texas	4.0	%	4.9	%	6.8	%
Pennsylvania	3.6	%	4.4	%	5.5	%
Georgia	2.8	%	4.3	%	4.6	%
Arizona	1.8	%	3.0	%	3.7	%
Nevada	1.6	%	1.8	%	1.9	%
Total Focus States	90.7	%	90.1	%	89.7	%
Other States	1.9	%	2.8	%	3.4	%
Subtotal	92.6	%	92.9	%	93.1	%
Commercial Vehicle	6.4	%	6.1	%	6.0	%
Classic Collector	1.0	%	1.0	%	1.0	%
Total all states and all lines	100.0	%	100.0	%	100.0	%
Total $ (in thousands) - all states and all lines	$1,339,819		$1,254,929		$1,082,466	

We implement our distribution and marketing efforts with a focus on maintaining a low cost structure. Controlling expenses allows us to price competitively and achieve better underwriting returns. Over the five years ended 2012, years for which industry data are available from A.M. Best, our statutory ratio of underwriting expenses to premium written has averaged 20.3%, which is 6.8 points better than the independent agency segment of the private passenger automobile industry average of 27.1% for the same period.

Claims Handling

We strive for accuracy, consistency and fairness in our claim resolutions. Our claims organization employs approximately 1,300 people, has several field locations in each of our Focus States and provides a 24-hour, seven days per week toll-free service for our customers to report claims. We predominantly use our own local adjusters and appraisers, who typically respond to claims within 24 hours of a report.

We are committed to the field handling of claims and we believe that it provides, when compared to alternative methods, better service to our customers and better control of the claim resolution process. We open claims branch offices in urban areas where the volume of business will support them. Customer interactions can occur with generalists (initial and continuing adjusters) and specialists (staff appraisers, field casualty representatives and special investigators) based on local market volume, density and performance.

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In addition to the use of field claims handling, we use centralized claims call centers to receive initial reports of losses and to adjust simple property damage claims.

Ratings

A.M. Best has assigned our insurance company subsidiaries a group financial strength rating of “A” (Excellent). A.M. Best assigns “A” ratings to insurers that, in A.M. Best's opinion, “have an excellent ability to meet their ongoing insurance obligations.” A.M. Best bases our rating on factors that concern policyholders and not upon factors concerning investor protection.

Regulatory Environment

Our insurance company subsidiaries are subject to regulation and supervision by insurance departments of the jurisdictions in which they are domiciled or licensed to transact business. State insurance departments have broad administrative power relating to licensing insurers and agents, regulating premium rates and policy forms, establishing reserve and investment requirements, prescribing statutory accounting methods and the form and content of statutory financial reports, and regulating methods and processes of how an insurer conducts its business. Examples of the latter include the establishment in California of auto rating factor and rate approval regulations, proscription on credit based insurance scoring, prohibition of certain business practices with auto body repair shops, and attempts to set uniform auto body repair shop parts and labor rates.

Under state insolvency and guaranty laws, regulated insurers can be assessed or required to contribute to state guaranty funds to cover policyholder losses resulting from insurer insolvencies. Many states also require insurers, as a condition of doing business in the state, to participate in various assigned risk pools, reinsurance facilities or underwriting associations, which provide insurance coverage to individuals who otherwise are unable to purchase that coverage in the voluntary market. Participation in these involuntary plans is generally in proportion to voluntary writings of related lines of business in that state. The underwriting results of these plans traditionally have been unprofitable. The amount of premium we might be required to assume in a given state in connection with an involuntary plan may be reduced because of credit we may receive for nonstandard policies that we voluntarily write. Many states also have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel and non-renew policies.

State insurance departments that have jurisdiction over our insurance subsidiaries may conduct routine, on-site visits and examinations of our subsidiaries' affairs. At December 31, 2013, our insurance subsidiaries were involved in routine market conduct examinations in California and Florida. As of February 27, 2014, these examinations have not been completed. These examinations have from time to time given rise to, and are likely to give rise to in the future, regulatory orders requiring remedial, injunctive or other action on the part of an insurance subsidiary or the assessment of substantial fines or other penalties against our insurance subsidiaries.

The insurance laws of the states of domicile of our insurance subsidiaries contain provisions to the effect that the acquisition or change of control of a domestic insurer or of any entity that controls a domestic insurer cannot be consummated without the prior approval of the relevant insurance regulator. In addition, certain state insurance laws contain provisions that require pre-acquisition notification to state agencies of a change in control with respect to a non-domestic insurance company licensed to do business in that state. Such approval requirements may deter, delay or prevent certain transactions affecting the ownership of our common stock.

We are a holding company with no business operations of our own. Consequently, our ability to pay dividends to shareholders and meet our debt payment obligations is largely dependent on dividends or other distributions from our insurance company subsidiaries, current investments and cash held. State insurance laws restrict the ability of our insurance company subsidiaries to declare shareholder dividends. These subsidiaries may not make an “extraordinary dividend” until thirty days after the applicable commissioner of insurance has received notice of the intended dividend and has either not objected or has approved the payment of the extraordinary dividend within the 30-day period. An extraordinary dividend is defined as any dividend or distribution that, together with other distributions made within the preceding twelve months, exceeds the greater of 10% of the insurer's surplus as of the preceding December 31st, or the insurer's net income for the twelve-month period ending the preceding December 31st, in each case determined in accordance with statutory accounting practices. In addition, an insurer's remaining surplus after payment of a cash dividend to shareholder affiliates must be both reasonable in relation to our outstanding liabilities and adequate to our financial needs.

If a shareholder dividend does not rise to the statutory level of an extraordinary dividend, then it is an “ordinary dividend.” While an insurance company’s ability to pay an ordinary dividend does not require the approval of a state insurance department, we must file a 10-day notice of ordinary dividend with the appropriate insurance departments. Insurance companies that fail to notify an insurance department of the payment of an ordinary dividend are assessed administrative fines.

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State insurance laws require our subsidiaries to maintain specified levels of statutory capital and surplus. Generally, the net admitted assets of insurance companies that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the companies are licensed. In addition, for competitive reasons, our insurance company subsidiaries need to maintain adequate financial strength ratings from independent rating agencies. Both of these factors may limit the ability of our insurance subsidiaries to declare and pay dividends.

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ITEM 1A
Risk Factors

Our business operations face a number of risks. The risks below should be read and considered with other information provided in this report and in other reports and materials we have filed with the SEC. In addition to these risks, other risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

If we fail to price accurately the risks we underwrite, profitability may be affected.

Our profitability depends on our ability to set premium rates accurately. Inflationary pressures on medical care, auto parts and repair services costs complicate pricing with accuracy. Accurate pricing is also dependent on the availability of sufficient, reliable data on which to project both severity and frequency trends and timely recognition of changes in loss cost trends. This process poses more of a challenge in markets where we have less pricing experience. We could under-price risks, which could negatively affect our profit margins, or overprice risks, which could reduce sales volume and competitiveness. Either scenario could adversely affect profitability.

Our growth initiative may adversely affect our future profitability.

We intend to pursue further premium growth in California, Florida, Texas and Commercial Vehicle. Increased uncertainty stemming from an increase in new business might result in inaccurate pricing for the business or failure to adequately reserve for losses associated with it. Our new business combined ratios typically run 20 to 30 points higher than renewal business combined ratios due to higher commission and acquisition expenses as well as typically higher loss ratios. Because of these factors, our future profitability may be negatively impacted.

Because of the significant concentration of our business in California and Florida, negative developments in the regulatory, legal or economic conditions in these states may adversely affect our profitability.

California and Florida personal auto business represent 77% of our total gross written premium in 2013. Business in these states also generates substantial underwriting profit. Consequently, the dynamic nature of regulatory, legal, competitive and economic conditions in these states affects our revenues and profitability. Examples of potentially adverse regulatory or judicial developments or proposed legislation in California include exposing an insurer to civil liability for rate actions filed and approved by the department of insurance and recent after-market part regulations. In Florida, litigation persists to curtail or limit insurers' ability to impose statutorily enacted, standardized personal injury protection fee schedules along with uncertainty over how legal challenges to recent personal injury protection reform will undercut the efficacy of the new law in curbing fraud and abusive billing practices. Further, both California and Florida have regulations that limit the after-tax return on underwriting profit allowed for an insurer. These developments could negatively affect premium revenue and make it more expensive or less profitable for us to conduct business in these states.

We rely upon a limited number of independent agents to generate a substantial portion of our business. If we were unable to retain or increase the level of business that these independent agents place with us or increase the level of business generated by other agents, our revenues would be negatively affected.

Approximately 16% of our 12,500 independent agencies accounted for approximately 80% of our gross written premium in 2013. Further, in California, our most profitable state, 51 agencies and brokers produce 50% of our premium in the state, which is 24% of our premium nationwide. Some of our current agencies may merge or be acquired and the surviving entity may reduce the number of insurers with which business is placed. We must compete with other insurance carriers for the business of these agents in an increasingly competitive marketplace. Some competitors offer more advanced systems to quote and process business, a larger variety of products, lower prices for insurance coverage, higher commissions or more attractive cash and non-cash incentives.

We are vulnerable to a reduction in business written through the independent agent distribution channel.

Reliance on the independent agency as our primary distribution channel makes us vulnerable to the growing popularity of direct to consumer distribution channels, particularly the Internet. Approximately 73% of all personal automobile insurance sold in the United States is sold direct or through captive agents (agents employed by one company or selling only one company's products) and approximately 27% is sold by independent agents. A material reduction in business generated through the independent agency channel could negatively affect our revenues and growth opportunities.

Judicial, regulatory and legislative changes or challenges to prevailing insurance industry practices are ongoing, some of which could adversely affect our operating results.

Political, judicial, economic and financial developments occasionally lead to challenges or changes to established industry practices. Recent examples include challenges to (i) the use of credit and other rating factors in making risk selection and pricing decisions;

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and (ii) the use of automated databases in the adjustment of claims. Some result in class action litigation, regulatory sanctions and substantial fines or penalties. It is difficult to predict the outcome or impact of current challenges or to identify others that might be brought in the future.

The failure to maintain or to develop further reliable, efficient and secure information technology systems would be disruptive to our operations and diminish our ability to compete successfully.

We are highly dependent on efficient and uninterrupted performance of our information technology and business systems. These systems quote, process and service our business, and perform actuarial functions necessary for pricing and product development. These systems must also be able to undergo periodic modifications and improvements without interruptions or untimely delays in service. This capability is crucial to meeting growing customer demands for user friendly, online capabilities and convenient, quality service. We are undergoing fundamental changes and improvements to our claims and policy services platform. A failure or delay to achieve these improvements could interrupt certain processes or degrade business operations and could place us at a competitive disadvantage. Additionally, failure to maintain secure systems could result in unauthorized access to or theft of sensitive customer data.

If we fail to establish accurate loss reserves, our financial position and results of operations may be affected.

Our loss reserves are our best estimate of the amounts that will be paid for losses incurred as well as losses incurred but not reported. The accuracy of these estimates depends on a number of factors, including but not limited to the availability of sufficient and reliable historical data, inflationary pressures on medical and auto repair costs, changes in regulation, changes in frequency and severity trends and changes in our claims settlement practices. Because of the inherent uncertainty involved in the practice of establishing loss reserves, ultimate losses paid could vary materially from recorded reserves and may adversely affect our operating results.

Extra-contractual losses arising from bad faith claims could materially reduce our profitability.

In California, Florida, and other states where we have substantial operations, the judicial climate, case law or statutory framework are often viewed as unfavorable toward an insurer in litigation brought against it by policyholders and third-party claimants. This tends to increase our exposure to extra-contractual losses, or monetary damages beyond policy limit, in what are known as “bad faith” claims, for which reinsurance may be unavailable. Such claims have in the past, and may in the future, result in losses to us that materially reduce our profitability.

Our goodwill may be at risk for impairment if actual results regarding growth and profitability vary from our estimates.

At December 31, 2013, we had $75.3 million, or approximately $6.54 per share, of goodwill. In accordance with the Goodwill topic of the FASB Accounting Standards Codification, we perform impairment test procedures for goodwill on an annual basis. These procedures require us to calculate the fair value of goodwill, compare the result to our carrying value and record the amount of any shortfall as an impairment charge.

We use a variety of methods to test goodwill for impairment, including estimates of future discounted cash flows and comparisons of our market value to our major competitors. Our cash flow projections rely on assumptions that are subject to uncertainty, including premium growth, loss and loss adjustment expense ratios, interest rates and capital requirements. If actual results differ significantly from these assumptions, the fair value of our goodwill could fall below our carrying value and we could be required to record an impairment charge.

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ITEM 1B
Unresolved Staff Comments
None.

ITEM 2
Properties
Our insurance subsidiaries lease 465,433 square feet of office and warehouse space in numerous cities throughout the United States. All of these leases expire within 8 years. The most significant leased office spaces are located in Birmingham, Alabama and suburban Los Angeles, California. See Note 14 – Commitments and Contingencies of the Notes to Consolidated Financial Statements for further information about leases. We own a 33,515 square foot call center in McAllen, Texas; a 116,433 square foot call center in Birmingham, Alabama and a 50,900 square foot call center in Tucson, Arizona.
ITEM 3
Legal Proceedings
See Note 13 – Legal and Regulatory Proceedings of the Notes to the Consolidated Financial Statements for a discussion of our material Legal Proceedings. Except for those legal proceedings disclosed in Note 13 to the Consolidated Financial Statements, we believe that none of the legal proceedings to which we are subject meet the threshold for disclosure under this item.
ITEM 4
Mine Safety Disclosures

Not applicable.

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PART II

ITEM 5

Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

We had 55 registered holders of record and an estimated 2,900 total holders at February 14, 2014. Our common stock is listed and traded on the NASDAQ Global Select Market under the symbol IPCC. The stock prices in the following table are over-the-counter market quotations that reflect transactions between dealers; retail markups and commissions are not reflected. These prices may not represent actual transactions. Our closing per-share stock price on February 14, 2014 was $73.64. See Note 12 – Statutory Information of the Notes to Consolidated Financial Statements for information about restriction on transfer of funds and assets of subsidiaries.

Infinity Quarterly High and Low Stock Prices and Dividends Paid by Quarter

For the quarter ended:	High	Low	Close	Dividends Declared and Paid Per Share	Return to Shareholders (excluding dividends) (a)	Return to Shareholders (including dividends) (b)
March 31, 2012	$68.53	$52.14	$52.33	$ 0.225	(7.8)%	(7.4)%
June 30, 2012	57.81	50.75	57.67	0.225	10.2%	10.6%
September 30, 2012	63.55	54.61	60.39	0.225	4.7%	5.1%
December 31, 2012	61.81	45.29	58.24	0.225	(3.6)%	(3.2)%
March 31, 2013	$61.20	$55.12	$56.20	$ 0.300	(3.5)%	(3.0)%
June 30, 2013	61.15	54.32	59.76	0.300	6.3%	6.9%
September 30, 2013	67.56	59.32	64.60	0.300	8.1%	8.6%
December 31, 2013	72.70	64.10	71.75	0.300	11.1%	11.5%
For the twelve months ended:						
December 31, 2012	$68.53	$45.29	$58.24	$ 0.90	2.6%	4.2%
December 31, 2013	72.70	54.32	71.75	1.20	23.2%	25.3%

(a) Calculated by dividing the difference between our share price at the end and the beginning of the periods presented by the share price at the beginning of the period presented.

(b) Calculated by dividing the sum of (i) the amount of dividends, assuming dividend reinvestment during the period presented and (ii) the difference between our share price at the end and the beginning of the periods presented by the share price at the beginning of the period presented.

The information required under the heading “Equity Compensation Plan Information” is provided under Item 12 herein.

During the fiscal year ended December 31, 2013, all of our equity securities sold were registered under the Securities Act of 1933, as amended.

The following table presents information with respect to purchases of our common stock made during the three months ended December 31, 2013 by us or any of our "affiliated purchasers" as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	Total Number of Shares Purchased(a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs (c)
October 1, 2013 - October 31, 2013	5,500	$ 68.49	5,500	$ 44,531,773
November 1, 2013 - November 30, 2013	6,000	$ 68.55	6,000	$ 44,120,323
December 1, 2013 - December 31, 2013	7,044	$ 67.61	4,500	$ 43,811,788
Total	18,544	$ 68.18	16,000	$ 43,811,788

(a) Includes 2,544 shares surrendered as partial consideration of the exercise price of employee stock options.
(b) Average price paid per share excludes commissions.
(c) On November 6, 2012, our Board of Directors increased the authority under our current share and debt repurchase plan by $25.0 million and extended the date to execute the program to December 31, 2014 from December 31, 2012.

The following graph shows the percentage change in cumulative total shareholder return on our common stock over the five years ending December 31, 2013. The return is measured by dividing the sum of (A) the cumulative amount of dividends, assuming dividend reinvestment during the periods presented and (B) the difference between our share price at the end and the beginning of the periods presented by the share price at the beginning of the periods presented. The graph demonstrates cumulative total returns for Infinity, the Center for Research in Security Prices (“CRSP”) Total Return Index for NASDAQ U.S. Index, and the CRSP Total Return Index for the NASDAQ Insurance Stocks (SIC 6330-6339 U.S. Fire, Marine and Casualty Insurance Company) from December 31, 2008 through December 31, 2013.

Cumulative Total Return as of December 31, 2013
(Assumes a $100 investment at the close of trading on December 31, 2008)

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
IPCC	100.00	88.07	135.44	125.96	131.34	164.93
NASDAQ U.S. Index	100.00	143.74	170.17	171.08	202.40	281.91
NASDAQ Insurance Stocks	100.00	106.05	120.14	123.92	144.07	190.15

As a result of a change in the total return data made available to us through our provider, our performance graphs going forward will be using a comparable index provided by NASDAQ OMX Global Indexes. For comparison purposes, the following graph shows the percentage change in cumulative total shareholder return on our common stock over the five years ending December 31, 2013 for Infinity, the NASDAQ OMX Global Total Return Index for NASDAQ US Benchmark and the NASDAQ OMX Global Total Return for Industrial Classification Benchmark (ICB): 8500 Insurance (Supersector).

(Assumes a $100 investment at the close of trading on December 31, 2008)

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
IPCC	100.00	88.07	135.44	125.96	131.34	164.93
NASDAQ US	100.00	129.26	151.94	152.42	177.46	236.88
ICB: 8500 Insurance	100.00	109.51	132.44	120.98	143.16	202.77

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INFINITY PROPERTY AND CASUALTY CORPORATION 10-K

ITEM 6
Selected Financial Data

(in thousands, except per share data)	2013	2012	2011	2010	2009
Gross written premium	$1,339,819	$1,254,929	$1,082,466	$952,426	$848,816
Net written premium	1,329,892	1,247,198	1,075,976	946,869	843,869
Net written premium growth	6.6 %	15.9 %	13.6 %	12.2 %	(5.4)%
Net premium earned	1,302,525	1,184,090	1,019,060	905,919	848,391
Total revenues	1,344,805	1,249,633	1,072,616	961,276	883,424
Loss & LAE ratio	78.1 %	79.6 %	75.3 %	67.0 %	66.5 %
Underwriting ratio	19.9 %	21.1 %	22.7 %	22.7 %	21.9 %
Combined ratio	98.0 %	100.7 %	98.0 %	89.7 %	88.4 %
Net earnings	$32,633	$24,319	$41,833	$91,062	$70,946
Net earnings per diluted share	$2.80	$2.04	$3.37	$6.91	$5.12
Return on average common shareholders’ equity	5.0 %	3.7 %	6.4 %	14.4 %	12.5 %
Cash and investments	$1,582,238	$1,560,116	$1,308,684	$1,283,624	$1,285,831
Total assets	2,317,265	2,303,593	1,930,371	1,846,200	1,800,630
Unpaid losses and LAE	646,577	572,894	495,403	477,833	509,114
Unearned premium	566,004	538,142	474,528	417,371	376,068
Debt outstanding	275,000	275,000	194,810	194,729	194,651
Total liabilities	1,660,507	1,647,351	1,268,582	1,191,173	1,188,167
Shareholders’ equity	656,758	656,242	661,789	655,027	612,463
Cash dividend per common share	$1.20	$0.90	$0.72	$0.56	$0.48
Common shares outstanding	11,504	11,605	11,807	12,469	13,497
Book value per common share	$57.09	$56.55	$56.05	$52.53	$45.38
Ratios:					
Debt to total capital	29.5 %	29.5 %	22.7 %	22.9 %	24.1 %
Debt to tangible capital					