INFINITY PROPERTY & CASUALTY CORP
Form 424B1
February 12, 2003

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Filed pursuant to rule 424(b)(1)
Registration No. 333-100459

12,378,000 Shares

Infinity Property and Casualty Corporation

Common Stock

Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing on The Nasdaq Stock Market s National Market under the symbol IPCC.

All of the shares of common stock are being sold by a wholly-owned subsidiary of American Financial Group, Inc. We will not receive any of the proceeds from the sale of these shares. Before this offering, all of our outstanding common stock was beneficially owned by American Financial Group.

The underwriters have an option to purchase a maximum of 1,854,825 additional shares from the selling shareholder to cover over-allotments of shares.

After the completion of this offering, we intend to offer $180 million aggregate principal amount of our ten-year senior notes.

Investing in our common stock involves risks. See Risk Factors on page 10.

The following table does not include 12,500 shares being sold in this offering to certain members of our management at a price equal to the initial public offering price of $16.00 per share. The underwriters will not receive any underwriting discounts or commissions on these shares, resulting in proceeds to the selling shareholder of $200,000.

	Price to Public	**Underwriting Discounts and Commissions**	**Proceeds to Selling Shareholder**
Per Share	$16.00	$0.98	$15.02
Total	$198,048,000	$12,118,190	$185,929,810

Delivery of the shares of common stock will be made on or about February 18, 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **Merrill Lynch & Co.**

Banc of America Securities LLC **Bear, Stearns & Co. Inc.**

The date of this prospectus is February 12, 2003.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Dealer Prospectus Delivery Obligation

Until March 9, 2003, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information about Infinity Property and Casualty Corporation and the offering. Because this is a summary, it may not contain all the information you should consider before investing in our common stock. You should carefully read this entire prospectus.

References in this prospectus to Infinity, we, us and our , unless the context requires otherwise, refer to Infinity Property and Casualty Corporation and its combined operations, including the Assumed Agency Business. Unless otherwise noted in this prospectus, we assume that the underwriters will not exercise their over-allotment option. Unless otherwise indicated, all financial information in this prospectus is presented on a pro forma basis (see Our Formation and Unaudited Pro Forma Financial Information). In this prospectus, all share and per share data assume that the stock split we declared in January 2003 had already occurred. Unless otherwise indicated, insurance industry data and our market share or ranking in the industry were derived from data compiled by A.M. Best Company Inc.

Infinity

What We Do

We are a national provider of personal automobile insurance with an emphasis on nonstandard auto insurance. Nonstandard auto insurance provides coverage to drivers who, due to their driving record, age or vehicle type, represent higher than normal risks and pay higher rates for comparable coverage. We also write standard and preferred personal auto insurance, nonstandard commercial auto insurance and complementary personal lines insurance products.

Our products are offered primarily through a network of approximately 14,000 independent agencies, and, based on data published by A.M. Best, we believe we are the second largest provider of nonstandard auto coverage through independent agents in the United States, behind only The Progressive Corporation. While licensed to write insurance in every state, we focus on 25 states which we believe provide the greatest opportunity for profitable growth.

In 2001, we generated, on a pro forma basis, $1.13 billion in gross premiums written, $903 million in net premiums written and had a net loss of $3.0 million. In that year, approximately 96% of our business was personal auto and the remaining 4% was homeowners, umbrella liability, boat owners and nonstandard commercial auto coverages. While there is no precise, industry-recognized definition of nonstandard auto insurance, we estimate that, in 2001, approximately four-fifths of our personal auto business was nonstandard coverage. At September 30, 2002, we had total assets of $2.0 billion, liabilities of $1.6 billion and shareholders equity of $368 million, respectively, as adjusted to give effect to this offering and assuming the completion of the senior note offering and the use of proceeds of the senior note offering in part to repay our $55 million note payable to AFG. Because, among other factors, we may not complete the senior note offering, these amounts may differ from the actual amounts.

The following table compares our statutory combined ratio in past years with those of the personal lines insurance industry as a whole. See Business Our Strengths for a description of how the combined ratio is calculated, the use of the combined ratio as a measure of underwriting profitability and the source of the industry combined ratios presented.

	2002(1)	2001	2000	1999	1998	1997	1997-2001	1992-2001
Infinity	95.3%	104.6%	108.7%	98.7%	97.0%	97.0%	101.0%	101.4%
Industry	104.9%	110.9%	109.9%	104.5%	102.7%	99.8%	105.8%	105.7%

(1) Combined ratio through September 30, 2002.

Our Strengths

We believe that we are well positioned to compete in today s market through various strengths that should enable us to build upon our history of favorable underwriting results. These strengths include

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Our product focus on nonstandard auto insurance with a selected presence in the standard and preferred segments.

Our expertise in risk segmentation, including our detailed evaluation of risks and use of sophisticated proprietary data bases and risk models.

Our claims handling capability, including our emphasis on employee claims personnel and our 24-hour, seven days per week toll-free claims service.

Our agency relationships with approximately 14,000 independent agents.

Our low cost structure, resulting in our ratio of underwriting expenses to premiums being better than the personal lines industry average by 4.8 points for the calendar years 1997 through 2001 and 9.6 points for the nine months ended September 30, 2002.

Our experienced management team with extensive experience in the personal automobile insurance business and with us.

Our financial strength, including our conservative investment portfolio and the A (Excellent) ratings of our insurance subsidiaries from A.M. Best.

Our Strategy

Our goal is to maximize shareholder value by focusing on underwriting profitability and long-term return on equity. We will pursue this goal through a strategy of:

Product focus on personal automobile insurance.

Distribution focus on the independent agent channel.

Geographic focus on the states that we believe offer us the greatest opportunity for profitable growth.

Disciplined pricing so as to achieve adequate and accurate rates.

Field claim handling emphasizing prompt response to claims, continued good service to our customers and effective control of the claims process.

Controlled operating expenses to achieve a competitive cost structure.

Our Formation

Infinity is a new corporation that was formed as an indirect wholly-owned subsidiary of American Financial Group, Inc. to acquire and conduct, as a separate public company, what has been AFG s personal insurance business written through independent agents. Prior to this offering, AFG, through an indirect wholly-owned subsidiary, transferred to Infinity the stock of its personal automobile insurance subsidiaries involved primarily in the issuance of nonstandard auto policies. In addition, as of January 1, 2003, AFG s property and casualty insurance subsidiary, Great American, transferred to us its personal insurance business written through independent agents.

Certain Risks We Face

Our ability to capitalize on our strengths and implement our strategy entails risks. For example, we have no operating history as an independent public company, and we may not be able to develop and implement the infrastructure necessary to operate successfully as an independent public company. Further, our process of consolidating the operations of our insurance subsidiaries poses managerial, strategic and technological challenges for us as an independent company. Adverse developments in the market for personal automobile insurance, or the personal automobile insurance industry in general, could cause our results of operations to suffer. Our reliance on the independent agency market makes us vulnerable to a reduction in the amount of business written by independent agents, and if we are not able to attract and retain independent agents, our

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revenues could be negatively affected. For further discussion of these and other risks we face, see Risk Factors .

Our principal executive offices are located at 2204 Lakeshore Drive, Birmingham, Alabama, 35209. Our telephone number is (205) 870-4000.

The Offering

Common stock offered by selling shareholder	12,378,000 shares
Common stock to be outstanding after this offering (1)	20,347,083 shares
Use of proceeds	We will receive no proceeds from this offering
Nasdaq National Market Symbol	IPCC

(1) The number of shares of common stock excludes 2,500,000 shares reserved for issuance under various employee and director compensation plans.

Summary Unaudited Pro Forma Financial Data

The following is a summary of certain unaudited combined financial data of the NSA Group and the Assumed Agency Business adjusted to give effect to: (i) the formation of Infinity, (ii) the acquisition by Infinity of the companies comprising the NSA Group, (iii) the transfer to Infinity of the Assumed Agency Business through a reinsurance agreement and (iv) the planned senior note offering. For purposes of earnings statement data, these transactions are assumed to have occurred on January 1, 2001. For purposes of balance sheet data, the transactions are assumed to have occurred on September 30, 2002.

The pro forma financial information reflects Infinity s planned offering of $180 million in senior notes. Infinity intends to use $55 million of the net proceeds from that offering to repay its promissory note to AFG and retain the remaining $122 million (after deducting estimated expenses of the offering) as working capital pending investment in fixed maturity securities.

This summary has been derived from, and should be read in conjunction with, the unaudited pro forma combined financial statements and related notes thereto included elsewhere in this Prospectus. Results of interim periods are not necessarily indicative of results to be expected for the entire year.

The following pro forma financial information is intended to provide you with information about how the transactions described herein might have affected the historical financial statements of the NSA Group and the Assumed Agency Business if they had been consummated at an earlier time. Nonetheless, this information does not necessarily reflect the financial position or results of operations which would have

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actually resulted had the transactions described occurred as of the dates indicated, nor should they be taken as necessarily indicative of the future financial position or results of operations of Infinity.

	Nine months ended September 30, 2002	Year ended December 31, 2001
	(in millions, except per share amounts)	
Earnings Statement Data:		
Earned Premiums	$ 580.6	$ 1,066.3
Total Revenues	624.8	1,139.9
Earnings (Loss) before Income Taxes	35.8	(3.8)
Net Earnings (Loss)	23.5	(3.0)
Net Earnings (Loss) per common share basic and diluted	$ 1.15	$ (.15)
Balance Sheet Data (at end of period):		
Total Cash and Investments	$ 1,326.7	
Total Assets	1,954.2	
Long-term Debt	180.0	
Shareholders Equity	367.6	
Book value per common share	$ 18.07	

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Summary Historical Financial Data

The following tables summarize certain historical financial data of our insurance operations before their acquisition by us, which we refer to as the NSA Group, and the personal lines business written through independent agents by AFG s property and casualty insurance subsidiary, Great American Insurance Company, and its subsidiaries, which we refer to as the Assumed Agency Business. We derived the summary data as of and for each of the three years ended December 31, 2001, from financial statements audited by Ernst & Young LLP. We derived the summary data as of and for the nine months ended September 30, 2002 and 2001, from unaudited financial statements which include all adjustments, consisting of normal recurring accruals, that management considers necessary for a fair presentation of the financial position and results of operations for those periods. Results for the interim periods are not necessarily indicative of results to be expected for the entire year. You should read this summary in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes appearing elsewhere in this prospectus.

	Nine months ended September 30,		Year ended December 31,		
	2002	**2001**	**2001**	**2000**	**1999**
	(unaudited)	**(unaudited)**			
			(dollars in millions)		
NSA Group					
Earnings Statement Data:					
Earned Premiums	$ 496.0(a)	$728.6	$ 916.4(a)	$1,043.3	$ 944.5
Net Investment Income	47.4	57.8	75.2	69.3	74.3
Realized Gains (Losses) on Investments	(6.4)	(4.4)	(5.9)	(5.4)	22.6
Other Income	3.2	3.3	4.3	3.6	3.5
Total Revenues	540.2	785.3	990.0	1,110.8	1,044.9
Losses and Loss Adjustment Expenses	390.7	619.4	752.3	915.8	730.5
Commissions and Other Underwriting Expenses	83.1	159.0	202.1	229.5	213.4
Other Operating and General Expenses	18.5	14.6	19.8	24.4	19.4
	492.3	793.0	974.2	1,169.7	963.3
Operating Earnings (Loss) before Income Taxes	47.9	(7.7)	15.8	(58.9)	81.6
Provision (Credit) for Income Taxes	16.5	(2.3)	6.1	(20.3)	29.2
Net Operating Earning (Loss)	31.4	(5.4)	9.7	(38.6)	52.4
Equity in Losses of Affiliates, Net of Tax				(11.5)	(1.5)
Net Earnings (Loss)	$ 31.4	$ (5.4)	$ 9.7	$ (50.1)	$ 50.9
Balance Sheet Data:					
Cash and Investments	$1,189.4		$1,188.1	$1,216.2	$1,095.6
Total Assets	1,752.7		1,760.4	1,787.9	1,594.9
Unpaid Losses and Loss Adjustment Expenses	631.5		645.2	640.3	553.3
Total Liabilities	1,227.6		1,197.6	1,173.7	1,060.9
Shareholder s Equity	525.1		562.8	614.2	534.0
Statutory Data(b):					
Loss and LAE Ratio	78.7%	85.0%	82.1%	87.8%	77.4%
Underwriting Expense Ratio	15.1%	20.9%	21.3%	21.7%	22.6%
Combined Ratio	93.8%	105.9%	103.4%	109.5%	100.0%
Policyholders Surplus	$ 400.2		$ 442.8	$ 425.5	$ 345.4

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	Nine months ended September 30,		Year ended December 31,		
	2002	2001	2001	2000	1999
	(unaudited)	(unaudited)			
	(dollars in millions)				
Assumed Agency Business					
Earnings Statement Data:					
Earned Premiums	$ 84.6(c)	$111.6	$149.9	$128.9	$138.5
Losses and Loss Adjustment Expenses	72.0	86.1	121.8	93.3	73.3
Commissions and Other Underwriting Expenses	21.0	32.8	42.8	39.2	46.6
	93.0	118.9	164.6	132.5	119.9
Underwriting Gain (Loss)	$ (8.4)	$ (7.3)	$ (14.7)	$ (3.6)	$ 18.6
Balance Sheet Data:					
Assets (excluding Investments) to be Transferred	$ 61.2		$ 78.8	$ 65.2	$ 55.4
Unpaid Losses and Loss Adjustment Expenses	123.6		115.9	105.9	118.3
Liabilities to be Transferred	176.5		200.5	173.3	183.1
Statutory Data(b):					
Loss and LAE Ratio	84.9%	77.2%	81.3%	72.4%	54.8%
Underwriting Expense Ratio	20.2%	29.5%	28.7%	30.3%	35.0%
Combined Ratio	105.1%	106.7%	110.0%	102.7%	89.8%

(a) The decline in earned premiums during 2001 and the first nine months of 2002 is due primarily to a reinsurance agreement pursuant to which the NSA Group ceded 90% of the automobile physical damage business written by it as more fully discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations.

(b) While financial data is reported in accordance with generally accepted accounting principles (GAAP) for shareholder and other investment purposes, it is reported on a statutory basis for insurance regulatory purposes. An insurer s underwriting profitability, as opposed to overall profitability or net earnings, 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 or federal income taxes.

The statutory combined ratio represents the sum of the following ratios: (1) losses and loss adjustment expenses incurred as a percentage of net earned premiums and (2) underwriting expenses incurred as a percentage of net written premiums. Certain statutory expenses differ from amounts reported under GAAP. Specifically, under GAAP, commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized and amortized on a pro rata basis over the period in which the related premiums are earned; on a statutory basis these items are expensed as incurred. In addition, 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.

See Results of Operations Underwriting in Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of GAAP combined ratios for the NSA Group and the Assumed Agency Business.

(c) The decline in earned premiums during the first nine months of 2002 is due primarily to the reinsurance agreement described in note (a) above.

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Our Formation

Infinity is a new corporation that was formed in September 2002 as an indirect wholly-owned subsidiary of American Financial Group, Inc. to acquire and conduct, as a separate public company, AFG s personal lines insurance business written through independent agents. Prior to this offering, AFG transferred to Infinity all of the issued and outstanding capital stock of the following personal auto insurance subsidiaries, including their respective subsidiaries, involved primarily in the issuance of nonstandard auto policies: Atlanta Casualty Company, Leader Insurance Company, Infinity Insurance Company and Windsor Insurance Company. In exchange, AFG received all of the issued and outstanding shares of Infinity common stock and a note payable in the amount of $55 million. The note has a term of ten years and accrue interest at 8.5%, payable semiannually. The entire principal amount is due at maturity but can be prepaid without penalty at any time.

In addition, as of January 1, 2003, AFG s principal property and casualty insurance subsidiary, Great American, transferred to us its personal insurance business written through independent agents. This is primarily auto insurance for standard and preferred drivers, but also includes other personal lines. Because this business is not a separate legal entity, the transfer was effected through a reinsurance agreement under which we assumed the inforce business, service the policyholders and handle the claims. Great American, in turn, transferred to us assets (primarily investment securities) with a market value approximately equal to the net liabilities related to the inforce business less $5 million and permits us to continue to write standard and preferred policies in the same Great American companies where such policies are presently written. This arrangement will continue for a period of up to three years during which time we will make the proper rate and form filings allowing our insurance subsidiaries to write these policies.

The financial assets transferred to us from Great American in connection with our acquisition of Great American s personal insurance business written through independent agents include primarily investment securities which are described in more detail in the Note 1 to the Unaudited Pro Forma Financial Information. Other financial assets (primarily agents balances and deferred policy acquisition costs) and financial liabilities (primarily loss reserves and unearned premiums) transferred are described more fully in the Statement of Assets (excluding investments) and Liabilities to be Transferred for this business which begin on page F-22 of this Prospectus. In addition to the transfer of financial assets and liabilities, we received the operational processes, including policy renewal rights, and employees necessary to conduct the normal operations of this business following the date of transfer. Accordingly, the transfer represents the acquisition of a business under generally accepted accounting principles. Since the transfer was made while Infinity was an AFG subsidiary, the net liabilities were recorded at AFG s historical cost.

Following this offering and our formation, we intend to offer $180 million aggregate principal amount of ten-year senior notes. We will use a portion of the proceeds of the senior note offering to repay the $55 million, ten-year note payable to AFG. We will invest the remaining proceeds of the senior note offering in fixed maturity securities. If we do not complete the senior note offering, we are not obligated to repay the ten-year AFG note until its scheduled maturity, and we intend to obtain financing through a bank line of credit. We currently have no commitment from any bank with respect to such a line of credit and cannot be certain that we will be able to obtain one. We have renewed the quota share reinsurance agreement with Inter-Ocean Reinsurance Limited discussed below on terms substantially equivalent to those in effect during 2002.

The companies and business comprising Infinity represent approximately 41% of AFG s entire property and casualty group and approximately 90% of AFG s Personal segment based on earned premiums in 2001. AFG s property and casualty group is engaged primarily in specialty and private passenger automobile insurance businesses. The Specialty group includes a highly diversified group of specialty business units. Some of the more significant areas are inland and ocean marine, California workers compensation, agricultural-related coverages, executive and professional liability, fidelity and surety bonds, collateral protection, and umbrella and excess coverages. The Personal group writes nonstandard and preferred/ standard private passenger auto and other personal insurance coverage. AFG s annuity and life business markets primarily retirement products as well as life and supplemental health insurance. AFG s businesses operate throughout the United States. In 2001, 2000, and 1999, AFG derived less than 2% of its revenues from the sale of life and supplemental health products in Puerto Rico and less than 1% of its revenues from the sale of property and casualty insurance in Mexico, Canada, Puerto Rico, Europe and Asia.

The following table (in millions) shows AFG s revenues by significant business segment.

	Nine months ended September 30,		Year ended December 31,		
	2002	2001	2001	2000	1999
Revenues(a)					
Property and casualty insurance:					
Premiums earned:					
Specialty	$1,131	$1,063	$1,409	$1,223	$1,048
Personal	697	924	1,183	1,270	1,163
Other lines(b)		2	2	1	
	1,828	1,989	2,594	2,494	2,211
Investment and other income	275	331	458	451	451
	2,103	2,320	3,052	2,945	2,662
Annuities and life(c)	651	647	856	824	665
Other	33	13	16	48	33
	$2,787	$2,980	$3,924	$3,817	$3,360

(a) Revenues include sales of products and services as well as other income earned by the respective segments.

(b) Represents lines in run-off ; AFG has ceased underwriting new business in these operations.

(c) Represents primarily investment income.

Selected Financial Data Recent Developments

The following table sets forth certain GAAP financial data as of, and for the year ended December 31, 2002 and 2001. The 2002 data was derived from unaudited financial information. The 2001 data was derived from financial statements audited by Ernst & Young LLP.

Although no financial statements for January 2003 are currently available, management estimates that the earned premiums will decline approximately 15% as compared with January 2002. Management also believes that Infinity will have net earnings in January 2003. Further, management is not aware of any material adverse changes in assets, liabilities, or shareholder s equity as of January 31, 2003.

NSA Group

	Year ended December 31,	
	2002	2001
	(in millions)	
Earnings Statement Data:		
Earned Premiums	$ 645.9(1)	$ 916.4
Total Revenues	712.2(1)	990.0
Net Earnings	45.9(2)	9.7

Balance Sheet Data (at end of period):		
Total Assets	$1,545.3(3)	$1,760.4
Unpaid Losses and Loss Adjustment Expenses	604.0	645.2
Shareholder s Equity	386.8(4)	562.8

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(1) The decrease in earned premiums and total revenue is primarily due to the effect of the Inter-Ocean reinsurance agreement.

(2) Net earnings include a $4 million favorable adjustment in the fourth quarter 2002 due to better than expected prior year claim development.

(3) The decrease in total assets is due primarily to $189.5 million of dividends paid in 2002 and to a decrease in premiums receivable as a result of decreases in written premiums.

(4) The decrease in Shareholder s Equity is due primarily to dividends paid.

Assumed Agency Business

	Year ended December 31,	
	2002	2001
	(in millions)	
Earnings Statement Data(1):		
Earned Premiums	$106.6(2)	$149.9
Underwriting Loss	(10.5)	(14.7)
Balance Sheet Data (at end of period)(1):		
Assets (excluding Investments) to be Transferred	$ 54.2(3)	$ 78.8
Unpaid Losses and Loss Adjustment Expenses	125.1	115.9
Liabilities to be Transferred	180.0	200.5

(1) The Assumed Agency business represents a portion of AFG s Personal segment and is not a separate legal entity. Accordingly, it does not have a separate investment portfolio or equity structure and complete financial statements do not exist.

(2) The decrease in earned premiums is primarily due to the effect of the Inter-Ocean reinsurance agreement.

(3) The decrease in assets to be transferred is primarily due to reduced deferred acquisition costs resulting from the Inter-Ocean reinsurance agreement.

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RISK FACTORS

An investment in our common stock involves a number of risks. You should carefully consider the following information, together with the other information contained in this prospectus, before investing in shares of our common stock.

We have no operating history as a stand-alone entity.

We have no operating history as an independent public company. Our insurance subsidiaries relied on AFG for assistance with respect to financial, administrative, managerial and other matters. Following the offering, we will have our own credit and banking relationships and perform our own financial and investor relations functions. While virtually all of our employees following the offering will be former AFG employees, we may not be able to develop and implement the infrastructure necessary to operate successfully as an independent public company. Developing such an infrastructure may require a substantial amount of time and resources and divert our management s attention away from our business.

Our ongoing consolidation of the operations of our insurance subsidiaries may not be successful.

We are combining the operations of several insurance companies that have operated previously as independent business units. The process of consolidating the operations of our insurance subsidiaries poses managerial, strategic and technological challenges for us as an independent company, particularly with respect to the integration of historically separate information systems to a single system. The prospective costs and benefits of the consolidation may not result in equivalent or greater operating efficiencies and savings than those that have already been achieved. Such consolidation may negatively impact our revenues.

Because we are primarily a personal automobile insurer, our business may be adversely affected by conditions in that business.

Approximately 96% of our gross written premiums for the year ended December 31, 2001 were generated from personal automobile insurance policies. Adverse developments in the market for personal automobile insurance, or the personal automobile insurance industry in general, could cause our results of operations to suffer. Our industry is exposed to the risks of severe weather conditions, such as rainstorms, snowstorms, hail and ice storms, hurricanes, tornadoes, earthquakes and, to a lesser degree, explosions, terrorist attacks and riots. The automobile insurance business is also affected by cost trends that impact profitability. Factors which negatively affect cost trends include inflation in automobile repair costs, automobile parts costs, used car prices and medical care. Increased litigation of claims may also negatively affect loss costs.

Our results may fluctuate as a result of cyclical changes in the personal auto insurance industry.

The personal auto insurance industry historically is cyclical in nature. The industry has been characterized by periods of price competition and excess capacity followed by periods of high premium rates and shortages of underwriting capacity. These fluctuations in the business cycle would be likely to negatively impact our revenues.

Intense competition could adversely affect our profitability.

The personal automobile insurance business is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. We compete with both large national writers and smaller regional companies. Some of our competitors have more capital and greater resources than we have, and may offer a broader range of products and lower prices than we offer. Some of our competitors that are direct writers, as opposed to agency writers as we are, may have certain competitive advantages, including increased name recognition, direct relationships with policyholders rather than with independent agents and, potentially, lower cost structures.

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We are vulnerable to a reduction in the amount of business written by independent agents.

Our reliance on the independent agency market makes us vulnerable to a reduction in the amount of business written by independent agents. Many of our competitors, like us, rely significantly on the independent agency market. Approximately two-thirds of all personal automobile insurance is sold direct or through captive agents (agents employed by the company or selling only one company s products) and approximately one-third is sold by independent agents. A material reduction in the amount of business independent agents sell would negatively impact our revenues.

If we are not able to attract and retain independent agents, our revenues could be negatively affected.

We must compete with other insurance carriers for independent agents business. Some of our competitors offer a larger variety of products, lower prices for insurance coverage or higher commissions. While we believe that the products, pricing, commissions and services we offer agents are competitive, we may not be able to continue to attract and retain independent agents to sell our insurance products, in which case, our revenues could be negatively affected.

We are subject to comprehensive regulation, and our ability to earn profits may be restricted by these regulations.

We are subject to comprehensive regulation by government agencies in the states where our insurance company subsidiaries are domiciled (California, Indiana, Ohio, Oklahoma and Texas) and where these subsidiaries issue policies and handle claims. We must comply with regulations involving:

- the payment of dividends;
- the acquisition or disposition of an insurance company or of any company controlling an insurance company;
- approval or filing of premium rates and policy forms;
- involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges;
- minimum amounts of capital and surplus that must be maintained;
- limitations on types and amounts of investments;
- limitation of the right to cancel or non-renew policies;
- regulation of the right to withdraw from markets or terminate involvement with agencies;
- licensing of insurers and agents;
- reporting with respect to financial condition; and
- transactions between an insurance company and any of its affiliates.

In addition, state insurance department examiners perform periodic financial and market conduct examinations of insurance companies. Such regulation is generally intended for the protection of policyholders rather than securityholders.

Regulation may become more extensive in the future.

Existing insurance-related laws and regulations may become more restrictive in the future, and new restrictive laws may be enacted. New or more restrictive regulation in the future could make it more expensive for us to conduct our business, restrict the premiums we are able to charge or otherwise change the way we do business. See Business Regulatory Environment.

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Our insurance subsidiaries are subject to minimum capital and surplus requirements. Our failure to meet these requirements could subject us to regulatory action.

Our insurance subsidiaries are subject to minimum capital and surplus requirements imposed under the laws of California, Indiana, Ohio, Oklahoma and Texas. Any failure by one of our insurance subsidiaries to meet the minimum capital and surplus requirements imposed by applicable state law will subject it to corrective action, including requiring the adoption of a comprehensive financial plan, examination and the issuance of a corrective order by the applicable state insurance department, revocation of its license to sell insurance products or placing the subsidiary under state regulatory control. Any new minimum capital and surplus requirements adopted in the future may require us to increase our capital and surplus levels, which we may be unable to do. As of September 30, 2002, each of our insurance company subsidiaries had capital and surplus substantially in excess of the currently required amounts.

As a holding company, we are dependent on the results of operations of our insurance company subsidiaries to meet our obligations and pay future dividends.

We are a holding company and a legal entity separate and distinct from our insurance company subsidiaries. As a holding company without significant operations of our own, our principal sources of funds are dividends and other distributions from our insurance company subsidiaries. State insurance laws limit the ability of our insurance companies to pay dividends and require our insurance companies to maintain specified levels of statutory capital and surplus. In addition, for competitive reasons, our insurance companies need to maintain financial strength ratings which requires us to sustain capital levels in those subsidiaries. These restrictions affect the ability of our insurance company subsidiaries to pay dividends and use their capital in other ways. Our rights to participate in any distribution of assets of our insurance company subsidiaries are subject to prior claims of policyholders and creditors (except to the extent that our rights, if any, as a creditor are recognized). Consequently, our ability to pay debts, expenses and cash dividends to our shareholders may be limited. Through September 30, 2002, the NSA Group s insurance subsidiaries paid $87 million in dividends. In the fourth quarter of 2002, these companies received regulatory approval and paid extraordinary dividends of $102.5 million. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Sources of Funds and Business Regulatory Environment.

Our failure to maintain a commercially acceptable financial strength rating would significantly and negatively affect our ability to implement our business strategy successfully.

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company s sales. A.M. Best has currently assigned our insurance company subsidiaries a group rating of A (Excellent) . According to A.M. Best, A ratings are assigned to insurers which have, on balance, excellent balance sheet strength, operating performance and business profile when compared to the standards established by A.M. Best and, in A.M. Best s opinion, have a strong ability to meet their ongoing obligations to policyholders. A.M. Best bases its ratings on factors that concern policyholders and not upon factors concerning investor protection. Such ratings are subject to change and are not recommendations to buy, sell or hold securities. There can be no assurance that our rating or future changes to our rating will not affect our competitive position. See Business Ratings.

We are parties to litigation which, if decided adversely to us, could impact our financial results.

We are named as a defendant in a number of lawsuits, including certain class actions. These lawsuits are described more fully in Business Legal Proceedings . Litigation, by its very nature, is unpredictable and the outcome of these cases is uncertain. Further, the precise nature of the relief that may be sought or granted in any lawsuits is uncertain and may, if these lawsuits are determined adversely to us, negatively impact our earnings. See Business Legal Proceedings.

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New claim and coverage issues are continually emerging, and these new issues could negatively impact our revenues or our method of doing business.

As automobile insurance industry practices and regulatory, judicial, and consumer conditions change, unexpected and unintended issues related to claim and coverage may emerge. The issues can have a negative effect on our business by either extending coverage beyond our underwriting intent or by increasing the size of claims. Recent examples of emerging claims and coverage issues include:

- the use of an applicant s credit rating as a factor in making risk selection and pricing decisions;
- the availability of coverages which pay different commission levels to agents depending upon premium level;
- a growing trend of plaintiffs targeting automobile insurers, including us, in purported class action litigation relating to the claim-handling practices such as total loss evaluation methodology and the alleged diminution in value to insureds involved in accidents.

The effects of these and other unforeseen emerging claim and coverage issues could negatively impact our revenues or our methods of doing business. See Business Legal Proceedings.

Our reserves may be inadequate, which could significantly affect our financial results.

We record reserve liabilities for the estimated payment of losses and loss adjustment expenses for both reported and unreported claims. Due to the inherent uncertainty of estimating reserves, it has been necessary in the past, and may continue to be necessary in the future, to revise estimated liabilities as reflected in our reserves for claims and related expenses. To the extent that reserves are inadequate and are strengthened, the amount of such increase is treated as a charge to earnings in the period in which the deficiency is recognized. The historic development of reserves for losses and loss adjustment expense may not necessarily reflect future trends in the development of these amounts. Accordingly, it is not appropriate to extrapolate redundancies or deficiencies based on historical information.

We are dependent on key executives.

Our success will depend in part upon the continued service of our Chief Executive Officer and President, James R. Gober and our Executive Vice President, John R. Miner. We have an employment agreement with Mr. Gober, which we describe in Management Employment Agreement with James R. Gober , but not with Mr. Miner. We do not have key person insurance on the lives of Messrs. Gober or Miner. Our success will also depend on our ability to attract and retain additional executives and personnel. The loss of key personnel could cause disruption in our business. As we grow, we will need to recruit and retain additional qualified personnel, and we may not be able to do so.

Adverse securities market conditions can have significant and negative effects on our investment portfolio.

Our results of operations depend in part on the performance of our invested assets. As of September 30, 2002, 97% of our investment portfolio was invested in fixed maturity securities and 3% in equity securities. Certain risks are inherent in connection with fixed maturity securities including loss upon default and price volatility in reaction to changes in interest rates and general market factors. An increase in interest rates lowers prices on fixed maturity securities, and any sales we make during a period of increasing interest rates may result in losses. Conversely, investment income earned from future investments in fixed maturity securities will decrease if interest rates decrease.

Our results may be adversely affected by conditions in the states where our business is concentrated.

For the year ended December 31, 2001, we generated approximately 78% of our gross written premiums in our top ten states. California, our largest market, generated approximately 25% of our gross written premiums in 2001, and we believe that it generated approximately one-third in 2002. Our revenues and profitability are therefore subject to prevailing regulatory, legal, economic, demographic, competitive and other conditions in these states. Changes in any of these conditions could make it less attractive for us to do business in those states. Adverse regulatory developments in any of these states, which could include, among others, reductions in the rates permitted to be charged, inadequate rate increases, an inability to reduce the amount of insurance we write in those states, or more fundamental changes in the design or implementation of the automobile insurance regulatory framework, could negatively affect our premium revenue or make it more expensive or less profitable for us to conduct our business.

AFG has the ability to exert significant influence over our operations and may have interests that differ from those of our other shareholders.

After the offering, AFG will beneficially own approximately 39% of our common stock (approximately 30% if the underwriters over-allotment option is exercised in full) and will have the ability to exert significant influence over our policies and affairs. AFG has the power to affect significantly the election of our board of directors and approve any action requiring shareholder vote, including amendments to our Articles of Incorporation or Regulations and approving mergers or sales of substantially all of our assets. The interests of AFG may differ from the interests of our other shareholders in some respects. See Certain Arrangements and Relationships Between Our Company and AFG.

We are dependent on certain contractual arrangements with AFG, our principal shareholder, and we may be unable to replace these arrangements, upon their expiration, with similar or more favorable arrangements.

In connection with this offering, we and our insurance companies will enter into a formation and separation agreement, a registration rights agreement, a noncompetition agreement, an investment advisory agreement, a tax allocation indemnification agreement, a services agreement and other arrangements and agreements with AFG and certain of its affiliates. See Certain Arrangements and Relationships Between Our Company and AFG. We negotiated the terms of these agreements with AFG. Our current board of directors has approved the terms of these agreements, but the agreements have not been and will not be reviewed or approved by the independent directors who will join our board upon completion of the offering. These agreements will become effective on or shortly after the completion of the offering. Several of these agreements will govern our relationship with AFG and its affiliates with respect to various intercompany services which AFG and its affiliates will provide us following the completion of the offering. After the expiration of these agreements, we may not be able to replace these services and arrangements in a timely manner or on terms and conditions, including cost, as favorable as those we have with AFG.

Certain provisions contained in our organizational documents and the insurance laws of various states could impede an attempt to replace or remove our management or prevent the sale of our company, which could diminish the value of our common stock.

Our Articles of Incorporation and Regulations and the insurance laws of various states contain provisions that could impede an attempt to replace or remove our management or prevent the sale of our company, that, in either case, shareholders might consider to be in their best interests. For instance, these provisions may prevent shareholders from receiving the benefit of any premium over the market price of our common stock offered by a bidder in a potential takeover. In addition, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future. See Business Regulatory Environment and Description of Capital Stock.

Future sales of shares of our common stock by our existing shareholders in the public market, or the possibility or perception of such future sales, could adversely affect the market price of our stock.

After giving effect to the offering, AFG will beneficially own approximately 39% of our outstanding shares of common stock (approximately 30% if the underwriters over-allotment option is exercised in full). Sales of substantial amounts of our common stock in the public market by AFG, its affiliates or our other shareholders, or the possibility or perception that such sales could occur, could adversely affect prevailing market prices for our common stock. If such sales reduce the market price of our common stock, our ability

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to raise additional capital in the equity markets may be adversely affected. AFG and its affiliates and our executive officers and directors have entered into the lock-up agreements described in Underwriting. In addition, we have entered into a registration rights agreement with AFG under which we are obligated to register the shares that AFG beneficially owns. See Certain Arrangements and Relationships Between Our Company and AFG Registration Rights.

Because there has been no prior public market for our common stock, there can be no assurance that a public market will develop.

Prior to this offering, there has been no public market for our common stock and there can be no assurance that an active trading market will develop and continue upon completion of this offering or that the market price for our common stock will not decline below the initial public offering price. The initial public offering price will be determined through negotiations between us and the underwriters. The initial public offering price of our common stock will be based on numerous factors and may not be indicative of the market price for our common stock after the initial public offering. Factors such as variations in our actual or anticipated operating results, changes in or failure to meet earnings estimates of securities analysts, market conditions in the insurance industry, regulatory actions and general economic and securities market conditions, among other factors, could cause the market price of our common stock to decline below the initial public offering price.

The proceeds of this offering and a portion of the proceeds of our offering of senior notes will not be available to us for working capital or other purposes.

This offering is being made by American Premier Underwriters, Inc., a wholly-owned subsidiary of AFG, which we refer to as the selling shareholder. Therefore, none of the proceeds of this offering will be available to us for any purposes. We intend to use approximately $55 million of the proceeds of our offering of senior notes, if completed, to repay the promissory note we will issue to AFG as partial consideration for its transfer of the nonstandard automobile insurance business to us and expect to have approximately $122 million for use as working capital.

We may not complete our offering of senior notes.

We may not complete our senior note offering. If we do not complete the senior note offering, we are not obligated to repay the ten-year AFG note until its scheduled maturity, and we intend to obtain financing through a bank line of credit. We currently have no commitment from any bank with respect to such a line of credit and cannot be certain that we will be able to obtain one. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

CAUTIONARY STATEMENT CONCERNING FORWARD LOOKING STATEMENTS

Some of the statements under Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere in this prospectus, including those with respect to expected future rate increases, may include forward-looking statements which reflect our current views with respect to future events and financial performance. These statements include forward-looking statements both with respect to us and the insurance industry. Statements which include the words believes , expects , may , will should , seeks , intends , plans , estimates , anticipates or the negative version of those words or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to those described under Risk Factors above. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

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USE OF PROCEEDS

We will receive no proceeds from this offering.

DIVIDEND POLICY

Our board of directors currently intends to declare a dividend on our common stock of $0.22 per share annually. The declaration and payment of dividends is subject to the discretion of our board of directors, and will depend on, among other things, our financial condition, results of operations, capital and cash requirements, future prospects, regulatory and contractual restrictions on the payment of dividends by our subsidiaries, and other factors deemed relevant by the board. For a discussion of our cash resources and needs, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

We are a holding company and a legal entity separate and distinct from our insurance company subsidiaries. As a holding company without significant operations of our own, our principal sources of funds are dividends and other distributions from our insurance company subsidiaries. Our ability to receive dividends from subsidiaries is subject to limits under applicable state insurance laws. See Business Regulatory Environment.

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CAPITALIZATION

The following table shows our historical capitalization at September 30, 2002, as adjusted to reflect our incorporation, a 20,347-for-1 common stock split implemented in January 2003, $102.5 million in dividends paid in the fourth quarter of 2002, our acquisition of the NSA Group from AFG for a $55 million promissory note and issuance of common stock, and pro forma to give effect to the issuance of the senior notes and repayment of the AFG note. The completion of this offering is not conditioned upon the completion of the senior note offering. If the senior note offering is not completed, the promissory note to AFG would remain outstanding.

	September 30, 2002	
	Historical As Adjusted	Pro Forma
	(dollars in millions)	
8.5% Promissory Note to AFG due 2013	$ 55.0	$
Senior Notes due 2013		180.0
Shareholders equity:		
Preferred stock; 1,000 shares authorized; no shares issued or outstanding		
Common stock and paid-in capital; 50,000,000 shares authorized; 20,347,083 shares issued and outstanding	347.8	347.8
Unrealized gain on marketable securities	19.8	19.8
Retained earnings		
Total shareholders equity	367.6	367.6
Total capitalization	$422.6	$547.6
Book value per common share		$18.07

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SELECTED HISTORICAL FINANCIAL DATA

The following tables summarize certain historical financial data of the NSA Group and of the Assumed Agency Business. We derived the data as of and for each of the three years ended December 31, 2001, from financial statements audited by Ernst & Young LLP. We derived the data as of and for the two years ended December 31, 1998 and 1997, and the nine months ended September 30, 2002 and 2001, from unaudited financial statements which include all adjustments, consisting of normal recurring accruals, that management considers necessary for a fair presentation of the financial position and results of operations for those periods. Results for the interim periods are not necessarily indicative of results to be expected for the entire year. You should read this data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes appearing elsewhere in this prospectus.

	Nine months ended September 30,		Year ended December 31,				
	2002	2001	2001	2000	1999	1998	1997
	(unaudited)	(unaudited)		(dollars in millions)		(unaudited)	(unaudited)
NSA Group							
Earnings Statement Data:							
Earned Premiums	$ 496.0(a)	$728.6	$ 916.4(a)	$1,043.3	$ 944.5	$1,156.7	$1,084.6
Net Investment Income	47.4	57.8	75.2	69.3	74.3	77.6	71.1
Realized Gains (Losses) on Investments	(6.4)	(4.4)	(5.9)	(5.4)	22.6	9.0	11.4
Other Income	3.2	3.3	4.3	3.6	3.5	1.5	1.6
Total Revenues	540.2	785.3	990.0	1,110.8	1,044.9	1,244.8	1,168.7
Losses and Loss Adjustment Expenses	390.7	619.4	752.3	915.8	730.5	890.7	798.8
Commissions and Other Underwriting Expenses	83.1	159.0	202.1	229.5	213.4	250.1	238.6
Other Operating and General Expenses	18.5	14.6	19.8	24.4	19.4	9.8	10.2
	492.3	793.0	974.2	1,169.7	963.3	1,150.6	1,047.6
Operating Earnings (Loss) before Income Taxes	47.9	(7.7)	15.8	(58.9)	81.6	94.2	121.1
Provision (Credit) for Income Taxes	16.5	(2.3)	6.1	(20.3)	29.2	29.5	43.6
Net Operating Earnings (Loss)	31.4	(5.4)	9.7	(38.6)	52.4	64.7	77.5
Equity in Losses of Affiliates, Net of Tax				(11.5)	(1.5)	(.7)	(.3)
Net Earnings (Loss)	$ 31.4	$ (5.4)	$ 9.7	$ (50.1)	$ 50.9	$ 64.0	$ 77.2
Balance Sheet Data:							
Cash and Investments	$1,189.4		$1,188.1	$1,216.2	$1,095.6	$1,276.7	$1,112.1
Total Assets	1,752.7		1,760.4	1,787.9	1,594.9	1,778.4	1,577.8
Unpaid Losses and Loss Adjustment Expenses	631.5		645.2	640.3	553.3	599.5	531.4
Total Liabilities	1,227.6		1,197.6	1,173.7	1,060.9	1,136.7	1,030.0
Shareholder s Equity	525.1		562.8	614.2	534.0	641.7	547.8
Statutory Data (b):							

Loss and LAE Ratio	78.7%	85.0%	82.1%	87.8%	77.4%	77.0%	73.7%
Underwriting Expense Ratio	15.1%	20.9%	21.3%	21.7%	22.6%	21.3%	21.8%
Combined Ratio	93.8%	105.9%	103.4%	109.5%	100.0%	98.3%	95.5%
Policyholders Surplus	$ 400.2		$ 442.8	$ 425.5	$ 345.4	$ 434.1	$ 407.3

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	Nine months ended September 30,		Year ended December 31,				
	2002	2001	2001	2000	1999	1998	1997
	(unaudited)	(unaudited)		(dollars in millions)		(unaudited)	(unaudited)
Assumed Agency Business							
Earnings Statement Data:							
Earned Premiums	$ 84.6(c)	$111.6	$149.9	$128.9	$138.5	$148.2	$195.6
Losses and Loss Adjustment Expenses	72.0	86.1	121.8	93.3	73.3	81.6	151.8
Commissions and Other Underwriting Expenses	21.0	32.8	42.8	39.2	46.6	47.2	59.1
	93.0	118.9	164.6	132.5	119.9	128.8	210.9
Underwriting Gain (Loss)	$ (8.4)	$ (7.3)	$ (14.7)	$ (3.6)	$ 18.6	$ 19.4	$ (15.3)
Balance Sheet Data:							
Assets (excluding Investments) to be Transferred	$ 61.2		$ 78.8	$ 65.2	$ 55.4	$ 62.1	$ 41.2
Unpaid Losses and Loss Adjustment Expenses	123.6		115.9	105.9	118.3	150.5	191.1
Liabilities to be Transferred	176.5		200.5	173.3	183.1	222.2	243.1
Statutory Data (b):							
Loss and LAE Ratio	84.9%	77.2%	81.3%	72.4%	54.8%	55.0%	77.4%
Underwriting Expense Ratio	20.2%	29.5%	28.7%	30.3%	35.0%	31.4%	30.6%
Combined Ratio	105.1%	106.7%	110.0%	102.7%	89.8%	86.4%	108.0%

(a) The decline in earned premiums during 2001 and the nine months of 2002 is due primarily to a reinsurance agreement pursuant to which the NSA Group ceded 90% of the automobile physical damage business written by it as more fully discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations.

(b) While financial data is reported in accordance with generally accepted accounting principles (GAAP) for shareholder and other investment purposes, it is reported on a statutory basis for insurance regulatory purposes. An insurer s underwriting profitability, as opposed to overall profitability or net earnings, 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 or federal income taxes.

The statutory combined ratio represents the sum of the following ratios: (1) losses and loss adjustment expenses incurred as a percentage of net earned premiums and (2) underwriting expenses incurred as a percentage of net written premiums. Certain statutory expenses differ from amounts reported under GAAP. Specifically, under GAAP, commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized and amortized on a pro rata basis over the period in which the related premiums are earned; on a statutory basis these items are expensed as incurred. In addition, 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.

See Results of Operations Underwriting in Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of GAAP combined ratios for the NSA Group and the Assumed Agency Business.

(c) The decline in earned premiums during the first nine months of 2002 is due primarily to the reinsurance agreement described in note (a) above.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information is intended to provide you with information about how the transactions described herein might have affected the historical financial statements of the NSA Group and the Assumed Agency Business if they had been consummated at an earlier time. *Since the Assumed Agency Business is not a separate legal entity, it does not have complete historical balance sheets reflecting a separate investment portfolio and equity nor complete income statements reflecting investment income and income taxes. The following pro forma information does not necessarily reflect the financial position or results of operations which would have actually resulted had the transactions described occurred as of the dates indicated, nor should they be taken as necessarily indicative of the future financial position or results of operations of Infinity.*

The unaudited pro forma financial information is based upon and should be read in conjunction with the separate audited financial statements of both the NSA Group and the Assumed Agency Business and the related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

We have prepared the following Unaudited Pro Forma Condensed Combined Balance Sheet assuming that on September 30, 2002: (i) Infinity was initially capitalized as an indirect wholly-owned subsidiary of AFG, (ii) AFG transferred all of the issued and outstanding capital stock of the corporations comprising the NSA Group to Infinity in exchange for additional Infinity common stock and an 8.5% promissory note with a principal amount of $55 million, (iii) Infinity assumed the Assumed Agency Business through a reinsurance agreement and (iv) Infinity issued 8.5% senior notes with an aggregate principal amount of $180 million, and used $55 million of the net proceeds from the offering to repay its promissory note to AFG and retained the remaining $122 million (after deducting estimated costs of the offering) as working capital pending investment in fixed maturity securities.

We have prepared the following Unaudited Pro Forma Condensed Combined Statements of Operations assuming that the transactions enumerated above occurred as of January 1, 2001. Pro forma statements of operations for the years 2000 and 1999 are presented for comparative purposes to show the retroactive combination of the NSA Group and the Assumed Agency Business. They do not include the effects of the debt issuance shown in the 2001 and 2002 pro forma statements. Pro forma investment income does not include any earnings on the $115.3 million in investment securities received by Infinity in connection with the acquisition of the Assumed Agency Business. Annual investment income (based on the overall yield of these securities of 5.3% at September 30, 2002) would be $6.1 million. In addition, pro forma net investment income does not include any earnings on the $122 million in 8.5% senior note proceeds to be retained and reinvested by Infinity. Likewise, pro forma interest expense does not include interest ($10.4 million for 2001 and $7.8 million for the nine months ended September 30, 2002) on that same amount. The results of interim periods are not necessarily indicative of results for the entire year.

Pro forma amounts do not reflect any charges for the added costs of Infinity operating as a separate public company. We estimate these costs to be approximately $3 million annually. Pro forma amounts also do not reflect the benefits of Infinity s recent consolidation of its claims, underwriting, product management and other functions in 2002. Management estimates that this consolidation will result in annualized savings of approximately $13 million, about $2 million of which has been realized and reflected in operations for the first nine months of 2002 and $4 million of which is expected to have been realized in the entire year 2002.

We ceased amortizing goodwill beginning January 1, 2002, in accordance with Statement of Financial Accounting Standards No. 142. Goodwill amortization expensed for the year 2001 was $2.2 million.

Pro forma amounts reflect the acquisition of the Assumed Agency Business as a transfer of assets among entities under common control. Further discussion of pro forma adjustments is contained in the accompanying notes.

Infinity Property and Casualty Corporation

Unaudited Pro Forma Condensed Combined Balance Sheet
September 30, 2002

	NSA Group Historical (As Adjusted)(*)	Assumed Agency Business Historical	Combining Adjustments	Pro Forma Combined
		(in millions)		
Assets:				
Investments	$ 970.8	$	$ 115.3(1)	$ 1,086.1
Cash	118.6		122.0(3)	240.6
Agents balances and premiums receivable	210.4	38.3		248.7
Prepaid reinsurance premiums	103.9			103.9
Goodwill	70.3	5.0		75.3
Other assets	178.7	17.9	3.0(3)	199.6
	$ 1,652.7	$ 61.2	$ 240.3	$ 1,954.2
Liabilities and Capital:				
Unpaid losses and loss adjustment expenses	$ 631.5	$ 123.6	$	$ 755.1
Unearned premiums	338.2	51.0		389.2
Payable to affiliates	8.8		55.0(2)	
			(55.0)(3)	8.8
Long-term debt			180.0(3)	180.0
Other liabilities	251.6	1.9		253.5
	1,230.1	176.5	180.0	1,586.6
Excess of liabilities over assets of Assumed Agency Business		(115.3)	115.3(1)	
Shareholders equity	422.6		(55.0)(2)	367.6
	$ 1,652.7	$ 61.2	$ 240.3	$ 1,954.2
Book value per common share				$ 18.07(7)

(*) Historical amounts have been adjusted to reflect $102.5 million in dividends paid in the fourth quarter of 2002.

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Infinity Property and Casualty Corporation

Unaudited Pro Forma Condensed Combined Statement of Operations(*)

	Nine months ended September 30,		Year ended December 31,		
	2002	2001	2001	2000	1999
	(in millions, except per share amounts)				
Income:					
Earned premiums	$580.6	$840.2	$1,066.3	$1,172.2	$1,083.0
Net investment income	47.4	57.8	75.2	69.3	74.3
Realized gains (losses) on investments	(6.4)	(4.4)	(5.9)	(5.4)	22.6
Other, net	3.2	3.3	4.3	3.6	3.5
	624.8	896.9	1,139.9	1,239.7	1,183.4
Costs and Expenses:					
Loss and loss adjustment expenses	462.7	705.5	874.1	1,009.1	803.8
Commissions and other underwriting expenses	104.1	191.8	244.9	268.7	260.0
Interest expense	3.7	3.7	4.9		
Other, net	18.5	14.6	19.8	24.4	19.4
	589.0	915.6	1,143.7	1,302.2	1,083.2
Operating earnings (loss) before income taxes	35.8	(18.7)	(3.8)	(62.5)	100.2
Provision (credit) for income taxes	12.3	(6.2)	(0.8)	(21.6)	35.7
Net operating earnings (loss)	23.5	(12.5)	(3.0)	(40.9)	64.5
Equity in net losses of affiliates, net of tax				(11.5)	(1.5)
Net Earnings (Loss)	**$ 23.5**	**$ (12.5)**	**$ (3.0)**	**$ (52.4)**	**$ 63.0**
Net earnings per common share basic and diluted(7)	$ 1.15	$ (.61)	$ (.15)	$ (2.58)	$ 3.10

(*) Combining details for each period presented are shown in the following pages.

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Infinity Property and Casualty Corporation

Unaudited Pro Forma Condensed Combined Statement of Operations

Nine Months Ended September 30, 2002	NSA Group Historical	Assumed Agency Business Historical	Combining Adjustments	Pro Forma Combined
	(in millions, except per share amounts)			
Income:				
Earned premiums	$496.0	$84.6	$	$580.6
Net investment income	47.4	(4)	(4)	47.4
Realized losses on investments	(6.4)			(6.4)
Other, net	3.2			3.2
	540.2	84.6		624.8
Costs and Expenses:				
Loss and loss adjustment expenses	390.7	72.0		462.7
Commissions and other underwriting expenses	83.1	21.0		104.1
Interest expense			3.7(5)	3.7
Other, net	18.5			18.5
	492.3	93.0	3.7	589.0
Operating earnings (loss) before income taxes	47.9	(8.4)	(3.7)	35.8
Provision (credit) for income taxes	16.5	n.a.(6)	(4.2)(6)	12.3
Net earnings (loss)	$ 31.4	$ (8.4)	$ .5	$ 23.5
Net earnings per common share basic and diluted				$ 1.15(7)

Nine Months Ended September 30, 2001	NSA Group Historical	Assumed Agency Business Historical	Combining Adjustments	Pro Forma Combined
	(in millions, except per share amounts)			
Income:				
Earned premiums	$728.6	$111.6	$	$840.2
Net investment income	57.8	(4)	(4)	57.8
Realized losses on investments	(4.4)			(4.4)
Other, net	3.3			3.3
	785.3	111.6		896.9
Costs and Expenses:				
Loss and loss adjustment expenses	619.4	86.1		705.5
Commissions and other underwriting expenses	159.0	32.8		191.8
Interest expense			3.7(5)	3.7
Other, net	14.6			14.6
	793.0	118.9	3.7	915.6
Operating loss before income taxes	(7.7)	(7.3)	(3.7)	(18.7)
Provision (credit) for income taxes	(2.3)	n.a.(6)	(3.9)(6)	(6.2)

Net loss	$ (5.4)	$ (7.3)	$ .2	$ (12.5)
Net loss per common share basic and diluted				$ (.61)(7)

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Infinity Property and Casualty Corporation

Unaudited Pro Forma Condensed Combined Statement of Operations

Year ended December 31, 2001	NSA Group Historical	Assumed Agency Business Historical	Combining Adjustments	Pro Forma Combined
	(in millions, except per share amounts)			
Income:				
Earned premiums	$916.4	$149.9	$	$1,066.3
Net investment income	75.2	(4)	(4)	75.2
Realized losses on investments	(5.9)			(5.9)
Other, net	4.3			4.3
	990.0	149.9		1,139.9
Costs and Expenses:				
Loss and loss adjustment expenses	752.3	121.8		874.1
Commissions and other underwriting expenses	202.1	42.8		244.9
Interest expense			4.9(5)	4.9
Other, net	19.8			19.8
	974.2	164.6	4.9	1,143.7
Operating earnings (loss) before income taxes	15.8	(14.7)	(4.9)	(3.8)
Provision (credit) for income taxes	6.1	n.a.(6)	(6.9)(6)	(.8)
Net earnings (loss)	$ 9.7	$ (14.7)	$ 2.0	$ (3.0)
Net loss per common share basic and diluted				$ (.15)(7)

Year ended December 31, 2000	NSA Group Historical	Assumed Agency Business Historical	Combining Adjustments	Pro Forma Combined
	(in millions, except per share amounts)			
Income:				
Earned premiums	$1,043.3	$128.9	$	$1,172.2
Net investment income	69.3	(4)	(4)	69.3
Realized losses on investments	(5.4)			(5.4)
Other, net	3.6			3.6
	1,110.8	128.9		1,239.7
Costs and Expenses:				
Loss and loss adjustment expenses	915.8	93.3		1,009.1
Commissions and other underwriting expenses	229.5	39.2		268.7
Other, net	24.4			24.4
	1,169.7	132.5		1,302.2
Operating loss before income taxes	(58.9)	(3.6)		(62.5)
Provision (credit) for income taxes	(20.3)	n.a.(6)	(1.3)(6)	(21.6)
Net operating loss	(38.6)	(3.6)	1.3	(40.9)

Equity in net losses of affiliates, net of tax	(11.5)			(11.5)
Net loss	$ (50.1)	$ (3.6)	$ 1.3	$ (52.4)
Net loss per common share basic and diluted				$ (2.58)(7)

Infinity Property and Casualty Corporation

Unaudited Pro Forma Condensed Combined Statement of Operations

Year ended December 31, 1999

	NSA Group Historical	Assumed Agency Business Historical	Combining Adjustments	Pro Forma Combined
	(in millions, except per share amounts)			
Income:				
Earned premiums	$ 944.5	$ 138.5	$	$ 1,083.0
Net investment income	74.3	(4)	(4)	74.3
Realized gains on investments	22.6			22.6
Other, net	3.5			3.5
	1,044.9	138.5		1,183.4
Costs and Expenses:				
Loss and loss adjustment expenses	730.5	73.3		803.8
Commissions and other underwriting expenses	213.4	46.6		260.0
Other, net	19.4			19.4
	963.3	119.9		1,083.2
Operating earnings before income taxes	81.6	18.6		100.2
Provision for income taxes	29.2	n.a.(6)	6.5(6)	35.7
Net operating earnings	52.4	18.6	(6.5)	64.5
Equity in net losses of affiliates, net of tax	(1.5)			(1.5)
Net earnings	$ 50.9	$ 18.6	$ (6.5)	$ 63.0
Net earnings per common share basic and diluted				$ 3.10(7)

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Notes To Unaudited Pro Forma Financial Information

(1) Reflects the acquisition of the Assumed Agency Business of Great American which occurred on January 1, 2003. Because the Assumed Agency Business is not a separate legal entity, the acquisition was effected through a reinsurance agreement. Under the agreement, Infinity received the net liabilities of the Assumed Agency Business plus primarily investment securities with a market value equal to $115.3 million (the excess of liabilities over assets of the Assumed Agency Business at September 30, 2002 less $5 million). The securities transferred were selected from Great American s portfolio by the AFG subsidiary that manages investments for Great American and Infinity. While the selected investments have not historically been managed as a separate portfolio or matched with the liabilities of the Assumed Agency Business, we consider them representative of Great American s overall portfolio. To the extent the net liabilities of the Assumed Agency Business and/or the market values of the securities selected change between September 30, 2002, and January 1, 2003, additional investments and/or cash will be transferred to or from Infinity to account for the change(s). Management does not believe it is likely that any such change in net liabilities or market value of the portfolio will be material to the pro forma financial statements.

The investment securities transferred by Great American consisted of 54 positions, 92% of which were rated investment grade (credit rating of AAA to BBB) by nationally recognized rating agencies at September 30, 2002, with the largest single position having a market value of $3.3 million or 3% of the total. Industry classifications for these investments were as follows: mortgage-backed securities 12%, municipal bonds 10%, electric services 9%, banks 11% and life insurers 7%; all others were less than 5% each. The table below shows the scheduled maturities of these investments based on market value as of September 30, 2002. Mortgage-backed securities had an average life of approximately five years at September 30, 2002.

Maturity	
One year or less	3%
After one year through five years	23%
After five years through ten years	45%
After ten years	17%
	88%
Mortgage-backed securities	12%
	100%

The overall yield of the transferred portfolio based on September 30, 2002, market prices was 5.3%. *For pro forma income statement purposes, no income is assumed earned on these investments.*

In addition to the transfer of financial assets and liabilities, Great American transferred to Infinity the operational processes, including policy renewal rights, and employees necessary to conduct the normal operations of this business following the date of transfer. Accordingly, the operations transferred represent a business under Emerging Issues Task Force Issue 98-3. Since the transfer was made while Infinity was an AFG subsidiary, the net liabilities and investment assets were recorded at AFG s historical cost.

(2) Reflects the 8.5% promissory note with a principal amount of $55 million payable to AFG which, along with Infinity capital stock, will be issued to AFG as consideration for the transfer of the nonstandard automobile business to Infinity.

(3) Reflects the assumed issuance of 8.5% senior notes with an aggregate principal amount of $180 million, of which $55 million is to be used to repay the promissory note payable to AFG described in note (2) above and $122 million which is to be retained as working capital pending investment in fixed maturity securities. Estimated expenses associated with this offering of $3 million are treated as prepaid expense to be amortized over the life of the senior notes.

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(4) The Assumed Agency Business represents a portion of AFG s Personal Lines segment of operations and does not have a separate investment portfolio. No investment income is assumed earned on the $115.3 million in investment securities to be received by Infinity as described in note (1) above) or on the $122 million in senior note proceeds to be retained by Infinity. As disclosed under Business Investments, the NSA Group s yield on fixed income securities for the first nine months of 2002 and the years 2001, 2000 and 1999 were 6.5%, 6.7%, 6.7% and 6.9%, respectively.

(5) Represents interest incurred on $58 million (the $55 million used to repay the promissory note to AFG plus the $3 million in estimated debt issue costs) of the $180 million of 8.5% senior notes assumed issued as described in note (3) above. No interest expense is assumed incurred on the $122 million in senior note proceeds which are to be invested in fixed maturity securities. Including interest on the $122 million would increase pro forma interest expense by $7.8 million for the nine months ended September 30, 2002, and $10.4 million for 2001.

(6) The historical Assumed Agency Business was not a separate legal entity, and accordingly, does not have a separate tax provision. The combining adjustment reflects a tax benefit on the historical underwriting loss of the Assumed Agency Business in addition to the tax effects of the adjustments to pretax income at the statutory rate of 35%.

(7) Per share amounts assume 20,347,083 shares were outstanding for all periods presented.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Following is a discussion and analysis of the historical combined financial statements of the NSA Group and the historical financial statements of the Assumed Agency Business that we have assumed. Together, these businesses will comprise Infinity s operations following our initial public offering. Following the discussion of the results of operations of these businesses is a discussion of the underwriting results of AFG s Personal segment which includes the NSA Group and the Assumed Agency Business as well as other personal business (substantially all of which is written directly with the customer instead of through independent agents) that is being retained by AFG.

This discussion should be read in conjunction with the audited combined financial statements of the NSA Group beginning on page F-4 and the audited financial statements of the Assumed Agency Business that follow the NSA Group financial statements. See Unaudited Pro Forma Financial Information for information about the financial impact of the initial public offering, the offering of senior notes, the acquisition of the NSA Group and the assumption of the Assumed Agency Business.

Infinity was incorporated in the state of Ohio in September 2002, as an indirect wholly-owned subsidiary of AFG. In connection with this initial public offering of our common stock, AFG transferred to Infinity all of the outstanding common stock of certain subsidiaries engaged primarily in nonstandard personal automobile insurance. The accompanying combined statements include the accounts of the following subsidiaries to be transferred to Infinity: Atlanta Casualty Company, Infinity Insurance Company, Leader Insurance Company and Windsor Insurance Company.

Through a reinsurance transaction entered into effective January 1, 2003, we acquired the Assumed Agency Business consisting of the personal lines business written through independent agents by AFG s principal property and casualty subsidiary, Great American. The Assumed Agency Business had net earned premiums of $150 million in 2001 consisting primarily of standard and preferred private passenger automobile insurance. The Assumed Agency Business is not included in the NSA Group s historical combined statements.

We accounted for our acquisition of the NSA Group and the assumption of the Assumed Agency Business at AFG s historical carrying amounts as transfers of net assets between entities under common control in accordance with Statement of Financial Accounting Standards No. 141.

Critical Accounting Policies

Our significant accounting policies are described in Note B to the financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. As more information becomes known, these estimates and assumptions could change and thus impact amounts reported in the future. Management believes that the establishment of insurance reserves and the determination of other than temporary impairment on investments are the two areas where the degree of judgment required to determine amounts recorded in the financial statements make the accounting policies critical. We discuss these two policies below under the headings Liquidity and Capital Resources Investments NSA Group and Liquidity and Capital Resources Uncertainties.

Liquidity and Capital Resources

Ratios. The National Association of Insurance Commissioners model law for risk based capital (RBC) provides formulas to determine the amount of capital that an insurance company needs to ensure that it has an acceptable expectation of not becoming financially impaired. At December 31, 2001, the capital ratios of all our insurance companies substantially exceeded the RBC requirements.

Sources of Funds. We are organized as a holding company with all of our operations being conducted by our insurance subsidiaries. Accordingly, we will have continuing cash needs for administrative expenses, the payment of principal and interest on borrowings, shareholder dividends, and taxes. Funds to meet these obligations will come primarily from dividend and tax payments from our insurance subsidiaries.

Under the state insurance laws, dividends and capital distributions from our insurance companies are subject to restrictions relating to statutory surplus and earnings. Through September 30, 2002, $87 million in dividends had been paid. Dividends payable without seeking regulatory approval in 2002 for the NSA Group s insurance subsidiaries was approximately $54 million. During the first nine months of 2002, these insurance subsidiaries paid approximately $50 million in dividends without regulatory approval, while certain of the NSA Group s insurance subsidiaries sought and received approval to pay additional extraordinary dividends of $37 million. In the fourth quarter of 2002, the NSA Group s insurance subsidiaries paid an additional $102.5 million in dividends. We estimate that the maximum amount of dividends payable during 2003 without regulatory approval by the NSA Group s insurance subsidiaries is $43 million. The decline in ordinary dividend capacity from 2002 to 2003 resulted from capital losses on sales on securities in 2002 and a tax benefit from the Inter-Ocean Reinsurance agreement in 2001 that did not recur in 2002, offset by improved underwriting results in 2002.

Under tax allocation agreements with Infinity, our eligible subsidiaries will compute tax provisions as if filing separate returns based on book taxable income computed in accordance with generally accepted accounting principles. The resulting provision (or credit) will be currently payable to (or receivable from) Infinity.

In connection with the offering, Infinity plans to issue $180 million principal amount of senior notes. Of the estimated $177 million of proceeds from the issuance of the notes (after deducting estimated expenses of the offering), approximately $55 million will be used to repay a ten-year promissory note to AFG related to its transfer of the NSA Group to Infinity. The remaining $122 million of the proceeds will be invested in fixed maturity securities. Interest on the notes will be payable semiannually. The notes may be redeemed at our option at any time, in whole or in part, at a redemption price equal to the principal amount of the notes plus an amount representing the present value of any remaining scheduled payments of principal and interest on the notes as calculated in accordance with the indenture. The notes also contain specified operating covenants. However, the completion of the offering is not conditioned upon the completion of the offering of senior notes, and there can be no assurance that the senior notes will be issued.

If the senior note offering is not completed, we intend to obtain financing through a bank line of credit. We currently have no commitment from any bank with respect to a line of credit, and there can be no assurance that we will be able to obtain a bank line of credit on terms acceptable to us.

Our insurance subsidiaries generate liquidity primarily by collecting and investing premiums in advance of paying claims. The NSA Group had positive cash flow from operations of approximately $51 million in the first nine months of 2002, $33 million in 2001, $25 million in 2000 and $3 million in 1999.

We believe that the $122 million in proceeds remaining from the offering of senior notes will provide sufficient resources to meet our liquidity requirements. In addition, we intend to have a bank credit line established within the next six months. However, if these funds and funds generated from operations, including dividends and tax payments from our insurance subsidiaries, are insufficient to meet fixed charges in any period, we would be required to generate cash through borrowings, sales of assets, or similar transactions.

At September 30, 2002 and December 31, 2001, the NSA Group owned publicly traded equity securities with a market value of $27 million and $45 million, respectively. Since significant amounts of these are concentrated in a relatively small number of companies, decreases in the market prices could adversely affect the insurance companies capital, potentially impacting the amount of dividends available or necessitating a capital contribution. Conversely, increases in the market prices could have a favorable impact on the companies dividend-paying capability.

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If the senior note offering is not completed, we believe that cash flow from dividends from our insurance subsidiaries, cash on hand and liquidity afforded by the renewal of the Inter-Ocean Reinsurance Agreement will be sufficient to fund operations in 2003.

2001 Quota Share Agreement. Effective April 2001, our insurance subsidiaries entered into a reinsurance agreement with Inter-Ocean Reinsurance Limited, under which our subsidiaries agreed to cede 90% of their personal auto physical damage business for policies written from April 1, 2001 to December 31, 2002. This reinsurance enabled AFG to reallocate some of its capital to its specialty lines operations. We have renewed this agreement for 2003 on terms substantially equivalent to those in effect in 2002. We have the flexibility in 2003 to adjust, on a quarterly basis, the percentage of business to be ceded under the reinsurance agreement. The percentage ceded may be reduced to as low as 20%. No adjustments with respect to future quarters can be predicted at this time but will be determined based on business conditions. Premiums ceded under this agreement from inception through December 31, 2001 and for the nine months ended September 30, 2002 were $219.5 million and $236.3 million, respectively.

The Inter-Ocean reinsurance agreement was recently amended to include coverage of Great American s personal lines business written through independent agents for policies in effect since January 1, 2002, and unearned premium at December 31, 2001 that we would otherwise assume as part of the Assumed Agency Business. Accordingly, Great American s participation in the Inter-Ocean reinsurance agreement reduces the size of the Assumed Agency Business.

Investments NSA Group. Our investment portfolio at September 30, 2002, contained $1 billion in fixed maturity securities and $27 million in equity securities, all carried at market value with unrealized gains and losses reported as a separate component of shareholder s equity on an after-tax basis. At September 30, 2002, we had pretax net unrealized gains of $32.4 million on fixed maturities and a pretax unrealized loss of $2.0 million on equity securities.

Approximately 94% of the fixed maturities that we hold were rated investment grade (credit rating of AAA to BBB) by nationally recognized rating agencies at September 30, 2002. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated or noninvestment grade.

Investments in mortgage-backed securities (which we refer to as MBSs) represented approximately one-sixth of our fixed maturities at September 30, 2002. MBSs are subject to significant prepayment risk due to the fact that, in periods of declining interest rates, mortgages may be repaid more rapidly than scheduled as borrowers refinance higher rate mortgages to take advantage of lower rates. Due to the decline in the general level of interest rates in 2002, the NSA Group has experienced an increase in the level of prepayments on its MBSs; these prepayments have not been reinvested at interest rates comparable to the rates on the prepaid MBSs. Approximately 95% of our MBSs are rated AAA and all are investment grade.

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Summarized information for securities with unrealized gains in the NSA Group s balance sheet at September 30, 2002 and for those with unrealized losses at that date follows: