INFINITY PROPERTY & CASUALTY CORP
Form 10-K
February 25, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-50167

INFINITY PROPERTY AND CASUALTY CORPORATION

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark 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. x

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	x
Non-accelerated filer	¨ (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 x No

As of June 30, 2010, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was $584,082,112 based on the last sale price of Common Stock on that date as reported by The NASDAQ Global Select Market.

As of February 11, 2011, there were 12,405,902 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 25, 2011, are incorporated by reference in Part III hereof.

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Cautionary Statement Regarding Forward-Looking Statements

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

The primary events or circumstances that could cause actual results to differ materially from those expected by Infinity include determinations with respect to reserve adequacy, realized gains or losses on the investment portfolio (including other-than-temporary impairments for credit losses), rising bodily injury loss cost trends, undesired business mix or risk profile for new business, elevated unemployment rates and the proliferation of illegal immigration legislation in key Focus States. Infinity undertakes no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties 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

Infinity Property and Casualty Corporation (Infinity or the Company) is a holding company that, through subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance. Infinity is headquartered in Birmingham, Alabama. The Company employed approximately 1,900 persons at December 31, 2010.

Infinity files its 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. Infinity s filed documents may also be accessed via the SEC Internet site at http://www.sec.gov. All of Infinity s SEC filings, news releases and other information may also be accessed free of charge on Infinity s Internet site at http://www.infinityauto.com. Information on Infinity s website is not part of this Form 10-K.

Please see Note 1 to the Consolidated Financial Statements for additional information regarding the history and organization of Infinity. References to Infinity, unless the context requires otherwise, include the combined operations of its subsidiaries (collectively the NSA Group) and the in-force personal insurance business assumed through a reinsurance contract (the Assumed Agency Business) from Great American Insurance Company (GAI). Unless indicated otherwise, the financial information herein is presented 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 38%, or $160 billion, of the estimated $425 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, Infinity believes 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 30% of all personal automobile insurance. The remainder is sold by captive agents or directly by insurance companies to their customers. Infinity believes that, relative to the standard and preferred auto insurance market, a disproportionately larger portion of nonstandard auto insurance is sold through independent agents.

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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. Infinity believes that the current competitive environment differs by state. In some states, underwriting results are favorable and competitors are taking rate decreases, while in other states, underwriting results are poor and competitors are increasing rates. In Infinity s largest state by premium volume, California, Infinity believes the market is soft, marked by aggressive competition for independent agents business through increased sales and commission incentives.

Industry-wide, rates increased 4.0% during 2008, 4.7% in 2009 and 4.4% in 2010. Infinity s filed average rate adjustments on its personal auto business were (2.6)%, (0.3)% and 1.2% for 2008, 2009 and 2010, respectively.

The personal auto insurance industry is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. Infinity generally competes with other insurers based on price, coverage offered, claims handling, customer service, agent commission, geographic coverage and financial strength ratings. Infinity competes with both large national writers and smaller regional companies. In 2009, the five largest automobile insurance companies accounted for approximately 51% of the industry s net written premium and the largest ten accounted for approximately 68% (2010 industry data is not available). Approximately 353 insurance groups compete in the personal auto insurance industry according to SNL Financial. Some of these groups specialize in nonstandard auto insurance while others insure a broad spectrum of personal auto insurance risks.

Operations

Infinity is 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.

In recent years, Infinity has made efforts to improve service levels and more consistently and cost effectively manage its operations. The company consolidated certain customer service, centralized claims and information technology back-office operations and opened a bilingual customer service call center to improve its service capabilities.

Infinity estimates that approximately 77% of its personal auto business in 2010 was nonstandard auto insurance, compared to 79% in 2009. Based on data published by A.M. Best, Infinity believes that it is the fourth largest provider of nonstandard auto coverage through independent agents in the United States. Infinity also writes standard and preferred personal auto insurance, mono-line commercial auto insurance and classic collector automobile insurance.

Summarized historical financial data for Infinity is presented below (in thousands):

	Twelve months ended December 31,		
	2010	2009	2008
Gross written premium	$ 952,426	$ 848,812	$ 896,899
Net written premium	946,869	843,869	892,090
Net earnings	91,523	70,594	19,257

	As of December 31,	
	2010	2009
Total assets	$ 1,852,357	$ 1,806,327
Total liabilities	1,191,173	1,188,167

Total shareholders equity	661,184	618,160

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Infinity has a history of favorable underwriting results. The following table compares Infinity s 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). 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. Infinity has consistently performed better than the industry as shown below:

	2010	2009	2008	2007	2006	2006-2010	2001-2010
Infinity	88.4%	87.2%	91.2%	91.8%	88.7%	89.6%	92.1%
Industry (a)	99.7%	101.3%	100.3%	98.3%	95.5%	99.0%	99.3%
Percentage points better than industry	11.3%	14.1%	9.1%	6.5%	6.8%	9.4%	7.2%

(a) Private passenger auto industry combined ratios for 2000 through 2009 were obtained from A.M. Best. A.M. Best data were not available for 2010. The industry combined ratio for 2010 is an estimate based on data obtained from Conning Research and Consulting.

Products

Personal Automobile is Infinity s 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. Infinity offers 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 offers the broadest coverage and is designed for standard and preferred risk drivers. For the year ended December 31, 2010, Infinity s mix of personal automobile written premium was 39% Low Cost, 56% Value Added and 5% 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. Infinity offers mono-line commercial automobile insurance to businesses with fleets of 12 or fewer vehicles. Businesses that are involved in what Infinity considers hazardous operations or interstate commerce are generally avoided.

Classic Collector provides protection for classic collectible automobiles. Infinity s 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.

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

	Twelve months ended December 31,		
	2010	2009	2008
Personal Automobile	93%	92%	93%
Commercial Vehicle	6%	6%	5%
Classic Collector	1%	2%	2%
Total	100%	100%	100%

Distribution and Marketing

Infinity distributes its products primarily through a network of over 12,500 independent agencies and brokers (with approximately 16,000 locations). In 2010, three independent agencies each accounted for between 2.0% and 3.6% of Infinity s gross written premium, four other agencies each accounted for between 1.0% and 1.8% of the Company s gross written premium and 14% of the agency force produced 80% of Infinity s gross written premium. In California, Infinity s largest state by premium volume, 40 independent agents and brokers produced 44% of gross written premium (which represents 22% countrywide).

Infinity also fosters agent relationships by providing them with access to Infinity s Internet web-based software applications along with programs and services designed to strengthen and expand their marketing, sales and service capabilities. Infinity s Internet-based software applications provide many of its agents with real-time underwriting, claims and policy

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information. Infinity believes the array of services that it offers to its agents adds significant value to the agents businesses. For example, Providing Agents Service and Support Program is Infinity s incentive-based program through which agents receive assistance in critical areas such as training, advertising and promotion. In 2010, Infinity spent $6.9 million on co-op advertising and promotions.

Infinity also collaborates with non-affiliated property and casualty insurers that have their own captive agency forces. These companies usually provide standard and preferred auto coverage through one of their own companies while utilizing Infinity s companies for their nonstandard risks. Infinity believes these relationships are mutually beneficial because its partners gain access to Infinity s nonstandard auto expertise, and Infinity gains access to a new distribution channel.

Infinity is licensed to write insurance in all 50 states and the District of Columbia, but is committed to growth in targeted urban areas (Urban Zones) identified within select Focus States that management believes offer the greatest opportunity for premium growth and profitability. Infinity classifies the states in which it operates into three categories:

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

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

Other States Includes 11 states where Infinity maintains a renewal book of personal auto business.

Infinity further classifies the Focus States into two categories:

Urban Zones include the following urban areas:

Arizona Phoenix and Tucson

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

Florida Jacksonville, Miami, Orlando, Sarasota and Tampa

Georgia Atlanta

Illinois Chicago

Nevada	Las Vegas
Pennsylvania	Allentown and Philadelphia
Texas	Dallas, Fort Worth, Houston and San Antonio

Non-urban Zones include all remaining areas in the Focus States outside of a designated Urban Zone.
Infinity continually evaluates its market opportunities; thus, the Focus States, Urban Zones, Maintenance States and Other States may change over time. In the table below, Infinity has restated 2009 and 2008 premium to be consistent with the 2010 classification of Urban Zones, Focus States, Maintenance States and Other States.

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Total gross written premium among the three state categories are as follows:

Personal Auto Insurance	Twelve months ended December, 31 2010	2009	2008
Focus States:			
California			
Urban Zones	48.9%	53.1%	50.1%
Non-urban Zones	0.9%	1.1%	1.2%
Florida			
Urban Zones	11.2%	8.1%	8.7%
Non-urban Zones	5.4%	4.3%	4.5%
Texas			
Urban Zones	5.3%	4.5%	4.8%
Non-urban Zones	1.4%	1.2%	1.2%
Pennsylvania			
Urban Zones	4.7%	3.8%	3.3%
Non-urban Zones	1.3%	1.7%	2.0%
Arizona			
Urban Zones	3.3%	2.7%	3.4%
Non-urban Zones	0.1%	0.1%	0.1%
Georgia			
Urban Zones	2.2%	2.2%	2.8%
Non-urban Zones	1.9%	1.9%	2.5%
Nevada			
Urban Zones	2.1%	2.6%	2.6%
Non-urban Zones	0.1%	0.1%	0.0%
Illinois			
Urban Zones	1.1%	0.7%	0.2%
Non-urban Zones	0.3%	0.2%	0.1%
Total Focus States	90.3%	88.3%	87.4%
Maintenance States	2.4%	3.2%	5.0%
Other States	0.3%	0.6%	0.4%
Subtotal	92.9%	92.1%	92.8%
Commercial Vehicle	6.0%	6.3%	4.8%
Classic Collector	1.1%	1.6%	2.4%
Other	0.0%	0.0%	0.1%
Total all states and all lines	100.0%	100.0%	100.0%
Total $ (in thousands) - all states and all lines[1]	952,426	848,816	896,902

[1] 2009 and 2008 exclude less than $(0.1) million each of premium written on behalf of other companies.

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Infinity s distribution and marketing efforts are implemented with a focus on maintaining a low cost structure. Controlling expenses allows Infinity to price competitively and achieve better underwriting returns. Over the five years ended 2009, years for which industry data are available from A.M. Best, Infinity s statutory ratio of underwriting expenses to premium written has averaged 21.2%, which is 5.8 points better than the independent agency segment of the private passenger automobile industry average of 27.0% for the same period.

Claims Handling

Infinity strives for accuracy, consistency and fairness in its claim resolutions. Infinity s claims organization employs approximately 950 people, has 28 field locations and provides a 24-hour, seven days per week toll-free service for its customers to report claims. Infinity predominantly uses its own local adjusters and appraisers, who typically respond to claims within 24 hours of a report. Included in the 28 field locations are 10 claims service centers, which allow customers to bring in their vehicles for damage appraisal.

Infinity is committed to the field handling of claims in Urban Zones and believes it provides, when compared to alternative methods, better service to its customers and better control of the claim resolution process. Infinity opens claims branch offices in the Urban Zones 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.

In addition to the use of field claims handling, Infinity uses two centralized claims call centers, one in Birmingham, Alabama and another in McAllen, Texas, to receive initial reports of losses and to adjust simple property damage claims.

Ratings

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

Regulatory Environment

Infinity s 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. Insurers are also required by many states, 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 Infinity might be required to assume in a given state in connection with an involuntary plan may be reduced because of credits Infinity may receive for nonstandard policies that it voluntarily writes. 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 Infinity s insurance subsidiaries may conduct routine, on-site visits and examinations of the companies affairs. At December 31, 2010, Infinity s insurance subsidiaries were involved in a claims practices examination in California, Infinity s largest state by premium volume. As of February 25, 2011, this examination has 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 Infinity s insurance subsidiaries. Every five years, Infinity s insurance subsidiaries are subject to a financial examination by the states in which the subsidiaries are domiciled.

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The insurance laws of the states of domicile of Infinity s 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 Infinity s common stock.

Infinity is a holding company with no business operations of its own. Consequently, Infinity s ability to pay dividends to shareholders and meet its debt payment obligations is largely dependent on dividends or other distributions from its insurance company subsidiaries, current investments and cash held. State insurance laws restrict the ability of Infinity s 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 its outstanding liabilities and adequate to its 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, the company 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.

The ordinary dividend capacity and payment activity of Infinity s insurance companies for the two most recent years as well as the dividend capacity for the upcoming year are shown in the following table (in thousands):

	2011	2010	2009
Maximum ordinary dividends available to Infinity	$ 96,000	$ 107,000	$ 43,000
Dividends paid from subsidiaries to parent		$ 100,000	$ 90,000

The 2011 dividend capacity decreased from 2010 because of a decline in statutory income resulting from a decrease in underwriting income. The dividend capacity for 2010 increased because of an increase in statutory income resulting from a rise in redundancy of loss reserves and a reduction in other-than-temporary impairment charges in 2009 as compared to 2008. In the table above, dividends paid from subsidiaries in 2009 include a $60 million extraordinary dividend for which Infinity received regulatory approval.

State insurance laws require Infinity s 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, Infinity s insurance company subsidiaries need to maintain adequate financial strength ratings from independent rating agencies. Both of these factors may limit the ability of Infinity s insurance subsidiaries to declare and pay dividends.

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Risk Factors

ITEM 1A

Risk Factors

Infinity s 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 the Company has filed with the SEC. In addition to these risks, other risks and uncertainties not presently known to Infinity or that the Company currently believes to be immaterial may also adversely affect our business.

Sustained elevated levels of unemployment may disproportionately affect Infinity s target consumers and could adversely affect the Company s premium revenue and profitability.

Continued elevated unemployment levels and low consumer confidence could negatively affect insurance buying behavior. Infinity believes that these economic factors disproportionately affect consumers of nonstandard automobile insurance. Customers may choose not to purchase coverage, to let coverage lapse on renewal or to opt for liability coverage only. These factors may adversely affect Infinity s premium revenue and profitability.

Profitability may be affected if Infinity fails to accurately price the risks it underwrites.

Infinity s profitability depends on its 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 Infinity has less pricing experience. Infinity could under-price risks, which could negatively affect its profit margins, or overprice risks, which could reduce sales volume and competitiveness. Either scenario could adversely affect profitability. Additionally, Infinity is implementing a new pricing methodology in seven of the eight Focus States during 2011, which could affect the Company s ability to attract new customers and retain current customers as well as its ability to maintain or improve underwriting margins.

Infinity s future profitability may be adversely affected by its growth initiative.

Infinity intends to pursue further premium growth in its Focus States. 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. Infinity s new business combined ratios typically run 20 to 35 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, Infinity s future profitability may be negatively impacted.

Because of the significant concentration of Infinity s business in California, Infinity s profitability may be adversely affected by negative developments in the California insurance market and economic environment.

California, Infinity s largest market, generated approximately 53% of Infinity s gross written premium in 2010. Infinity s California business also generates substantial underwriting profit. Consequently, Infinity s revenues and profitability are affected by the dynamic nature of regulatory, legal, competitive and economic conditions in that state, including rising unemployment. Examples of potentially adverse regulatory or judicial developments or proposed legislation in California include laws aimed at curtailing unlawful immigration, altering the amount of damages a claimant may recover from an insured for medical treatment, restricting the use of territory as a rate factor and limiting the after-tax rate of return allowed an insurer. These developments could negatively affect premium revenue and make it more expensive or less profitable for Infinity to conduct business in the state.

Infinity relies upon a limited number of independent agents to generate a substantial portion of its business. If Infinity were unable to retain or increase the level of business that these independent agents place with Infinity or increase the level of business generated by other agents, the Company s revenues would be negatively affected.

Approximately 14% of the Company s 12,500 independent agents accounted for approximately 80% of Infinity s gross written premium in 2010. Infinity 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.

Infinity is vulnerable to a reduction in business written through the independent agent distribution channel.

Reliance on the independent agency as its primary distribution channel makes Infinity vulnerable to the growing popularity of directly to the consumer distribution channels, particularly the Internet. Approximately 70% 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 30% is sold by independent agents. A material reduction in business generated through the independent agency channel could negatively affect Infinity s revenues and growth opportunities.

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Risk Factors

Judicial, regulatory and legislative changes or challenges to prevailing insurance industry practices are ongoing, some of which could adversely affect Infinity s 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; (ii) the use of automated databases in the adjustment of claims; and (iii) the manner in which insurers compensate brokers. 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 further develop reliable and efficient information technology systems would be disruptive to Infinity s operations and diminish its ability to compete successfully.

Infinity is highly dependent on efficient and uninterrupted performance of its information technology and business systems. These systems quote, process and service Infinity s 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. The Company is undergoing fundamental changes and improvements to its claims and policy services platform including plans to migrate California, its largest state by premium volume, to a new claims and policy services platform in 2011. A failure or delay to achieve these improvements could interrupt certain processes or degrade business operations and would place Infinity at a competitive disadvantage.

The inability to recruit, develop and retain key personnel could prevent Infinity from executing its key business and financial objectives.

Successful execution of Infinity s key business and financial objectives will depend, in part, upon the continued services of its Chief Executive Officer, James Gober, along with its ability to retain and develop key personnel and to attract new talent. The highly competitive nature of the industry, along with the advantages that larger, better-known firms possess in the recruiting process, poses a challenge. The loss of any of the executive officers or key personnel, or the inability to attract and retain new talent, could hinder the Company in meeting or exceeding its business and financial objectives.

Infinity s financial position may be affected if the Company fails to establish accurate loss reserves.

Infinity s loss reserves are based on the Company s 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 frequency and severity trends and changes in the Company s 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.

Increases in interest rates may result in a reduction in the fair value of Infinity s fixed income portfolio.

Changing inflation expectations and the cessation of monetary easing by the Federal Reserve or other similar macroeconomic events could result in an increase in general market interest rates. Such an increase would result in a decline in the fair value of Infinity s $1.2 billion fixed income portfolio. Based on the duration of the fixed portfolio at December 31, 2010 of 3.6 years, a parallel shift in market yield of 100 basis points would result in an estimated decline in the fair value of the portfolio of approximately $27.1 million ($41.7 million pre-tax), which represents 4.1% of the total GAAP shareholders equity at December 31, 2010.

Increases in market interest rates and the resulting decrease in the fair value of Infinity s fixed income portfolio could materially affect Infinity s financial condition.

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Risk Factors

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

In California, Florida, and other states where Infinity has 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 Infinity s exposure to extra-contractual losses, or monetary damages beyond policy limits, 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 Infinity that materially reduce the Company s profitability.

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

At December 31, 2010, Infinity had $75.3 million, or approximately $6.04 per share, of goodwill. In accordance with the Goodwill topic of the FASB Accounting Standards Codification, Infinity performs impairment test procedures for goodwill on an annual basis. These procedures require Infinity to calculate the fair value of goodwill, compare the result to its carrying value and record the amount of any shortfall as an impairment charge.

Infinity uses a variety of methods to test goodwill for impairment, including estimates of future discounted cash flows and comparisons of the market value of Infinity to its major competitors. Infinity s 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 Infinity s goodwill could fall below its carrying value and the Company could be required to record an impairment charge.

At September 30, 2010, test results indicated that the fair value of Infinity s goodwill exceeded its carrying value and no impairment charge was required at that date. Additionally, there was no indication of impairment at December 31, 2010.

ITEM 1B

Unresolved Staff Comments

None.

ITEM 2

Properties

Infinity s insurance subsidiaries lease 614,540 square feet of office and warehouse space in numerous cities throughout the United States. All of these leases expire within ten 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. Infinity owns a 33,515 square foot building in McAllen, Texas.

In 2010, Infinity entered into a definitive sales contract to purchase the 111,602 square foot Liberty Park facility that it currently leases in Birmingham for $16.1 million. Infinity expects to use current funds to complete the purchase in 2011.

ITEM 3

Legal Proceedings

See Note 13 Legal and Regulatory Proceedings of the Notes to Consolidated Financial Statements for a discussion of the Company s material Legal Proceedings.

ITEM 4

(Removed and Reserved)

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PART II

ITEM 5

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

Infinity had 62 registered holders of record and an estimated 3,233 total holders at February 11, 2011. Infinity s 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. The Company s closing per-share stock price on February 11, 2011 was $60.66. See Note 15 Additional 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, 2009	$ 47.54	$ 30.78	$ 33.93	$ 0.12	(27.4)%	(27.1)%
June 30, 2009	39.54	31.59	36.46	0.12	7.5%	7.8%
September 30, 2009	45.66	35.76	42.48	0.12	16.5%	16.8%
December 31, 2009	43.49	38.20	40.64	0.12	(4.3)%	(4.0)%
March 31, 2010	$ 46.31	$ 36.93	$ 45.44	$ 0.14	11.8%	12.2%
June 30, 2010	49.67	43.54	46.18	0.14	1.6%	1.9%
September 30, 2010	49.80	45.01	48.77	0.14	5.6%	5.9%
December 31, 2010	64.60	48.01	61.80	0.14	26.7%	27.0%
For the twelve months ended:						
December 31, 2009	47.54	30.78	40.64	0.48	(13.0)%	(12.0)%
December 31, 2010	64.60	36.93	61.80	0.56	52.1%	53.4%

(a) Calculated by dividing the difference between Infinity s 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 Infinity s 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, 2010, no equity securities of the Company were sold by the Company that were not registered under the Securities Act of 1933, as amended.

The following table presents information with respect to purchases of common stock of the Company made during the three months ended December 31, 2010 by the Company or any affiliated purchaser of the Company as defined in Rule 10b-18(a)(3) under the Exchange Act.

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Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs (b)
October 1, 2010 - October 31, 2010	37,800	$ 51.23	37,800	$ 42,468,516
November 1, 2010 - November 30, 2010	32,700	$ 58.03	32,700	$ 40,569,832
December 1, 2010 - December 31, 2010	40,200	$ 62.49	40,200	$ 38,056,644
Total	110,700	$ 57.33	110,700	$ 38,056,644

(a) Average price paid per share excludes commissions.

(b) During the third quarter of 2010, Infinity exhausted the remaining authority under its previous share and debt repurchase program. On August 3, 2010, Infinity s Board of Directors approved an additional $50.0 million share and debt repurchase program expiring on December 31, 2011.

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The following graph shows the percentage change in cumulative total shareholder return on Infinity s common stock over the five years ending December 31, 2010. 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 Infinity s 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, 2005 through December 31, 2010.

Cumulative Total Return

Cumulative Total Return as of December 31, 2010

(Assumes a $100 investment at the close of trading on December 31, 2005)

	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
IPCC	100.000	131.005	98.618	128.839	113.467	174.495
NASDAQ U.S. Index	100.000	109.838	119.141	57.414	82.526	97.946
NASDAQ Insurance Stocks	100.000	113.068	113.301	104.952	109.609	123.391

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ITEM 6

Selected Financial Data

(in thousands, except per share data)	2010	2009	2008	2007	2006
Infinity					
Gross written premium	$ 952,426	$ 848,816	$ 896,902	$ 1,019,011	$ 986,741
Net written premium	946,869	843,869	892,090	1,014,262	982,190
Net written premium growth	12.2%	(5.4)%	(12.0)%	3.3%	0.3%
Net premium earned	905,919	848,391	922,451	1,031,564	948,665
Total revenues	961,276	883,424	930,918	1,098,226	1,021,343
Loss & LAE ratio	67.0%	66.5%	70.3%	70.5%	67.0%
Underwriting ratio	22.6%	22.0%	22.2%	23.0%	23.8%
Combined ratio	89.6%	88.5%	92.5%	93.5%	90.8%
Net earnings	$ 91,523	$ 70,594	$ 19,257	$ 71,944	$ 87,282
Net earnings per diluted share	6.95	5.09	1.23	3.87	4.26
Return on average common shareholders equity	14.3%	12.3%	3.4%	11.4%	13.5%
Cash and investments	$ 1,283,624	$ 1,285,831	$ 1,190,962	$ 1,359,002	$ 1,419,428
Total assets	1,852,357	1,806,327	1,739,958	1,952,300	2,018,931
Unpaid losses and LAE	477,833	509,114	544,756	618,409	596,029
Debt outstanding	194,729	194,651	199,567	199,496	199,429
Total liabilities	1,191,173	1,188,167	1,214,627	1,351,075	1,354,330
Shareholders equity	661,184	618,160	525,331	601,224	664,601
Cash dividend per common share	$ 0.56	$ 0.48	$ 0.44	$ 0.36	$ 0.30
Common shares outstanding	12,469	13,497	14,146	16,200	19,617
Book value per common share	$ 53.03	$ 45.80	$ 37.14	$ 37.11	$ 33.88
Ratios:					
Debt to total capital	22.8%	23.9%	27.5%	24.9%	23.1%
Debt to tangible capital	24.9%	26.4%	30.7%	27.5%	25.3%
Interest coverage	12.9	11.1	5.9	10.8	12.9

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

ITEM 7

Management s Discussion and Analysis (MD&A) of Financial Condition and Results of Operations

INDEX TO MD&A

See Cautionary Statement Regarding Forward-Looking Statements on page 1.

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

Overview

Despite a generally weak economy, the Company enjoyed strong growth in written premium during 2010. The fourth quarter of 2010 marks the fifth consecutive quarter that the Company has experienced growth in written premium. This increase is a result of aggressive marketing efforts intended to expand Infinity s presence in its target markets, including the appointment of new agents in the Urban Zones and increased advertising and agency incentives. See Results of Operations Underwriting Premium for a more detailed discussion of Infinity s gross written premium growth.

Net earnings and diluted earnings per share for the year ended December 31, 2010 were $91.5 million and $6.95, respectively, compared to $70.6 million and $5.09, respectively, for 2009. The increase in diluted earnings per share for 2010 is primarily due to an increase in earned premium coupled with a decline in other-than-temporary impairment losses.

Infinity had a net realized gain on investments of $10.4 million at December 31, 2010 compared to a net realized loss of $14.8 million in 2009. Included in the net realized gain for 2010 is $2.9 million of other-than-temporary impairments on fixed income securities compared with $19.9 million of impairments during 2009.

Included in net earnings for the year ended December 31, 2010 were $48.0 million ($73.9 million pre-tax) of favorable development on prior accident period loss and LAE reserves, compared to $42.5 million ($65.4 million pre-tax) of favorable development during 2009. The following table displays combined ratio results by accident year developed through December 31, 2010.

Accident	Accident Year Combined Ratio Developed Through					Prior Accident Year Favorable (Unfavorable) Development		Prior Accident Year Favorable (Unfavorable) Development (in millions)	
Year	**Dec. 2009**	**Mar. 2010**	**June 2010**	**Sep. 2010**	**Dec. 2010**	**Q4 2010**	**YTD 2010**	**Q4 2010**	**YTD 2010**
Prior								$ 1.3	$ 2.0
2004	85.4%	85.3%	85.3%	85.1%	85.0%	0.1%	0.3%	0.5	2.9
2005	88.6%	88.4%	88.3%	88.2%	88.1%	0.0%	0.5%	0.4	4.5
2006	91.3%	91.1%	90.9%	90.8%	90.6%	0.1%	0.7%	1.4	6.2
2007	94.0%	93.7%	93.4%	93.1%	92.8%	0.3%	1.2%	2.6	12.3
2008	94.1%	93.9%	93.3%	92.8%	92.1%	0.7%	2.0%	6.3	18.6
2009	96.2%	95.5%	94.4%	93.9%	93.0%	0.9%	3.2%	7.6	27.5
2010 YTD		99.7%	100.3%	98.7%	97.7%				
								$ 20.1	**$ 73.9**

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Recent accident years are less developed than prior years and must be interpreted with caution. However, the upward trend in the 2009 and 2010 accident year combined ratios reflects an increase in new business during these years. In 2009, new business earned premium accounted for 35% of total earned premium while, in 2010, new business accounted for 40% of total earned premium. Infinity s new business combined ratios typically run 20 to 35 points higher than renewal business combined ratios due to higher commission and acquisition expenses as well as typically higher loss ratios. See Results of Operations Underwriting Profitability for a more detailed discussion of Infinity s underwriting results.

Infinity s book value per share increased 15.8% from $45.80 at December 31, 2009 to $53.03 at December 31, 2010. This increase was primarily due to earnings and the change in unrealized net gains on investments, net of shareholder dividends. Return on equity for the year ended December 31, 2010 was 14.3% compared to 12.3% for 2009.

Critical Accounting Policies

(See Note 1- Significant Reporting and Accounting Policies of the Notes to Consolidated Financial Statements)

The preparation of financial statements requires management to make estimates and assumptions that can have a significant effect on 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, the determination of other-than-temporary impairment on investments and accruals for litigation are the areas where the degree of judgment required to determine amounts recorded in the financial statements make the accounting policies critical.

Insurance Reserves

Insurance reserves, or unpaid losses and LAE, are management s best estimate of the ultimate amounts that will be paid for (i) all claims that have been reported up to the date of the current accounting period but have not yet been paid, (ii) all claims that have occurred but have not yet been reported to the Company (incurred but not reported or IBNR), and (iii) unpaid claim settlement expenses.

IBNR reserves are established for the quarter and year-end based on a quarterly reserve analysis by the Company s actuarial staff. Various standard actuarial tests are applied to subsets of the business at a state, product and coverage level. Included in the analyses are the following:

- Paid and incurred extrapolation methods utilizing paid and incurred loss development to predict ultimate losses;

- Paid and incurred frequency and severity methods utilizing paid and incurred claims count development and paid and incurred loss development to predict ultimate average frequency (i.e. claims count per auto insured) or ultimate average severity (cost of claim per claim); and

- Paid and incurred Bornhuetter-Ferguson Methods adding expected development to actual paid or incurred experience to project ultimate losses.

For each subset of the business evaluated, each test generates a point estimate based on development factors applied to known paid and incurred losses and claim counts to estimate ultimate paid losses and claim counts. Selections of factors are based on historical loss development patterns with adjustment based on professional actuarial judgment where anticipated development patterns vary from those seen historically. This estimation of IBNR requires selection of hundreds of such factors. A single point estimate for the subset being evaluated is then selected from the results of various tests, based on a combination of simple averages of the point estimates of the various tests and selections based on professional actuarial judgment. During recent years, paid methods have been less reliable because of changes in settlement practices, so Infinity has more heavily relied on incurred methods.

Estimating the liability for unpaid losses and LAE is inherently judgmental and is influenced by factors that are subject to significant variation. Infinity estimates liabilities for the costs of losses and LAE for both reported and unreported (IBNR) claims based on historical trends in the following areas adjusted for deviations in such trends:

- Claims settlement and payment practices;
- Business mix;
- Coverage limits and deductibles;

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

Inflation trends in auto repair and medical costs; and

Legal and regulatory trends affecting claims settlements.

Where deviations from historical trends in these key areas exist, when possible, quantitative and qualitative modifications to, or selections of, such factors are made to reflect such deviations. Management analyzes the adequacy of reserves using actuarial data and analytical reserve development techniques, including projections of ultimate paid losses, to determine the ultimate amount of reserves. The list of historical trends provided above are non-exhaustive examples of major factors taken into account in developing these estimates.

Infinity reviews loss reserve adequacy quarterly by accident year at a state and coverage level, while it reviews reserves quarterly for the Assumed Agency Business only at the coverage level. Reserves are adjusted as additional information becomes known. Such adjustments are reflected in current year operations. Loss and LAE reserves are also certified to state regulators annually.

During each quarterly review by the internal actuarial staff, using the additional information obtained with the passage of time, factor selections are updated, which in turn adjust the ultimate loss estimates and held IBNR reserves for the subset of the business and accident periods affected by such updates. The actuarial staff also performs various tests to estimate ultimate average severity and frequency of claims. Severity represents the average cost per claim and frequency represents the number of claims per policy. As an overall review, the staff then evaluates for reasonableness loss and LAE ratios by accident year by state and by coverage.

Factors that can significantly affect actual frequency include, among others, changes in weather, driving patterns or trends and class of driver. Estimates of average frequency can be affected by changes in claims settlement and reserving practices. Auto repair and medical cost inflation, jury awards and changes in policy limit profiles can affect loss severity. Estimation of LAE reserves is subject to variation from factors such as the use of outside adjusters, frequency of lawsuits, claims staffing and experience levels.

Management believes that Infinity s relatively low average policy limit and concentration on the nonstandard auto driver classification help stabilize fluctuations in frequency and severity. For example, approximately 89% of policies included within the nonstandard book of business include only the state-mandated minimum policy limits for bodily injury, which somewhat mitigates the challenge of estimating average severity. These low limits tend to reduce the exposure of the loss reserves on this coverage to medical cost inflation on severe injuries since the minimum policy limits will limit the total payout.

Ultimate loss estimates, excluding extra-contractual obligation (ECO) losses, usually experience the greatest adjustment within the first twelve months after the accident year. Accordingly, the highest degree of uncertainty is associated with reserves for the current accident year because the current accident year contains the greatest proportion of losses that have not been reported or settled, and these elements must be estimated as of the current reporting date. The proportion of losses with these characteristics typically diminishes in subsequent years.

As compared with loss and LAE reserves held at December 31, 2010, the indicated results from utilized estimates of loss and LAE could range from an adequate reserve position to a redundancy of approximately 12%, or $56.3 million. These ranges do not present a forecast of future redundancy since actual development of future losses on current loss reserves may vary materially from those estimated in the year-end 2010 reserve tests. Reserves recorded are management s best estimate of the ultimate amounts that will be paid.

ECO losses represent estimates of losses incurred from actual or threatened litigation by claimants alleging improper handling of claims by the Company, which are commonly known as bad faith claims. Oftentimes, the onset of such litigation, subsequent discovery, settlement discussions, trial and appeal may occur several years after the date of the original claim. Because of the infrequent nature of such claims, a liability for each case is accrued based on the facts and circumstances in accordance with the Loss Contingency topic of the FASB Accounting Standards Codification, which requires that such loss be probable and estimable. As such, no reserve is permissible for IBNR for threatened litigation yet to occur on accidents with dates prior to the balance sheet date. Consequently, the effect of setting accruals for such items likely will result in unfavorable reserve development in the following reserve table.

Calendar year losses incurred for ECO losses, net of reinsurance, over the past five calendar years have ranged from $0.3 million to $18.6 million, averaging $8.9 million per year. Gross of reinsurance, ECO losses have ranged from $0.3 million to $21.1 million, averaging $10.1

million over the past five calendar years. Losses for 2010, 2009 and 2008 have been $0.3 million, $0.3 million and $18.6 million, respectively.

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The following tables present the development of Infinity s loss reserves, net of reinsurance, on a GAAP basis for the calendar years 2000 through 2010. The Infinity table includes the loss reserves of the NSA Group through December 31, 2002, the addition of the Assumed Agency Business on January 1, 2003, and those of Infinity combined for 2003 and all subsequent years. The top line of each table shows the estimated liability for unpaid losses and LAE recorded at the balance sheet date for the indicated years. The next line, captioned Liability for unpaid losses and LAE - as re-estimated at December 31, 2010, shows the re-estimated liability as of December 31, 2010. The remainder of the table presents intervening development as percentages of the initially estimated liability. The development results from additional information and experience in subsequent years. The middle line shows a cumulative deficiency (redundancy) which represents the aggregate percentage increase (decrease) in the liability initially estimated. The lower portion of the table indicates the cumulative amounts paid as of successive periods as a percentage of the original loss reserve liability**.**

These tables do not present accident or policy year development data. Furthermore, in evaluating the re-estimated liability and cumulative deficiency (redundancy), it should be noted that each percentage includes the effects of changes in amounts for prior periods. Conditions and trends that have affected development of the liability in the past may not necessarily exist in the future. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on these tables.

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INFINITY

(in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Liability for unpaid losses & LAE:											
As originally estimated*	$ 630	$ 611	$ 719	$ 707	$ 669	$ 610	$ 568	$ 590	$ 524	$ 491	$ 461
As re-estimated at December 31, 2010	713	717	798	710	610	513	468	482	412	417	N/A
Liability re-estimated:											
One year later	98.5%	101.5%	103.2%	99.2%	97.5%	94.9%	97.6%	95.0%	87.5%	85.0%	
Two years later	102.1%	108.7%	107.1%	100.3%	94.2%	91.5%	91.3%	86.5%	78.7%		
Three years later	106.4%	112.1%	108.5%	99.5%	93.7%	89.1%	85.2%	81.7%			
Four years later	108.5%	112.8%	108.4%	100.2%	93.6%	85.6%	82.4%				
Five years later	108.5%	112.9%	109.6%	101.5%	91.9%	84.0%					
Six years later	109.1%	114.8%	111.6%	100.6%	91.2%						
Seven years later	111.0%	117.6%	111.1%	100.3%							
Eight years later	113.7%	117.5%	111.0%								
Nine years later	113.7%	117.5%									
Ten years later	113.2%										
Cumulative deficiency (redundancy)	13.2%	17.5%	11.0%	0.3%	(8.8)%	(16.0)%	(17.6)%	(18.3)%	(21.3)%	(15.0)%	N/A
Cumulative deficiency (redundancy) excluding ECO losses	5.7%	8.6%	3.0%	(8.3)%	(17.1)%	(22.7)%	(23.3)%	(21.9)%	(21.5)%	(15.1)%	N/A
Cumulative paid as of:											
One year later	53.3%	51.3%	50.3%	48.4%	52.6%	50.3%	48.4%	54.6%	46.8%	48.2%	
Two years later	76.2%	80.2%	77.1%	75.8%	72.6%	66.5%	69.1%	67.4%	61.0%		
Three years later	92.0%	96.3%	94.3%	87.7%	80.1%	77.4%	74.8%	72.9%			
Four years later	100.0%	105.6%	101.5%	91.6%	87.3%	79.9%	77.4%				
Five years later	104.9%	109.2%	103.7%	97.4%	88.5%	81.1%					
Six years later	106.5%	110.4%	108.8%	98.1%	89.3%						
Seven years later	107.3%	115.8%	109.3%	98.7%							
Eight years later	112.2%	116.0%	109.7%								
Nine years later	112.4%	116.3%									
Ten years later	112.6%										

* 2002 includes $126 resulting from the addition of the Assumed Agency Business.

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The following is a reconciliation of Infinity s net liability to the gross liability for unpaid losses and LAE (in millions):

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
As originally estimated											
Net liability shown above *	$ 630	$ 611	$ 719	$ 707	$ 669	$ 610	$ 568	$ 590	$ 524	$ 491	$ 461
Add reinsurance recoverables	13	37	33	32	27	16	28	28	21	18	17
Gross liability	$ 643	$ 648	$ 752	$ 739	$ 696	$ 626	$ 596	$ 618	$ 545	$ 509	$ 478
As re-estimated at December 31, 2010:											
Net liability shown above	$ 713	$ 717	$ 798	$ 710	$ 610	$ 513	$ 468	$ 482	$ 412	$ 417	N/A
Add reinsurance recoverables	51	81	77	58	49	39	33	32	26	22	N/A
Gross liability	$ 764	$ 798	$ 876	$ 768	$ 659	$ 552	$ 501	$ 514	$ 438	$ 440	N/A
Gross cumulative deficiency (redundancy)	18.8%	23.3%	16.4%	3.9%	(5.4)%	(11.8)%	(15.9)%	(16.9)%	(19.6)%	(13.6)%	N/A
Gross cumulative deficiency (redundancy) excluding ECO losses	8.8%	12.1%	6.3%	(6.8)%	(15.5)%	(19.4)%	(22.0)%	(20.8)%	(19.7)%	(13.7)%	N/A

* 2002 includes $126 resulting from the addition of the Assumed Agency Business.

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The following table presents (in millions) the development of loss reserves for the Assumed Agency Business through December 31, 2002. Development for 2003 for the Assumed Agency Business is included in the Infinity table above. Under the reinsurance agreement entered into with GAI, Infinity s insurance subsidiaries assumed the net reserves from GAI. Accordingly, gross reserves and net reserves are the same.

ASSUMED AGENCY BUSINESS

	2000	2001	2002
Liability for unpaid losses & LAE:			
As originally estimated	$ 106	$ 116	$ 126
As re-estimated at December 31, 2010	108	116	N/A
Liability re-estimated:			
One year later	104.9%	106.8%	
Two years later	106.8%	101.6%	
Three years later	102.8%	103.4%	
Four years later	104.5%	103.7%	
Five years later	104.2%	101.5%	
Six years later	102.7%	101.3%	
Seven years later	102.8%	100.6%	
Eight years later	102.1%	99.5%	
Nine years later	101.9%	99.9%	
Ten years later	102.5%		
Cumulative deficiency (redundancy):	2.5%	(0.1)%	
Cumulative paid as of:			
One year later	47.0%	43.6%	
Two years later	70.8%	60.2%	
Three years later	80.8%	79.7%	
Four years later	91.6%	90.4%	
Five years later	96.3%	94.6%	
Six years later	98.6%	97.1%	
Seven years later	100.0%	98.4%	
Eight years later	100.9%	98.9%	
Nine years later	101.4%	99.7%	
Ten years later	102.1%		

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The Company finds it useful to evaluate accident year loss and LAE ratios by calendar year to monitor reserve development. The following table presents, by accident year, loss and LAE ratios (including IBNR):

	Accident Year Loss and LAE Ratios Through Calendar Year End									
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Accident Year										
2001	82.5%	81.8%	83.2%	83.9%	84.4%	84.0%	84.0%	84.0%	83.8%	83.8%
2002		81.1%	79.1%	79.8%	80.5%	80.6%	80.3%	80.0%	79.8%	79.7%
2003			78.1%	73.2%	72.9%	72.3%	71.7%	70.9%	70.5%	70.4%
2004				71.0%	68.2%	66.3%	65.4%	64.3%	63.7%	63.4%
2005					70.5%	69.6%	67.8%	66.2%	65.2%	64.8%
2006						70.3%	71.0%	68.9%	67.4%	66.8%
2007							71.9%	72.5%	71.0%	69.8%
2008								73.5%	71.9%	69.9%
2009									74.2%	71.0%
2010										75.1%

The following table summarizes the effect on each calendar year of reserve re-estimates, net of reinsurance, for each of the accident years presented. The total of each column details the amount of reserve re-estimates made in the indicated calendar year and shows the accident years to which the re-estimates are applicable. The table includes the loss reserves of the NSA Group, the Assumed Agency Business and those of Infinity combined. Favorable reserve re-estimates are shown in parentheses.

(in millions)	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Accident year							
2000 & prior	$ 16	$ 0	$ 2	$ 12	$ 16	$ 0	$ 0
2001	8	4	(4)	(1)	0	(2)	0
2002	6	5	1	(3)	(2)	(2)	(1)
2003	(34)	(2)	(4)	(4)	(5)	(3)	(1)
2004		(24)	(17)	(8)	(9)	(6)	(3)
2005			(9)	(17)	(15)	(10)	(4)
2006				7	(21)	(14)	(6)
2007					6	(16)	(12)
2008						(15)	(19)
2009							(28)
Total	$ (5)	$ (17)	$ (31)	$ (13)	$ (29)	$ (65)	$ (74)

During calendar year 2010, Infinity experienced $73.9 million of favorable reserve development primarily from loss and LAE reserves relating to bodily injury coverage in the California, Connecticut, Florida and Pennsylvania nonstandard programs as well as in the Commercial Vehicle program. During calendar years 2009 and 2008, Infinity experienced $65.4 million and $29.4 million, respectively, of favorable development, primarily from loss and LAE reserves relating to bodily injury and property damage coverages in the California, Florida and Pennsylvania nonstandard programs. The favorable development over the last several years has resulted from two significant changes in claims practices beginning in 2006 for which the effect on loss and LAE payment patterns has been recognized in 2008, 2009 and 2010.

First, the Company changed its approach to handling claims in litigation. Historically, the majority of litigation claims were handled in the Company s field offices utilizing outside legal counsel. In 2006 and 2007, the Company chose to utilize in-house legal counsel more extensively, which has proven to be more cost effective than outside counsel. This change in approach brought about a gradual reduction in legal costs, which began to lower LAE. During 2006 and 2007 the reduction in paid LAE was gradual, with little effect on historical LAE patterns. This gradual change resulted in slight decreases in development patterns and modest releases of LAE redundancy. However, by the end of 2008, the development patterns fell by anywhere from 8% to 13%, depending on the development period, from the level of the 2007 year-end analysis. The development patterns fell another 7% to 13% in 2009 from the level of the 2008 year-end analysis. These changes resulted in a more substantial release of LAE redundancy in 2008 and 2009.

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Second, beginning in 2006, the claims department began placing greater emphasis on settling undisputed claims in a reduced number of days after the loss date. A more timely settlement of such claims (referred to as increased tempo) was expected to reduce the company s claim expenses, especially in the cost of rental car coverage. These changes in settlement practice resulted in increased claim payments for development periods in which the change took place. In was not apparent in either the 2006 or 2007 loss reserve estimation process whether the increase in claim payments resulted from deteriorating underwriting results, which could lead to additional loss development, or from the increase in tempo, which would not necessarily lead to further loss development. As discussed earlier, Infinity s actuaries use a mixture of paid and incurred tests to determine the ultimate reserve need. The change in tempo created a large variance in the indicated need between the paid and incurred tests. Over time, as accident years matured, it became clear the paid tests had over-estimated the reserve and that the incurred test results provide better estimates of the ultimate reserve need.

Because Infinity s selected reserves are influenced by both the paid and incurred tests, as the two sets of tests have converged for accident years 2007 through 2009, the Company has seen favorable development. However, as the effects of the increased claims settlement tempo have been in place for some time, the impact on the paid-incurred test differences are expected to continue to dissipate. The premium growth in 2010 adds another level of uncertainty to loss reserving that could cause either future redundancies or deficiencies.

Other-than-Temporary Losses on Investments

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

- whether the unrealized loss is credit-driven or a result of changes in market interest rates;
- the length of time the security s market value has been below its cost;
- the extent to which fair value is less than cost basis;
- the intent to sell the security;
- whether it is more likely than not that there will be a requirement to sell the security before its anticipated recovery;
- historical operating, balance sheet and cash flow data contained in issuer SEC filings;
- issuer news releases;
- near-term prospects for improvement in the issuer and/or its industry;
- industry research and communications with industry specialists; and

third-party research and credit rating reports.

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Management regularly evaluates its investment portfolio for potential impairment by evaluating each security position that has any of the following: a fair value of less than 95% of its book value, an unrealized loss that equals or exceeds $100,000 or one or more impairment charges recorded in the past. In addition, management reviews positions held related to an issuer of a previously impaired security. The process of evaluation includes assessments of each item listed above. Since it is not possible to accurately predict if or when a specific security will become other-than-temporarily impaired, total impairment charges could be material to the results of operations in a future period.

For fixed maturity securities that are other-than-temporarily impaired, Infinity assesses its intent to sell and the likelihood that the Company will be required to sell the security before recovery of its amortized cost. If a fixed maturity security is considered other-than-temporarily impaired but the Company does not intend to and is not more than likely to be required to sell the security before its recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors. The excess of the amortized cost over the present value of the expected cash flows determines the credit loss component of an impairment charge on a fixed maturity security. The present value is determined using the best estimate of cash flows discounted at (1) the effective interest rate implicit at the date of acquisition for non-structured securities or (2) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows vary depending on the type of security. The credit loss component of an impairment charge is recognized in net earnings while the non-credit component is recognized in accumulated other comprehensive income. If Infinity intends to sell or will more likely than not be required to sell a security, the entire amount of the impairment is treated as a credit loss.

Accruals for Litigation

Infinity continually evaluates potential liabilities and reserves for litigation using the criteria established by the Loss Contingency topic of the FASB Accounting Standards Codification. Under this guidance, reserves for loss may only be recorded if the likelihood of occurrence is probable and the amount is reasonably estimable. Management considers each legal action and records reserves for losses in accordance with this guidance. Infinity believes the current assumptions and other considerations used to estimate potential liability for litigation are appropriate. Certain claims and legal actions have been brought against Infinity for which, under the rules described above, no loss has been accrued. While it is not possible to know with certainty the ultimate outcome of these claims or lawsuits, management does not expect them to have a material effect on Infinity s financial condition or liquidity. See Note 13 Legal and Regulatory Proceedings of the Notes to Consolidated Financial Statements for a discussion of the Company s material Legal Proceedings.

Goodwill

In accordance with the Goodwill topic of the FASB Accounting Standards Codification, Infinity performs impairment test procedures for goodwill on an annual basis. These procedures require Infinity to calculate the fair value of goodwill, compare the result to its carrying value and record the amount of any shortfall as an impairment charge.

Infinity performed this test as of September 30, 2010 using a variety of methods, including estimates of future discounted cash flows and comparisons of the market value of Infinity to its major competitors. Infinity s cash flow projections rely on assumptions that are subject to uncertainty, including premium growth, loss and LAE ratios, interest rates and capital requirements.

The September 30, 2010 test results indicated that the fair value of Infinity s goodwill exceeded its carrying value and there was no impairment charge required at that date. Additionally, there was no indication of impairment at December 31, 2010.

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Liquidity and Capital Resources

Ratios

The National Association of Insurance Commissioners (NAIC) 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, 2010, the capital ratios of all Infinity insurance subsidiaries exceed the RBC requirements.

Sources of Funds

Infinity is organized as a holding company whose operations are conducted by its insurance subsidiaries. Accordingly, Infinity will have continuing cash needs for administrative expenses, the payment of interest on borrowings, shareholder dividends, share repurchases and taxes.

At December 31, 2010, Infinity had $195 million principal of senior notes due 2014, bearing a fixed 5.5% interest rate (the Senior Notes) outstanding. Interest payments on the Senior Notes of $5.4 million are due each February and August through maturity in February 2014. During 2009, Infinity repurchased $5.0 million of the Senior Notes. (See Note 4 Long-Term Debt of the Notes to Consolidated Financial Statements for more information on the Senior Notes).

In August 2010, Infinity filed a shelf registration statement with the Securities and Exchange Commission, which will allow the Company to sell any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depositary shares and units in one or more offerings should the Company choose to do so in the future.

In February 2011, Infinity increased its quarterly dividend to $0.18 per share from $0.14 per share. At this current amount, Infinity s 2011 annualized dividend payments will be approximately $9.2 million.

In October 2006, the Company announced that the Board of Directors approved a share repurchase program expiring on the earlier of December 31, 2008 or the completion of all purchases contemplated by the program, whereby the Company may repurchase up to an aggregate amount of $100 million of its outstanding common shares. On August 6, 2009, the Board of Directors increased the authority by $28.8 million to $50.0 million as of that date, modified the authority to include the repurchase of Infinity s debt and extended the date to execute this program to December 31, 2010. During 2009, Infinity repurchased 689,500 shares at an average cost, excluding commissions, of $36.24. Infinity also repurchased $5.0 million in debt during 2009. During the third quarter of 2010, Infinity exhausted the remaining repurchase authority under this program. On August 3, 2010, Infinity s Board of Directors approved an additional $50.0 million share and debt repurchase program expiring on December 31, 2011. During 2010, Infinity repurchased 1,114,200 shares at an average cost, excluding commissions, of $46.79. As of December 31, 2010, Infinity had $38.1 million of authority remaining under this program.

Funds to meet expenditures at the holding company come primarily from dividends from the insurance subsidiaries as well as cash and investments held by the holding company. As of December 31, 2010, the holding company had $221.8 million of cash and investments. In 2010, Infinity s insurance subsidiaries paid Infinity $100.0 million in dividends. In 2011, Infinity s insurance subsidiaries may pay Infinity up to $96.0 million in ordinary dividends without prior regulatory approval.

In August 2008, Infinity entered into an agreement for a $50 million three-year revolving credit facility (the Credit Agreement) that requires Infinity to meet certain financial and other covenants. Infinity is currently in compliance with all covenants under the Credit Agreement. At December 31, 2010 and 2009, there were no borrowings outstanding under the Credit Agreement. Infinity intends to renew this agreement prior to its expiration in August 2011.

Infinity s insurance subsidiaries generate liquidity to satisfy their obligations, primarily by collecting and investing premium in advance of paying claims. Infinity s insurance subsidiaries had positive cash flow from operations of approximately $73.3 million in 2010, $85.0 million in 2009 and $27.0 million in 2008. In addition, to satisfy their obligations, Infinity s insurance subsidiaries generate cash from maturing securities from their combined $1.0 billion fixed maturity portfolio.

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

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Contractual Obligations

Infinity and its insurance subsidiaries contractual obligations as of December 31, 2010, are (in thousands):

Due in:	Long-Term Debt & Interest	Operating Leases	Loss and LAE Reserves (a)	Postretirement Benefit Payments (b)	Total
2011	$ 10,725	$ 12,637	$ 289,505	$ 253	$ 313,120
2012-2013	21,450	$ 21,157	133,892	528	$ 177,027
2014-2015	200,363	$ 18,075	30,511	538	$ 249,487
2016 and after	0	$ 7,191	23,925	1,371	$ 32,487
Total	$ 232,538	$ 59,060	$ 477,833	$ 2,690	$ 772,121

(a) The payout pattern for reserves for losses and LAE is based upon historical payment patterns and do not represent actual contractual obligations. The timing and amounts ultimately paid will vary from these estimates, as discussed above under Critical Accounting Policies and in Note 1- Significant Reporting and Accounting Policies of the Notes to Consolidated Financial Statements.

(b) The payments for postretirement benefits do not represent actual contractual obligations. The payments presented represent the best estimate of future contributions.

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Investments

General

Infinity s Investment Committee, which is composed exclusively of independent directors, has approved investment guidelines for the Company and its wholly owned subsidiaries. The guidelines specifically address overall investment objectives, permissible assets, prohibited assets, permitted exceptions to the guidelines and credit quality.

Infinity engages two unaffiliated money managers for its fixed income portfolio and internally manages a Vanguard exchange-traded fund designed to track the MSCI U.S. Broad Market Index for the equity portfolio. The investment managers conduct, in accordance with the Company s investment guidelines, all of the investment purchases and sales for the Company and its subsidiaries. The Company s Chief Financial Officer and the Investment Committee, at least quarterly, review the performance of the portfolio management and compliance with the Company s investment guidelines. Physical custody of securities is maintained at national banks unaffiliated with the money managers.

Infinity s consolidated investment portfolio at December 31, 2010 contained $1.2 billion in fixed maturity securities and $42.3 million in equity securities, all carried at fair value with unrealized gains and losses reported as a separate component of shareholders equity on an after-tax basis. At December 31, 2010, Infinity had pretax net unrealized gains of $23.9 million on fixed maturities and pretax net unrealized gains of $13.0 million on equity securities. Combined, the pre-tax net unrealized gain increased by $7.9 million for the twelve months ended December 31, 2010.

Approximately 93.8% of Infinity s fixed maturity portfolio at December 31, 2010 was rated investment grade (credit rating of AAA to BBB) by nationally recognized rating agencies. The average credit rating of Infinity s fixed maturity portfolio was AA at December 31, 2010. Investment grade securities generally bear lower yields and lower degrees of risk than those that are unrated or non-investment grade. Management believes that a high quality investment portfolio is more likely to generate stable and predictable investment return.

Since all of these securities are carried at fair value in the Consolidated Balance Sheets, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses. The average duration of Infinity s fixed maturity portfolio was 3.6 years at December 31, 2010.

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

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

A third party nationally recognized pricing service provides the fair value of securities in Level 2. Infinity periodically reviews the third party pricing methodologies and tests for significant differences between the market price used to value the security and recent sales activity.

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Summarized information for Infinity s investment portfolio at December 31, 2010 follows (in thousands):

	Amortized Cost	Fair Value	% of Total Fair Value
U.S. government and agencies:			
U.S. government	$ 167,729	$ 170,286	14.0%
Government-sponsored entities	40,025	41,152	3.4%
Total U.S. government and agencies	207,754	211,437	17.3%
State and municipal	392,057	396,995	32.5%
Mortgage-backed, CMOs and asset-backed:			
Residential mortgage-backed securities	195,003	197,615	16.2%
Commercial mortgage-backed securities	34,095	35,070	2.9%
Collateralized mortgage obligations:			
PAC	20,305	20,911	1.7%
Sequentials	15,295	15,664	1.3%
Junior	679	570	0.0%
Accretion directed	477	473	0.0%
Whole loan	4,775	4,781	0.4%
Total CMO	41,530	42,398	3.5%
Asset-backed securities:			