INFINITY PROPERTY & CASUALTY CORP
Form 10-K
February 26, 2010
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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, 2009**

**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 of other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **3700 COLONNADE PARKWAY** | |
| **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. ¨ Yes x 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.

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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, 2009, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was $489,807,527 based on the last sale price of Common Stock on that date as reported by The NASDAQ Global Select Market.

As of February 12, 2010, there were 13,418,699 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 26, 2010, are incorporated by reference in Part III hereof.

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

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

*This Annual Report on Form 10-K contains certain statements that may be deemed to be forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in this report not dealing with historical results or current facts are forward-looking and are based on estimates, assumptions, and projections. Statements which include the words 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.*

*Actual results could differ materially from those expected by Infinity depending on: changes in economic conditions and financial markets (including interest rates), the adequacy or accuracy of Infinity s pricing methodologies, actions of competitors, the approval of requested form and rate changes, judicial and regulatory developments affecting the automobile insurance industry, the outcome of pending or new litigation against Infinity, weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions), earthquakes and other natural catastrophes, changes in driving patterns and loss trends. Infinity undertakes no obligation to publicly update or revise any of the forward-looking statements. For a more detailed discussion of some of the foregoing risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Risk Factors contained in 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 1,780 persons at December 31, 2009.

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.ipacc.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 37% of the estimated $432 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 generally constitute between 15% and 20% of the personal automobile insurance market, with this range fluctuating according to competitive conditions in the market. Independent agents sell approximately one-third 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 high premium rates and shortages of underwriting capacity. Over the past several years, the cycle has been soft , marked by aggressive competition for independent agents business through increased sales and commission incentives. Infinity observed that, during this soft cycle, some competitors were reducing their overall rates with larger rate reductions in certain segments of the business. The personal automobile component of the Consumer Price Index ( CPI ) reflects this trend as it indicates personal automobile insurance rates have increased just 0.5%, 0.8% and 1.0% during 2007, 2006 and 2005, respectively, after increasing 3.4% and 4.5% during 2004 and 2003, respectively. However, the market is showing signs of hardening, as Infinity observed a few competitors increasing rates and tightening underwriting standards beginning in 2008 and continuing into 2009. Industry rates increased 4.0% during that year and another 4.7% in 2009. Infinity s average rate adjustments on its personal auto business were (0.3)%, (2.6)%, 3.5%, 0.8% and 2.2% for 2009, 2008, 2007, 2006 and 2005, 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 on the basis of 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 2008, the five largest automobile insurance companies accounted for approximately 50% of the industry s net written premium and the largest ten accounted for approximately 68% (2009 industry data is not available). Approximately 332 insurance groups compete in the personal auto insurance industry according to A.M. Best. 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 97% of its personal auto business is nonstandard auto insurance. 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, monoline commercial auto insurance and classic collector automobile insurance.

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

| | Twelve months ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Gross written premium | $ 848,812 | $ 896,899 | $ 1,019,119 |
| Net written premium | 843,869 | 892,090 | 1,014,262 |
| Net earnings | 70,594 | 19,257 | 71,944 |

| | As of December 31, 2009 | 2008 |
|---|---|---|
| Total assets | $ 1,803,671 | $ 1,742,232 |
| Total liabilities | 1,185,511 | 1,216,901 |
| Total shareholders equity | 618,160 | 525,331 |

Infinity has a history of favorable underwriting results. The following table compares Infinity s statutory combined ratio 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 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:

| | 2009 | 2008 | 2007 | 2006 | 2005 | 2005-2009 | 2000-2009 |
|---|---|---|---|---|---|---|---|
| Infinity | 87.2% | 91.2% | 91.8% | 88.7% | 90.0% | 89.9% | 94.6% |
| Industry (a) | 99.9% | 100.2% | 98.3% | 95.5% | 95.1% | 97.8% | 99.9% |
| Percentage points better than industry | 12.7% | 9.0% | 6.5% | 6.8% | 5.1% | 7.9% | 5.3% |

(a) Private passenger auto industry combined ratios for 2000 through 2008 were obtained from A.M. Best. A.M. Best data were not available for 2009. The industry combined ratio for 2009 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 restricted 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, 2009, Infinity s mix of personal automobile written premium was 12% Low-Cost, 85% Value-Added and 3% 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 monoline commercial automobile insurance to businesses with fleets of 12 or fewer vehicles. Businesses that are involved in what Infinity considers to be 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.

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

| | Twelve months ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Personal Automobile | 92% | 93% | 94% |
| Commercial Vehicle | 6% | 5% | 4% |
| Classic Collector | 2% | 2% | 2% |
| Total | 100% | 100% | 100% |

***Distribution and Marketing***

Infinity distributes its products primarily through a network of over 12,600 independent agencies and brokers (with approximately 16,000 locations). In 2009, four independent agencies each accounted for between 2% and 3% of Infinity s gross written premium, two other agencies each accounted for between 1% and 2% of the Company s gross written premium and 14.0% of the agency force produced 80% of Infinity s gross written premium. In California, Infinity s largest state by premium volume, 43% of gross written premium (which represents 23.5% countrywide) was produced by forty independent agents and brokers.

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 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 2009, Infinity spent $10.8 million on co-op advertising and promotions.

Strategic partnerships are another mode of distribution for Infinity. These are relationships 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 selected Focus States that management believes offer the greatest opportunity for premium growth and profitability. Infinity classifies the states in which it operates into three categories:

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

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

Other States Includes all remaining states.

Infinity further classifies 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 |

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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 2008 and 2007 premium to be consistent with the 2009 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:

| | Twelve months ended December, 31 | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Personal Auto Insurance | | | |
| Focus States: | | | |
| California | | | |
| Urban Zones | 53% | 50% | 51% |
| Non-Urban Zones | 1% | 1% | 2% |
| Florida | | | |
| Urban Zones | 8% | 9% | 8% |
| Non-Urban Zones | 4% | 5% | 6% |
| Texas | | | |
| Urban Zones | 5% | 5% | 4% |
| Non-Urban Zones | 1% | 1% | 1% |
| Pennsylvania | | | |
| Urban Zones | 4% | 3% | 3% |
| Non-Urban Zones | 2% | 2% | 2% |
| Arizona | | | |
| Urban Zones | 3% | 3% | 4% |
| Non-Urban Zones | * | * | * |
| Nevada | | | |
| Urban Zones | 3% | 3% | 2% |
| Non-Urban Zones | * | * | * |
| Georgia | | | |
| Urban Zones | 2% | 3% | 3% |
| Non-Urban Zones | 2% | 3% | 3% |
| Illinois | | | |
| Urban Zones | 1% | * | * |
| Non-Urban Zones | * | * | * |
| Total Focus States | 88% | 87% | 86% |
| Maintenance States | 4% | 5% | 7% |
| Other States | * | * | * |
| Subtotal | 92% | 93% | 94% |
| Commercial Vehicle | 6% | 5% | 4% |
| Classic Collector | 2% | 2% | 2% |
| Other | * | * | * |
| Total All States and All Lines | 100% | 100% | 100% |
| Total $ (in thousands) - All States and All Lines[1] | 848,816 | 896,902 | 1,019,011 |

(1) 2009 and 2008 exclude less than $(0.1) million each of premium written on behalf of other companies. 2007 excludes $0.1 million of premium written on behalf of other companies.

* denotes less than one percent

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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 2008, years for which industry data are available from A.M. Best, Infinity s statutory ratio of underwriting expenses to premium written has averaged 21.5%, which is 5.1 points better than the independent agency segment of the private passenger automobile industry average of 26.7% for the same period.

***Claims Handling***

Infinity strives for accuracy, consistency and fairness in its claim resolutions. Infinity s claims organization employs approximately 840 people and has 33 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 33 field locations are 11 claims service centers, which allow customers to conveniently 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. Recent 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 various insurance coverages 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, 2009, Infinity s insurance subsidiaries were involved in a rating and underwriting examination in California, Infinity s largest state. As of February 26, 2010 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

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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. During 2007, the states examinations of the 2002 through 2006 statutory financial statements were completed with no financial adjustments required.

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, by law, 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):

| | **2010** | **2009** | **2008** |
|---|---|---|---|
| Maximum ordinary dividends available to Infinity (a), (c) | $ 107,000 | $ 43,000 | $ 79,001 |
| Dividends paid from subsidiaries to parent (b) | | $ 90,000 | $ 70,000 |

(a) The majority of dividends paid by Infinity s insurance companies to Infinity prior to December 21, 2010 will require an extraordinary dividend as those dividends, together with other distributions made within the preceding twelve months, will exceed the ordinary dividend capacity.

(b) 2009 includes a $60 million extraordinary dividend for which Infinity received regulatory approval.

(c) The dividend capacity for 2010 increased as a result of an increase in statutory income due to an increase in redundancy of loss reserves and a reduction in other-than-temporary impairment charges in 2009 as compared to 2008.

State insurance laws require Infinity s insurance companies 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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**ITEM 1A**

**Risk Factors**

Infinity s business operations face a number of risks. These risks should be read and considered with other information provided in this report.

***The economic slowdown has disproportionately impacted Infinity s targeted consumers and could continue to adversely affect the Company s premium revenue and profitability.***

The current downturn in the general economy- characterized by high levels of unemployment and falling consumer confidence- has adversely affected insurance buying behavior. We believe these economic factors have disproportionately affected consumers of nonstandard automobile insurance. Customers have chosen not to purchase coverage, to let coverage lapse on renewal or to opt for liability coverage only. These conditions may continue to adversely affect Infinity s premium revenue and profitability.

***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 57% of Infinity s gross written premium in 2009. 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, restricting the use of territory as a rate factor, limiting the after-tax rate of return allowed an insurer, and restricting the type of compensation paid to independent brokers. These developments could negatively affect premium revenue or 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 is 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 14.0% of the Company s 12,600 independent agents accounted for approximately 80% of Infinity s gross written premium in 2009. Infinity must compete with other insurance carriers for the business of these agents in an increasingly competitive marketplace. Some competitors offer superior 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 the amount of 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 two-thirds 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 one-third is sold by independent agents. A material reduction in the amount of business generated through the independent agency channel could negatively impact Infinity s revenues and growth opportunities.

***Legal, regulatory and legislative challenges to established practices in the areas of underwriting, claims handling and compensation issues are continually emerging and could adversely impact Infinity s operating results or established methods of doing business.***

As automobile insurance industry practices and regulatory, judicial and consumer conditions change, challenges to prevailing industry practices continue to emerge. Examples of recent challenges to Infinity and industry practices relate to:

- the use of an applicant s credit, territory, occupation and other rating factors in making risk selection and pricing decisions;

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**Risk Factors**

the use of automated databases to assist in the adjustment of bodily injury and physical damage claims; and

the manner in which brokers are compensated and provided incentives.

Some of these practices are the subject of ongoing litigation (See Note 15 of the Consolidated Financial Statements, Legal Proceedings ). How or when these issues will ultimately be resolved is uncertain. The resolutions could, however, adversely impact Infinity s operating results or its methods of doing business.

***The failure to maintain or to further develop reliable and efficient information and 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. A failure or delay to achieve these improvements could interrupt certain processes or degrade business operations and would place Infinity at a competitive disadvantage.

***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. Pricing with accuracy is complicated by inflationary pressures on medical care, auto parts and repair services costs. It 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.

Consequently, 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.

***The inability to recruit, develop and retain key personnel could prevent Infinity from implementing its business strategy and negatively affect future growth and profitability.***

Successful implementation of Infinity s business strategy will depend, in part, upon the continued services of its Chief Executive Officer, James Gober. Infinity s future success will also depend on its ability to retain executives and key personnel, as well as 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 prevent Infinity from fully implementing its business strategy and negatively affect future growth and profitability.

***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, 2009, Infinity had $75.3 million, or approximately $5.58 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 as well as the overall market. 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

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

**Risk Factors**

Infinity s goodwill could fall below its carrying value and the Company could be required to record an impairment charge.

At September 30, 2009, 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, 2009.

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

## ITEM 1B

## Unresolved Staff Comments

None.

## ITEM 2

## Properties

Infinity s insurance subsidiaries lease approximately 870,355 square feet of office and warehouse space in numerous cities throughout the United States, of which approximately 266,533 square feet is subleased or available for sublease. All of these leases expire within ten years. The most significant leased office spaces are located in Birmingham, Alabama (Infinity s Colonnade Park corporate headquarters); suburban Atlanta, Georgia and suburban Los Angeles, California. See Note 16 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.

Leases on approximately 310,100 square feet will expire in 2010. The Company plans to replace approximately 60,253 square feet as the remaining space is no longer needed for ongoing operations.

Infinity has made an offer to purchase the 111,602 square foot Liberty Park facility that it currently leases in Birmingham, Alabama for $16.1 million. This offer has been accepted but is contingent upon due diligence by Infinity and successful entry into a definitive sales contract. Infinity intends to use current funds to complete the purchase in the first half of 2010.

## ITEM 3

## Legal Proceedings

See Note 15 Legal Proceedings of the Notes to Consolidated Financial Statements for a discussion of the Company s material Legal Proceedings.

## ITEM 4

## Submission of Matters to a Vote of Security Holders

None.

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

## PART II

## ITEM 5

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

Infinity had 70 registered holders of record and an estimated 3,845 total holders at February 12, 2010. 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 12, 2010 was $37.00. See Note 17 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, 2008 | $ 42.99 | $ 35.47 | $ 41.60 | $ 0.11 | 15.1% | 15.4% |
| June 30, 2008 | 45.00 | 38.01 | 41.52 | 0.11 | (0.2)% | 0.1% |
| September 30, 2008 | 52.82 | 39.51 | 41.20 | 0.11 | (0.8)% | (0.5)% |
| December 31, 2008 | 48.66 | 32.98 | 46.73 | 0.11 | 13.4% | 13.7% |
| 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)% |
| **For the twelve months ended:** | | | | | | |
| December 31, 2008 | 52.82 | 32.98 | 46.73 | 0.44 | 29.3% | 30.6% |
| December 31, 2009 | 47.54 | 30.78 | 40.64 | 0.48 | (13.0)% | (12.0)% |

(a) Calculated as 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, 2009, 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, 2009 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) | Maximum Number (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs(b) |
|---|---|---|---|---|
| October 1, 2009 October 31, 2009 | 5,000 | $ 41.55 | 5,000 | $ 49,412,704 |
| November 1, 2009 November 30, 2009 | 45,900 | 39.64 | 45,900 | 42,616,631 |
| December 1, 2009 December 31, 2009 | 59,800 | 40.03 | 59,800 | 40,220,916 |
| Total | 110,700 | $ 39.94 | 110,700 | $ 40,220,916 |

(a) Average price paid per share excludes commissions.

(b) In October 2006, the Company announced that the Board of Directors approved a share repurchase program whereby the Company may repurchase up to an aggregate of $100 million of its outstanding shares. On July 24, 2008, the Board of Directors approved an additional $74.3 million to be added to the current remaining share repurchase authority, bringing the total share repurchase authority as of that date to $100 million. Effective August 6, 2009, Infinity s Board of Directors increased this 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. In addition to $25.0 million in shares repurchased during 2009, Infinity repurchased approximately $5.0 million of debt.

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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, 2009 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, 2004 through December 31, 2009.

**Cumulative Total Return**

**Cumulative Total Return as of December 31, 2009**

**(Assumes a $100 investment at the close of trading on December 31, 2004)**

| | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 | 12/31/09 |
|---|---|---|---|---|---|---|
| IPCC | 100.00 | 106.474 | 139.487 | 105.003 | 137.180 | 120.814 |
| NASDAQ U.S. Index | 100.00 | 102.135 | 112.187 | 121.681 | 58.639 | 84.282 |
| NASDAQ Insurance Stocks | 100.00 | 112.076 | 126.722 | 126.984 | 117.626 | 122.845 |

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**ITEM 6**

**Selected Financial Data**

| (in thousands, except per share data) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Infinity** | | | | | |
| Gross written premium | $ 848,816 | $ 896,902 | $ 1,019,011 | $ 986,741 | $ 988,670 |
| Net written premium | 843,869 | 892,090 | 1,014,262 | 982,190 | 979,635 |
| Net written premium growth | (5.4)% | (12.0)% | 3.3% | 0.3% | 6.7% |
| Net premium earned | 848,391 | 922,451 | 1,031,564 | 948,665 | 961,503 |
| Total revenues | 883,424 | 930,918 | 1,098,226 | 1,021,343 | 1,053,249 |
| Loss & LAE ratio | 66.5% | 70.3% | 70.5% | 67.0% | 68.7% |
| Underwriting ratio | 22.0% | 22.2% | 23.0% | 23.8% | 23.3% |
| Combined ratio | 88.5% | 92.5% | 93.5% | 90.8% | 92.0% |
| Net earnings | $ 70,594 | $ 19,257 | $ 71,944 | $ 87,282 | $ 106,308 |
| Net earnings per diluted share | 5.09 | 1.23 | 3.87 | 4.26 | 5.09 |
| Return on average common shareholders equity | 12.3% | 3.4% | 11.4% | 13.5% | 18.1% |
| Cash and investments | $ 1,285,831 | $ 1,190,962 | $ 1,359,002 | $ 1,419,428 | $ 1,456,397 |
| Total assets | 1,803,671 | 1,742,232 | 1,952,300 | 2,018,931 | 1,980,440 |
| Unpaid losses and LAE | 509,114 | 544,756 | 618,409 | 596,029 | 625,870 |
| Debt outstanding | 194,651 | 199,567 | 199,496 | 199,429 | 199,366 |
| Total liabilities | 1,185,511 | 1,216,901 | 1,351,075 | 1,354,330 | 1,353,846 |
| Shareholders equity | 618,160 | 525,331 | 601,224 | 664,601 | 626,594 |
| Cash dividend per common share | $ 0.48 | $ 0.44 | $ 0.36 | $ 0.30 | $ 0.24 |
| Common shares outstanding (a) | 13,497 | 14,146 | 16,200 | 19,617 | 20,649 |
| Book value per common share | $ 45.80 | $ 37.14 | $ 37.11 | $ 33.88 | $ 30.34 |
| Ratios: | | | | | |
| Debt to total capital | 23.9% | 27.5% | 24.9% | 23.1% | 24.1% |
| Debt to tangible capital | 26.4% | 30.7% | 27.5% | 25.3% | 26.6% |
| Interest coverage | 11.1 | 5.9 | 10.8 | 12.9 | 14.5 |

(a) Common shares outstanding exclude non-vested restricted shares of 45 at December 31, 2005.

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

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

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

**Overview**

In 2009, weak economic conditions and rising unemployment continued to pose a challenge with regard to growing revenue. However, favorable loss costs trends throughout the year have contributed to strong earnings.

Net earnings and diluted earnings per share for the twelve months ended December 31, 2009 were $70.6 million and $5.09, respectively, compared with $19.3 million and $1.23, respectively, for the twelve months ended December 31, 2008. The increase in diluted earnings per share is primarily due to an increase in underwriting income and a decline in other-than-temporary impairment losses recognized in net earnings.

Included in net earnings for the twelve months ended December 31, 2009 was $42.5 million ($65.4 million pre-tax) of favorable development on prior accident period loss and LAE reserves compared to $19.1 million ($29.4 million pre-tax) for the twelve months ended December 31, 2008. See Results of Operations Underwriting Profitability for a more detailed discussion of Infinity s underwriting results.

Infinity had net realized losses on investments of $14.8 million in 2009 compared to losses of $51.4 million in 2008. Included in the net realized loss for 2009 is $19.9 million of other-than-temporary impairments on fixed income securities compared with $61.8 million of impairments during 2008.

Total revenues declined 5.1% for the twelve months ended December 31, 2009 when compared with 2008. The decline is primarily attributable to a decline in earned premiums as a result of decreases in gross written premiums in states such as Arizona, Florida and Georgia. See Results of Operations Underwriting Premiums for a more detailed discussion of Infinity s gross written premium growth.

Infinity s book value per share increased $8.66 or 23.3% from $37.14 at December 31, 2008 to $45.80 at December 31, 2009. This increase was primarily due to earnings and change in unrealized net gains on investments, net of shareholder dividends, for the twelve months ended December 31, 2009. Return on equity for the twelve months ended December 31, 2009 was 12.3% compared with 3.4% for the twelve months ended December 31, 2008.

**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 (i) the ultimate amounts that will be paid for all claims that have been reported up to the date of the current accounting period but that have not yet been paid, (ii) an estimate of 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 basis. 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 development to predict ultimate average frequency (i.e. claims count per auto insured) or ultimate average severity (cost of claim per claim); and

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

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 claims and claim counts to estimate ultimate paid claims 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 as a result of changes in settlement practices, so Infinity has more heavily relied on incurred methods.

While the ultimate liability may be greater or lower than recorded loss reserves, the development period for personal auto coverage is shorter than that associated with many other property and casualty coverages and can therefore be established with less uncertainty than coverages developing over longer periods, such as environmental coverage.

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;

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. Loss severity can be affected by auto repair and medical cost inflation, jury awards and changes in policy limit profiles. 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 91% 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.

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Ultimate loss estimates, excluding corporate litigation 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.

Considering all methods of estimations of loss and LAE, as compared with loss and LAE reserves held at December 31, 2009, the indicated results could range from a deficiency of approximately 8%, or $39.7 million, to a redundancy of approximately 25%, or $123.8 million. However, certain test results were excluded from consideration due to actuarial judgment. Excluding these tests, the indicated results could range from an adequate reserve position, to a redundancy of approximately 20%, or $100.8 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 2009 reserve tests. Reserves booked are management s best estimate of the ultimate amounts that will be paid.

Corporate litigation 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, each case is accrued based on its own merit in accordance with the Loss Contingency topic of the FASB Accounting Standards Codification, which requires that such accrual be probable and estimable. As such, no estimate 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 corporate litigation losses, net of reinsurance, over the past eight calendar years have ranged from $0.2 million to $18.6 million, averaging $10.8 million per year. Gross of reinsurance, corporate litigation losses have ranged from $0.2 million to $21.1 million, averaging $13.1 million over the past eight calendar years.

The following tables present the development of Infinity s loss reserves, net of reinsurance, on a GAAP basis for the calendar years 1999 through 2009. 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, 2009, shows the re-estimated liability as of December 31, 2009. 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) | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Liability for unpaid loss & LAE: | | | | | | | | | | | |
| As originally estimated* | $ 543 | $ 630 | $ 611 | $ 719 | $ 707 | $ 669 | $ 610 | $ 568 | $ 590 | $ 524 | $ 491 |
| As re-estimated at December 31, 2009 | 544 | 716 | 717 | 799 | 712 | 615 | 522 | 484 | 510 | 459 | N/A |
| Liability re-estimated: | | | | | | | | | | | |
| One year later | 95.3% | 98.5% | 101.5% | 103.2% | 99.2% | 97.5% | 94.9% | 97.6% | 95.0% | 87.5% | |
| Two years later | 92.9% | 102.1% | 108.7% | 107.1% | 100.3% | 94.2% | 91.5% | 91.3% | 86.5% | | |
| Three years later | 94.4% | 106.4% | 112.1% | 108.5% | 99.5% | 93.7% | 89.1% | 85.2% | | | |
| Four years later | 96.0% | 108.5% | 112.8% | 108.4% | 100.2% | 93.6% | 85.6% | | | | |
| Five years later | 97.3% | 108.5% | 112.9% | 109.6% | 101.5% | 91.9% | | | | | |
| Six years later | 97.2% | 109.1% | 114.8% | 111.6% | 100.6% | | | | | | |
| Seven years later | 97.9% | 111.0% | 117.6% | 111.1% | | | | | | | |
| Eight years later | 100.0% | 113.7% | 117.5% | | | | | | | | |
| Nine years later | 100.1% | 113.7% | | | | | | | | | |
| Ten years later | 100.2% | | | | | | | | | | |
| Cumulative deficiency (redundancy) | 0.2% | 13.7% | 17.5% | 11.1% | 0.6% | (8.1)% | (14.4)% | (14.8)% | (13.5)% | (12.5)% | N/A |
| Cumulative deficiency (redundancy) excluding corporate litigation losses | (4.2)% | 6.2% | 8.7% | 3.1% | (8.0)% | (16.3)% | (21.1)% | (20.5)% | (17.1)% | (12.5)% | N/A |
| Cumulative paid as of: | | | | | | | | | | | |
| One year later | 53.0% | 53.3% | 51.3% | 50.3% | 48.4% | 52.6% | 50.3% | 48.4% | 54.6% | 46.8% | |
| Two years later | 69.6% | 76.2% | 80.2% | 77.1% | 75.8% | 72.6% | 66.5% | 69.1% | 67.4% | | |
| Three years later | 81.4% | 92.0% | 96.3% | 94.3% | 87.7% | 80.1% | 77.4% | 74.8% | | | |
| Four years later | 89.4% | 100.0% | 105.6% | 101.5% | 91.6% | 87.3% | 79.9% | | | | |
| Five years later | 93.1% | 104.9% | 109.2% | 103.7% | 97.4% | 88.5% | | | | | |
| Six years later | 95.7% | 106.5% | 110.4% | 108.8% | 98.1% | | | | | | |
| Seven years later | 96.4% | 107.3% | 115.8% | 109.3% | | | | | | | |
| Eight years later | 96.8% | 112.2% | 116.0% | | | | | | | | |
| Nine years later | 99.2% | 112.4% | | | | | | | | | |
| Ten years later | 99.4% | | | | | | | | | | |

* 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):

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| As originally estimated | | | | | | | | | | | |
| Net liability shown above* | $ 543 | $ 630 | $ 611 | $ 719 | $ 707 | $ 669 | $ 610 | $ 568 | $ 590 | $ 524 | $ 491 |
| Add reinsurance recoverables | 10 | 13 | 37 | 33 | 32 | 27 | 16 | 28 | 28 | 21 | 18 |
| Gross liability | $ 553 | $ 643 | $ 648 | $ 752 | $ 739 | $ 696 | $ 626 | $ 596 | $ 618 | $ 545 | $ 509 |
| As re-estimated at December 31, 2009: | | | | | | | | | | | |
| Net liability shown above | $ 544 | $ 716 | $ 717 | $ 799 | $ 712 | $ 615 | $ 522 | $ 484 | $ 510 | $ 459 | N/A |
| Add reinsurance recoverables | 44 | 51 | 79 | 74 | 56 | 46 | 36 | 30 | 28 | 22 | N/A |
| Gross liability | $ 588 | $ 767 | $ 797 | $ 873 | $ 767 | $ 661 | $ 558 | $ 513 | $ 538 | $ 481 | N/A |
| Gross cumulative deficiency (redundancy) | 6.3% | 19.3% | 23.0% | 16.1% | 3.7% | (5.1)% | (10.9)% | (13.8)% | (12.9)% | (11.7)% | N/A |
| Gross cumulative deficiency (redundancy) excluding corporate litigation losses | (0.2)% | 9.3% | 11.9% | 6.0% | (6.6)% | (14.1)% | (19.9)% | (19.9)% | (16.7)% | (11.8)% | 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**

| | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| Liability for unpaid losses & LAE: | | | | |
| As originally estimated | $ 118 | $ 106 | $ 116 | $ 126 |
| As re-estimated at December 31, 2009 | 116 | 108 | 115 | N/A |
| Liability re-estimated: | | | | |
| One year later | 102.9% | 104.9% | 106.8% | |
| Two years later | 100.6% | 106.8% | 101.6% | |
| Three years later | 101.1% | 102.8% | 103.4% | |
| Four years later | 98.9% | 104.5% | 103.7% | |
| Five years later | 100.7% | 104.2% | 101.5% | |
| Six years later | 99.8% | 102.7% | 101.3% | |
| Seven years later | 98.8% | 102.8% | 100.6% | |
| Eight years later | 98.9% | 102.1% | 99.5% | |
| Nine years later | 98.4% | 101.9% | | |
| Ten years later | 98.4% | | | |
| Cumulative deficiency (redundancy): | (1.6)% | 1.9% | (0.5)% | |
| Cumulative paid as of: | | | | |
| One year later | 47.5% | 47.0% | 43.6% | |
| Two years later | 69.5% | 70.8% | 60.2% | |
| Three years later | 83.3% | 80.8% | 79.7% | |
| Four years later | 88.1% | 91.6% | 90.4% | |
| Five years later | 93.2% | 96.3% | 94.6% | |
| Six years later | 95.4% | 98.6% | 97.1% | |
| Seven years later | 96.5% | 100.0% | 98.4% | |
| Eight years later | 97.4% | 100.9% | 98.9% | |
| Nine years later | 97.8% | 101.4% | | |
| Ten years later | 98.2% | | | |

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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 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| Accident Year | | | | | | | | | | |
| 2000 | 87.8% | 88.8% | 90.2% | 91.6% | 92.1% | 92.2% | 92.2% | 92.2% | 93.6% | 93.5% |
| 2001 | | 82.5% | 81.8% | 83.2% | 83.9% | 84.4% | 84.0% | 84.0% | 84.0% | 83.8% |
| 2002 | | | 81.1% | 79.1% | 79.8% | 80.5% | 80.6% | 80.3% | 80.0% | 79.8% |
| 2003 | | | | 78.1% | 73.2% | 72.9% | 72.3% | 71.7% | 70.9% | 70.5% |
| 2004 | | | | | 71.0% | 68.2% | 66.3% | 65.4% | 64.3% | 63.7% |
| 2005 | | | | | | 70.5% | 69.6% | 67.8% | 66.2% | 65.2% |
| 2006 | | | | | | | 70.3% | 71.0% | 68.9% | 67.4% |
| 2007 | | | | | | | | 71.9% | 72.5% | 71.0% |
| 2008 | | | | | | | | | 73.5% | 71.9% |
| 2009 | | | | | | | | | | 74.2% |

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

| **(in millions)** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Accident year | | | | | | |
| 1999 & prior | $ 10 | $ (2) | $ 2 | $ 12 | $ | $ |
| 2000 | 6 | 2 | (1) | 1 | (16) | (1) |
| 2001 | 8 | 4 | (4) | (1) | | (2) |
| 2002 | 6 | 5 | 1 | (3) | (2) | (2) |
| 2003 | (34) | (2) | (4) | (4) | (5) | (3) |
| 2004 | | (24) | (17) | (8) | (9) | (6) |
| 2005 | | | (9) | (17) | (15) | (10) |
| 2006 | | | | 7 | (21) | (14) |
| 2007 | | | | | 6 | (16) |
| 2008 | | | | | | (15) |
| Total | $ (5) | $ (17) | $ (31) | $ (13) | $ (29) | $ (65) |

During calendar years 2009 and 2008, Infinity experienced $65.4 million and $29.4 million, respectively, of favorable reserve development, primarily from LAE reserves relating to liability coverages in the California, Florida and Pennsylvania nonstandard programs due to two significant changes in claims adjusting practices beginning in 2006 for which the effect on LAE payment patterns was not recognized until 2008 and 2009.

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.

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, also 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

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practice resulted in increased claim payments for development periods in which the change took place. It 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 a result, no adjustments were initially made to historical development patterns to reflect the increase in claims payments. However, after an increase in paid development patterns in 2006 and 2007, the 2008 historical patterns declined, which management concluded at that time was a result of the increase in tempo. Therefore, beginning in the first quarter of 2008, the Company recognized in its reserve analysis the lower development patterns emerging as a result of the change in tempo, which resulted in favorable development in 2008 and 2009.

During calendar year 2007, Infinity experienced $13.5 million of favorable reserve development, primarily from favorable development on prior accident period loss reserves as well as a reduction in LAE estimates due to favorable expense payment patterns on bodily injury coverages in both California and Florida.

***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.

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 prior to its recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss component of an impairment charge on a fixed maturity security is determined by the excess of the amortized cost over the present value of the expected cash flows. The present value is determined using the best estimate of cash flows discounted at (1) the effective interest rate implicit at the date of acquisition for non-structured securities or (2) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows varies depending on the type of security. The credit loss component of an impairment charge is recognized in net earnings while the non-credit component is recognized in accumulated other comprehensive income.

***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

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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 15 Legal 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, 2009 using a variety of methods, including estimates of future discounted cash flows and comparisons of the market value of Infinity to its major competitors as well as the overall market. 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.

The September 30, 2009 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, 2009.

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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, 2009, the capital ratios of all Infinity insurance subsidiaries exceed the RBC requirements.

***Sources of Funds***

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

Administrative expenses at the holding company have averaged $7.0 million annually.

At December 31, 2009, 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 February 2010, Infinity increased its quarterly dividend to $0.14 per share from $0.12 per share. At this current amount, Infinity s 2010 annualized dividend payments will be approximately $7.6 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. Effective July 24, 2008, Infinity s Board of Directors authorized an increase in the repurchase authority under the program by $74.3 million to $100.0 million as of that date. On August 6, 2009, the Board of Directors increased the authority by $28.8 million to $50.0 million as of that date (for an aggregate of $203.1 million since inception), modified the authority to include the repurchase of Infinity s debt and extended the date to execute this program to December 31, 2010. During 2008, Infinity repurchased 2,087,900 shares at an average cost, excluding commissions, of $41.97. 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. As of December 31, 2009, Infinity had $40.2 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, 2009, Infinity had $184.3 million of cash and investments. In 2009, Infinity s insurance subsidiaries paid Infinity $90.0 million in dividends. In 2010, Infinity s insurance subsidiaries may pay to Infinity up to $107.0 million in ordinary dividends without prior regulatory approval. The majority of dividends paid by Infinity s insurance companies to Infinity prior to December 21, 2010 will require an extraordinary dividend as those dividends, together with other distributions made within the preceding twelve months, will exceed the ordinary dividend capacity.

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, 2009 and 2008, there were no borrowings outstanding under the Credit Agreement.

Infinity s insurance subsidiaries generate liquidity to satisfy their obligations, primarily by collecting and investing premium in advance of paying claims. Infinity s insurance subsidiaries had positive cash flow from operations of approximately $85.0 million in 2009, $27.0 million in 2008 and $74.0 million in 2007. In addition, to satisfy their obligations, Infinity s insurance subsidiaries generate cash from maturing securities from their combined $993.4 million 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, 2009, are (in thousands):

| Due in: | Long-Term Debt & Interest | Operating Leases | Loss and LAE Reserves (a) | Postretirement Benefit Payments (b) | Total |
|---|---|---|---|---|---|
| 2010 | $ 10,725 | $ 18,405 | $ 294,455 | $ 258 | $ 323,843 |
| 2011-2012 | 21,450 | 19,359 | 146,556 | 534 | 187,899 |
| 2013-2014 | 211,088 | 14,056 | 35,714 | 548 | 261,406 |
| 2015 and after | | 11,753 | 32,389 | 1,370 | 45,512 |
| Total | $ 243,263 | $ 63,573 | $ 509,114 | $ 2,710 | $ 818,660 |

(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.

**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 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, 2009 contained $1.1 billion in fixed maturity securities and $39.4 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, 2009, Infinity had pretax net unrealized gains of $20.9 million on fixed maturities and pretax net unrealized gains of $8.1 million on equity securities. Combined, the pre-tax net unrealized gain increased by $20.9 million for the twelve months ended December 31, 2009.

Approximately 94.5% of the fixed maturities that Infinity held at December 31, 2009 were 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, 2009. 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 a stable and predictable investment return.

Since all of these securities are carried at fair value in the balance sheet, there is virtually no effect on liquidity or financial condition upon the sale and ultimate realization of unrealized gains and losses. The average duration of Infinity s fixed maturity portfolio was 3.5 years at

December 31, 2009.

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

The Company s procedures for validating market prices obtained from third parties include, but are not limited to, periodic review of model pricing methodologies and periodic testing of sales activity to determine if there are any significant differences between the market price used to value the security as of the balance sheet date and the sales price of the security for sales that occurred around the balance sheet date.

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Summarized information for Infinity s investment portfolio at December 31, 2009 follows (in thousands):

| | Amortized Cost | Fair Value | % of Total Fair Value |
|---|---|---|---|
| Fixed maturities: | | | |
| U.S. government and agencies: | | | |
| U.S. government | $ 187,915 | $ 191,261 | 16.1% |
| Government sponsored agencies | 56,344 | 57,015 | 4.8% |
| Total U.S. government and agencies | 244,259 | 248,277 | 20.9% |
| State and municipal | 342,696 | 350,076 | 29.5% |
| Mortgage-backed securities ( MBS ), collateralized mortgage obligations ( CMO ) and asset-backed securities ( ABS ): | | | |
| Residential mortgage-backed securities | 149,354 | 152,867 | 12.9% |
| Commercial mortgage-backed securities | 53,338 | 53,926 | 4.5% |
| Collateralized mortgage obligations: | | | |
| Planned amortization class | 35,657 | 36,129 | 3.0% |
| Sequentials | 19,368 | 19,200 | 1.6% |
| Whole loan | 7,951 | 7,230 | 0.6% |
| Accretion directed | 1,511 | 1,403 | 0.1% |
| Junior tranche | 761 | 618 | 0.1% |
| Total collateralized mortgage obligations | 65,249 | 64,580 | 5.4% |
| Asset-backed securities secured by: | | | |
| Equipment leases | 3,894 | 3,894 | 0.3% |
| Auto loans | 1,678 | 1,719 | 0.1% |
| Home equity | 1,188 | 1,112 | 0.1% |
| Total asset-backed securities | 6,760 | 6,726 | 0.6% |
| Total MBS, CMO and ABS | 274,701 | 278,099 | 23.4% |
| Corporates | | | |
| Investment grade | 202,605 | 206,667 | 17.4% |
| Non-investment grade | 61,515 | 63,574 | 5.4% |
| Total corporates | 264,120 | 270,241 | 22.8% |
| Total fixed maturities | 1,125,776 | 1,146,692 | 96.7% |
| Equity securities | 31,331 | 39,438 | 3.3% |
| Total investment portfolio | $ 1,157,107 | $ 1,186,131 | 100.0% |

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

| | Rating | | | | | | |
|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | Non-investment grade | Fair Value | % of Total Exposure |
| U.S. government and agencies | $ 248,277 | $ | $ | $ | $ | $ 248,277 | 21.7% |
| State and municipal | 34,806 | 230,671 | 82,226 | 2,373 | | 350,076 | 30.5% |
| Mortgage-backed, asset-backed and CMO | 266,609 | 7,596 | | 3,894 | | 278,099 | 24.3% |
| Corporates | 15,487 | 14,429 | 144,116 | 32,636 | 63,574 | 270,241 | 23.6% |
| Total Fair Value | $ 565,179 | $ 252,695 | $ 226,342 | $ 38,903 | $ 63,574 | $ 1,146,692 | 100.0% |
| % of Total Fair Value | 49.3% | 22.0% | 19.7% | 3.4% | 5.5% | 100.0% | |

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

Investments in MBS and CMO represented 24% of Infinity s fixed maturity portfolio at December 31, 2009. These securities are, in periods of rising interest rates, subject to significant extension risk due to the fact that mortgages may be repaid more slowly than expected as borrowers postpone refinancing in anticipation of lower fixed rates in the future. In periods of falling interest rates, these securities are subject to significant prepayment risk due to the fact that mortgages may be repaid more quickly than expected as borrowers accelerate refinancing in anticipation of higher fixed rates in the future. As of December 31, 2009, all of Infinity s MBS and CMO are rated BBB or better by a nationally recognized rating agency.

The following table presents the credit rating and fair value of Infinity s MBS and CMO portfolio at December 31, 2009, excluding Government Sponsored Enterprises ( GSE ), by deal origination year (in thousands):

| | Rating | | | | | | |
|---|---|---|---|---|---|---|---|
| **Deal Origination Year** | AAA | AA | A | BBB | Non-Investment Grade | Fair Value | % of Total Exposure |
| 1999 | $ | $ 618 | $ | $ | $ | $ 618 | 0.8% |
| 2000 | 154 | | | | | 154 | 0.2% |
| 2001 | 1,830 | | | | | 1,830 | 2.4% |
| 2002 | 5,573 | | | | | 5,573 | 7.2% |
| 2003 | 5,656 | | | | | 5,656 | 7.3% |
| 2004 | 14,026 | 3,811 | | | | 17,838 | 22.9% |
| 2005 | 28,484 | 3,167 | | | | 31,651 | 40.7% |
| 2006 | 14,535 | | | | | 14,535 | 18.7% |
| Total Fair Value | $ 70,258 | $ 7,596 | $ | $ | $ | $ 77,854 | 100.0% |
| % of Total Fair Value | 90.2% | 9.8% | 0.0% | 0.0% | 0.0% | 100.0% | |

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The following table presents the credit rating and fair value of Infinity s GSE portfolio at December 31, 2009 by deal origination year (in thousands):

| | Rating | | | | | | |
|---|---|---|---|---|---|---|---|
| **Deal Origination Year** | **AAA** | **AA** | **A** | **BBB** | **Non-Investment Grade** | **Fair Value** | **% of Total Exposure** |
| 2002 | $ 7,294 | $ | $ | $ | $ | $ 7,294 | 3.8% |
| 2003 | 10,841 | | | | | 10,841 | 5.6% |
| 2004 | 8,843 | | | | | 8,843 | 4.6% |
| 2007 | 1,448 | | | | | 1,448 | 0.7% |
| 2008 | 92,913 | | | | | 92,913 | 48.0% |
| 2009 | 66,011 | | | | | 66,011 | 34.1% |
| 2010 | 6,169 | | | | | 6,169 | 3.2% |
| Total Fair Value | $ 193,519 | $ | $ | $ | $ | $ 193,519 | 100.0% |
| % of Total Fair Value | 100.0% | 0.0% | 0.0% | 0.0% | 0.0% | 100.0% | |

The following table presents the credit rating and fair value of Infinity s ABS portfolio at December 31, 2009 by deal origination year (in thousands):

| | Rating | | | | | | |
|---|---|---|---|---|---|---|---|
| **Deal Origination Year** | **AAA** | **AA** | **A** | **BBB** | **Non-Investment Grade** | **Fair Value** | **% of Total Exposure** |
| 2001 | $ 68 | $ | $ | $ | $ | $ 68 | 1.0% |
| 2003 | 368 | | | | | 368 | 5.5% |
| 2004 | 100 | | | | | 100 | 1.5% |
| 2007 | | | | 3,894 | | 3,894 | 57.9% |
| 2009 | 2,295 | | | | | 2,295 | 34.1% |
| Total Fair Value | $ 2,832 | $ | $ | $ 3,894 | $ | $ 6,726 | 100.0% |
| % of Total Fair Value | 42.1% | 0.0% | 0.0% | 57.9% | 0.0% | 100.0% | |

The following table presents the returns of Infinity s investment portfolios based on quarterly investment balances as reflected in the financial statements.

| | Twelve months ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Return on fixed income securities: | | | |
| Excluding realized gains and losses | 4.2% | 4.7% | 5.0% |
| Including realized gains and losses | 3.0% | 2.1% | 4.5% |

| | | | |
|---|---|---|---|
| Return on equity securities: | | | |
| Excluding realized gains and losses | 2.5% | 1.9% | 2.4% |
| Including realized gains and losses | 2.8% | (38.7)% | 9.0% |
| Return on all investments: | | | |
| Excluding realized gains and losses | 4.2% | 4.6% | 4.9% |
| Including realized gains and losses | 3.0% | 0.6% | 4.7% |

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***Exposure to Market Risk***

Market risk represents the potential economic loss arising from adverse changes in the fair value of financial instruments. Infinity s exposures to market risk relate primarily to its investment portfolio, which is exposed primarily to interest rate risk and credit risk and, to a lesser extent, equity price risk.

The fair value of Infinity s fixed maturity portfolio is directly impacted by changes in market interest rates; generally, the fair value of fixed-income investments moves inversely with movements in market interest rates. Infinity s fixed maturity portfolio is comprised of substantially all fixed rate investments with primarily short-term and intermediate-term maturities. This portfolio composition allows flexibility in reacting to fluctuations of interest rates. In addition, the risk of loss in fair value is partially mitigated by higher market rates available for new funds available for investment. The portfolios of Infinity s insurance companies are managed to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet policyholder obligations.

*Interest Rate Risk*

The fair values of Infinity s fixed maturity investments fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases, respectively, in fair values of those instruments. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

The following table summarizes the estimated effects of hypothetical increases and decreases in interest rates resulting from parallel shifts in market yield curves on Infinity s fixed maturity portfolio and long-term debt. It is assumed that the effects are realized immediately upon the change in interest rates. The hypothetical changes in market interest rates do not reflect what could be deemed best or worst case scenarios. Variations in market interest rates could produce significant changes in the timing of repayments due to prepayment options available. For these reasons, actual results might differ from those reflected in the table.

| | Sensitivity to Instantaneous Interest Rate Changes (basis points) | | | | | | |
|---|---|---|---|---|---|---|---|
| **(in thousands)** | **(200)** | **(100)** | **(50)** | **0** | **50** | **100** | **200** |
| Fair value of fixed maturity portfolio | $ 1,226,846 | $ 1,186,597 | $ 1,166,645 | $ 1,146,692 | $ 1,126,281 | $ 1,105,870 | $ 1,065,392 |
| Fair value of long-term debt | 206,939 | 199,464 | 195,848 | 192,309 | 188,847 | 185,458 | 178,898 |

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The following table provides information about Infinity s fixed maturity investments at December 31, 2009 which are sensitive to interest rate risk. The table shows expected principal cash flows by expected maturity date for each of the five subsequent years and collectively for all years thereafter. Callable bonds and notes are included based on call date or maturity date depending upon which date produces the most conservative yield. MBS and sinking fund issues are included based on maturity year adjusted for expected payment patterns.

| | Expected Principal Cash Flows | | |
|---|---|---|---|
| **(in thousands)** | **MBS, CMO, CLO and ABS only** | **Excluding MBS, CMO, CLO and ABS** | **Total** |
| For the twelve months ended December 31, | | | |
| 2010 | 89,666 | 63,917 | 153,583 |
| 2011 | 53,580 | 138,379 | 191,959 |
| 2012 | 30,110 | 148,262 | 178,372 |
| 2013 | 19,374 | 105,780 | 125,154 |
| 2014 | 14,320 | 120,454 | 134,774 |
| Thereafter | 45,932 | 268,431 | 314,363 |
| Total | 252,983 | 845,222 | 1,098,205 |
| Fair Value | 278,099 | 868,593 | 1,146,692 |

The cash flows presented take into consideration historical relationships of market yields and prepayment rates. However, the actual prepayment rate may differ from historical trends resulting in actual principal cash flows that differ from those presented above.

*Credit Risk*

Credit risk is managed by diversifying the portfolio to avoid concentrations in any single industry group or issuer and by limiting investments in securities with lower credit ratings. The largest investment in any one fixed income security, excluding U.S. governments and agencies securities, is $10.3 million or 0.9% of the fixed income investment portfolio. The top five investments make up 5.8% of the fixed income portfolio. The fair value of non-performing fixed maturities, securities that have not produced their stated rate of investment income during the previous twelve months, was $0.2 million or 0.02% of the $1.2 billion portfolio as of December 31, 2009.

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The following table shows Infinity s fixed maturity securities, by NAIC designation and comparable Standard & Poor s Corporation rating as of December 31, 2009 (in thousands).

| NAIC Rating | Comparable S&P Rating | Amortized Cost | Fair Value | % |
|---|---|---|---|---|
| 1 | AAA, AA, A | $ 1,025,318 | $ 1,044,215 | 91.1% |
| 2 | BBB | 38,942 | 38,903 | 3.4% |
| | Total investment grade | $ 1,064,260 | $ 1,083,118 | 94.5% |
| 3 | BB | 30,602 | 31,936 | 2.8% |
| 4 | B | 27,248 | 27,801 | 2.4% |
| 5 | CCC, CC, C | 1,216 | 1,216 | 0.1% |
| 6 | D | 2,450 | 2,622 | 0.2% |
| | Total non-investment grade | $ 61,515 | $ 63,574 | 5.5% |
| | Total | $ 1,125,776 | $ 1,146,692 | 100.0% |

Since the second half of 2007, the mortgage industry has experienced a rise in mortgage delinquencies and foreclosures, particularly among lower quality exposures ( sub-prime and Alt-A ). As a result, many securities with underlying sub-prime and Alt-A mortgages as collateral experienced significant drops in market value. Infinity has only modest exposure to these types of investments. At December 31, 2009, Infinity s fixed maturity portfolio included 6 securities, or 0.5% of the total market value of the fixed income portfolio, with exposure to sub-prime and Alt-A mortgages. Although these securities have sub-prime mortgages as underlying collateral, five have AAA ratings. The remaining security has a market value of $0.6 million and a AA rating.

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

Infinity s investment portfolio consists of $350.1 million of municipal bonds, of which $156.9 million are insured. Of the insured bonds, 49% are insured with MBIA, 30% with Assured Guaranty, 20% with AMBAC, and 1% with XL Capital. The following table presents the underlying ratings, represented by the lower of Standard and Poor s, Moody s or Fitch s ratings, of the insured municipal bond portfolio (in thousands):

| | Municipal Bonds | | | | | |
|---|---|---|---|---|---|---|
| | Insured | | Uninsured | | Total | |
| Rating | Fair Value | % of Fair Value | Fair Value | % of Fair Value | Fair Value | % of Fair Value |
| AAA | $ 5,467 | 3.5% | $ 29,339 | 15.2% | $ 34,806 | 9.9% |
| AA+, AA, AA- | 97,586 | 62.2% | 133,085 | 68.9% | 230,671 | 65.9% |
| A+, A, A- | 51,467 | 32.8% | 30,759 | 15.9% | 82,226 | 23.5% |

| | | | | | | |
|---|---|---|---|---|---|---|
| BBB+, BBB, BBB- | 2,373 | 1.5% | | 0.0% | 2,373 | 0.7% |
| Total | $ 156,893 | 100.0% | $ 193,183 | 100.0% | $ 350,076 | 100.0% |

*Equity Price Risk*

Equity price risk is the potential economic loss from adverse changes in equity security prices. Infinity s exposure to equity price risk is limited as its equity investments comprise only 3.3% of its total investment portfolio. At December 31, 2009, the fair value of Infinity s equity portfolio was $39.4 million.

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**Results of Operations**

***Underwriting***

*Premium*

Infinity s net earned premium is as follows ($ in thousands):

| | Twelve months ended December 31, | | | |
|---|---|---|---|---|
| | 2009 | 2008 | $ Change | % Change |
| **Net Earned Premium** | | | | |
| Gross written premium | | | | |
| Personal Auto Insurance: | | | | |
| Focus States | | | | |
| Urban Zones | $ 660,334 | $ 680,009 | $ (19,675) | (2.9)% |
| Non-Urban Zones | 89,221 | 103,834 | (14,613) | (14.1)% |
| Total Focus States | 749,554 | 783,843 | (34,288) | (4.4)% |
| Maintenance States | 30,648 | 44,597 | (13,949) | (31.3)% |
| Other States | 1,755 | 3,612 | (1,857) | (51.4)% |
| Subtotal | 781,957 | 832,051 | (50,094) | (6.0)% |
| Commercial Vehicle | 53,632 | 42,795 | 10,837 | 25.3% |
| Classic Collector | 13,118 | 21,253 | (8,135) | (38.3)% |
| Other | 109 | 803 | (694) | (86.4)% |
| Total gross written premium (1) | 848,816 | 896,902 | (48,087) | (5.4)% |
| Ceded reinsurance | (4,947) | (4,812) | (135) | 2.8% |
| Net written premium | 843,869 | 892,090 | (48,221) | (5.4)% |
| Change in unearned premium | 4,522 | 30,361 | (25,839) | (85.1)% |
| Net Earned Premium | $ 848,391 | $ 922,451 | $ (74,060) | (8.0)% |

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| | Twelve months ended December 31, | | | |
|---|---|---|---|---|
| | **2008** | **2007** | **$ Change** | **% Change** |
| **Net Earned Premium** | | | | |
| Gross written premium | | | | |
| Personal Auto Insurance: | | | | |
| Focus States | | | | |
| Urban Zones | $ 680,009 | $ 746,655 | $ (66,646) | (8.9)% |
| Non-Urban Zones | 103,834 | 133,121 | (29,287) | (22.0)% |
| Total Focus States | 783,843 | 879,776 | (95,933) | (10.9)% |
| Maintenance States | 44,597 | 68,267 | (23,670) | (34.7)% |
| Other States | 3,612 | 11,740 | (8,128) | (69.2)% |
| Subtotal | 832,051 | 959,783 | (127,732) | (13.3)% |
| Commercial Vehicle | 42,795 | 37,537 | 5,258 | 14.0% |
| Classic Collector | 21,253 | 20,089 | 1,164 | 5.8% |
| Other | 803 | 1,602 | (799) | (49.9)% |
| Total gross written premium (1) | 896,902 | 1,019,011 | (122,109) | (12.0)% |
| Ceded reinsurance | (4,812) | (4,749) | (63) | 1.3% |
| Net written premium | 892,090 | 1,014,262 | (122,172) | (12.0)% |
| Change in unearned premium | 30,361 | 17,302 | 13,059 | 75.5% |
| Net Earned Premium | $ 922,451 | $ 1,031,564 | $ (109,113) | (10.6)% |

(1) 2009 and 2008 exclude less than $(0.1) million each of premium written on behalf of other companies. 2007 excludes $0.1 million of premium written on behalf of other companies.

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

| | As of December 31, | | | |
|---|---|---|---|---|
| | **2009** | **2008** | **Change** | **%** |
| **Policies-in-Force** | | | | |
| Personal Auto Insurance: | | | | |
| Focus States | | | | |
| Urban Zones | 586,963 | 582,198 | 4,765 | 0.8% |
| Non-Urban Zones | 69,441 | 75,543 | (6,102) | (8.1)% |
| Total Focus States | 656,404 | 657,741 | (1,337) | (0.2)% |
| Maintenance States | 22,278 | 31,860 | (9,582) | (30.1)% |
| Other States | 948 | 2,081 | (1,133) | (54.4)% |
| Subtotal | 679,630 | 691,682 | (12,052) | (1.7)% |

| | | | | |
|---|---|---|---|---|
| Commercial Vehicle | 28,120 | 19,605 | 8,515 | 43.4% |
| Classic Collector | 41,312 | 61,416 | (20,104) | (32.7)% |
| Other | | 295 | (295) | (100.0)% |
| Total | 749,062 | 772,998 | (23,936) | (3.1)% |

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| | As of December 31, | | | |
|---|---|---|---|---|
| | **2008** | **2007** | **Change** | **%** |
| **Policies-in-Force** | | | | |
| Personal Auto Insurance: | | | | |
| Focus States | | | | |
| Urban Zones | 582,198 | 595,186 | (12,988) | (2.2)% |
| Non-Urban Zones | 75,543 | 93,226 | (17,683) | (19.0)% |
| Total Focus States | 657,741 | 688,412 | (30,671) | (4.5)% |
| Maintenance States | 31,860 | 43,670 | (11,810) | (27.0)% |
| Other States | 2,081 | 5,546 | (3,465) | (62.5)% |
| Subtotal | 691,682 | 737,628 | (45,946) | (6.2)% |
| Commercial Vehicle | 19,605 | 14,149 | 5,456 | 38.6% |
| Classic Collector | 61,416 | 59,941 | 1,475 | 2.5% |
| Other | 295 | 881 | (586) | (66.5)% |
| Total | 772,998 | 812,599 | (39,601) | (4.9)% |

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**2009 compared to 2008**

Gross written premium decreased 5.4% during the twelve months ended December 31, 2009 compared with the twelve months ended December 31, 2008. Although premiums declined for the year, Infinity did experience gross written premium growth during each month of the fourth quarter. Infinity s growth during the fourth quarter of 2009 was the first quarterly increase the company has had since the second quarter of 2007. During 2009, Infinity implemented 29 rate revisions in various states with an overall rate impact of a 0.3% decrease. Policies-in-force at December 31, 2009 decreased 3.1% compared with December 31, 2008. Gross written premium declined more than policies-in-force due to a shift in the business mix to more liability only policies, which have lower average premium.

During 2009, personal auto insurance gross written premium in Infinity s eight Focus States decreased 4.4% compared with 2008. This decline in gross written premium is primarily a result of declines in Arizona, Florida and Georgia. In Arizona, gross written premium declined 22.3% during the twelve months ended December 31, 2009 as compared with the same period of 2008. This decline is primarily due to competitor rate decreases and worsening economic conditions in the state. Gross written premium declined 11.1% in Florida, primarily due to Infinity raising rates 15.1% during 2008 and tightening underwriting standards to improve profitability in the state. In Georgia, gross written premium was down 25.1% for the twelve months. This decline is primarily a result of rate increases intended to improve profitability in the state.

An increase in gross written premium in Illinois partially offset the decline in premium in Arizona, Florida, and Georgia during 2009. Illinois s gross written premium increased 155.0% during 2009 primarily as a result of continued growth in the recently introduced Chicago Urban Zone. Gross written premium in California, Infinity s largest state by premium volume, was down just 0.1% for the year.

In the fourth quarter of 2009, Infinity had growth in several Focus States including Arizona, Florida and Pennsylvania. The company expects this favorable premium trend to continue in these states during 2010.

Gross written premium in the Maintenance States declined 31.3% during 2009 with declines in all states in this category. Infinity has increased rates in several of the Maintenance States over the last twelve months in an effort to improve profitability.

Infinity s Commercial Vehicle gross written premium increased 25.3% during the twelve months ended December 31, 2009 as compared with the same period of 2008 as a result of growth in California, a new market for this product.

**2008 compared to 2007**

Gross written premium decreased 12.0% during the twelve months ended December 31, 2008 compared with the twelve months ended December 31, 2007. During 2008, Infinity implemented 52 rate revisions in various states with an overall rate impact of a 2.4% decrease. This overall rate decrease was primarily a result of the 10.4% rate decrease implemented January 1, 2008 in Infinity s largest program in California in response to the amended rate approval regulations in that state. Excluding California, overall rates increased 7.3%. Policies-in-force at December 31, 2008 decreased 4.9% compared with December 31, 2007. Gross written premium declined more than policies-in-force due to a shift in the business mix to more liability only policies, which have lower average premium.

During 2008, personal auto insurance gross written premium in Infinity s eight Focus States decreased 10.9% compared with 2007. This decline in gross written premium was primarily a result of declines in California, Florida and Georgia. In California, gross written premium declined 13.5% during the twelve months ended December 31, 2008 as compared with the same period of 2007. Infinity believes that, in addition to the rate decrease on Infinity s largest program in California, gross written premium declined, in part, because the compulsory automobile insurance laws in California were not actively enforced. Infinity believes that individuals allowed their automobile insurance policies to lapse due to this lack of enforcement. Gross written premium may also have been affected by the impact of the economic slowdown on the buying behavior of individuals with regard to automobile insurance. Gross written premium in Florida declined 16.6% during 2008 as compared with 2007. Although gross written premium in Miami, Infinity s new urban zone, increased during the twelve months ended December 31, 2008 as compared with the same period of 2007, the remaining Florida urban zones declined. The decline in gross written premium was due primarily to Infinity raising rates 13.5% during 2007 and another 15.1% in

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2008 to improve profitability in Florida. A decline in Georgia s gross written premium of 22.1% during the year ended 2008 compared with the same period of 2007 was primarily a result of a reduction in the amount of business written in non-urban zones in the state.

Partially offsetting the decline in premium in California, Florida and Georgia during 2008 were increases in gross written premium in Nevada and Texas. Nevada s gross written premium increased 36.2% during 2008 primarily as a result of continued marketing efforts in addition to Infinity s rate stability while competitors increased their rates. Gross written premium in Texas increased 20.6% during the twelve months ended December 31, 2008 as compared with the same period of 2007, including growth in Dallas, Fort Worth, Houston and San Antonio all four of Infinity s Texas urban zones. New agent appointments and advertising contributed to the gross written premium growth in Texas.

Gross written premium in the Maintenance States declined 34.7% during 2008 with declines in all Maintenance States other than Tennessee. Infinity increased rates in several of the Maintenance States during 2008 in an effort to improve profitability.

Infinity s Commercial Vehicle gross written premium increased 14.0% during the twelve months ended December 31, 2008 as compared with the same period of 2007. During 2007, Infinity revised its rating structure and reintroduced the program in states such as California, Connecticut, Georgia and Texas. In addition, increased marketing and advertising led to the growth in gross written premium.

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*Profitability*

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

While financial data is reported in accordance with GAAP for shareholder and other investment purposes, data is reported on a statutory basis for insurance regulatory purposes. Infinity evaluates underwriting profitability based on a combined ratio calculated using statutory accounting principles. The statutory combined ratio represents the sum of the following ratios: (i) losses and LAE incurred as a percentage of net earned premium and (ii) underwriting expenses incurred as a percentage of net written premium. Certain expenses are treated differently under statutory and GAAP accounting principles. Under GAAP, commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized as deferred policy acquisition costs and amortized on a pro rata basis over the period in which the related premium are earned; on a statutory basis these items are expensed as incurred. Costs for computer software developed or obtained for internal use are capitalized under GAAP and amortized over their useful life, rather than expensed as incurred, as required for statutory purposes. Additionally, bad debt charge-offs on agent balances and premium receivables are included only in the GAAP combined ratios.

| | Twelve months ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | | Change | | |
| | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio |
| Personal Auto Insurance: | | | | | | | | | |
| Focus States: | | | | | | | | | |
| Urban Zones | 68.5% | 20.2% | 88.7% | 71.7% | 19.8% | 91.5% | (3.2)% | 0.4% | (2.8)% |
| Non-Urban Zones | 67.5% | 21.2% | 88.6% | 74.7% | 21.4% | 96.1% | (7.3)% | (0.2)% | (7.5)% |
| Total Focus States | 68.4% | 20.3% | 88.7% | 72.1% | 20.0% | 92.1% | (3.7)% | 0.3% | (3.5)% |
| Maintenance States | 65.4% | 23.8% | 89.2% | 71.1% | 22.2% | 93.4% | (5.7)% | 1.6% | (4.1)% |
| Other States | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| Subtotal | 68.2% | 20.5% | 88.7% | 71.8% | 20.2% | 92.0% | (3.6)% | 0.3% | (3.3)% |
| Commercial Vehicle | 72.3% | 21.6% | 93.8% | 82.2% | 21.6% | 103.8% | (10.0)% | 0.0% | (10.0)% |
| Classic Collector | 37.3% | 42.4% | 79.7% | 43.4% | 41.7% | 85.1% | (6.1)% | 0.7% | (5.4)% |
| Other | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| Total statutory ratios | 66.5% | 20.7% | 87.2% | 70.3% | 20.9% | 91.2% | (3.8)% | (0.2)% | (4.0)% |
| GAAP ratios | 66.5% | 22.0% | 88.5% | 70.3% | 22.2% | 92.5% | (3.8)% | (0.2)% | (4.0)% |

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| | Twelve months ended December 31, 2008 | | | 2007 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio | Loss & LAE Ratio | Underwriting Ratio | Combined Ratio |
| Personal Auto Insurance: | | | | | | | | | |
| Focus States: | | | | | | | | | |
| Urban Zones | 71.7% | 19.8% | 91.5% | 72.3% | 19.6% | 92.0% | (0.7)% | 0.2% | (0.5)% |
| Non-Urban Zones | 74.7% | 21.4% | 96.1% | 82.6% | 23.2% | 105.7% | (7.8)% | (1.8)% | (9.6)% |
| Total Focus States | 72.1% | 20.0% | 92.1% | 74.0% | 20.2% | 94.2% | (1.9)% | (0.1)% | (2.0)% |
| Maintenance States | 71.1% | 22.2% | 93.4% | 72.7% | 22.0% | 94.7% | (1.5)% | 0.2% | (1.3)% |
| Other States | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| Subtotal | 71.8% | 20.2% | 92.0% | 72.9% | 20.4% | 93.3% | (1.1)% | (0.2)% | (1.3)% |
| Commercial Vehicle | 82.2% | 21.6% | 103.8% | 38.2% | 24.0% | 62.2% | 44.0% | (2.4)% | 41.6% |
| Classic Collector | 43.4% | 41.7% | 85.1% | 38.4% | 49.1% | 87.5% | 4.9% | (7.3)% | (2.4)% |
| Other | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| Total statutory ratios | 70.3% | 20.9% | 91.2% | 70.6% | 21.2% | 91.8% | (0.2)% | (0.3)% | (0.6)% |
| GAAP ratios | 70.3% | 22.2% | 92.5% | 70.5% | 23.0% | 93.5% | (0.2)% | (0.8)% | (1.0)% |

NM: Not meaningful due to the low premium for these lines.
In evaluating the profit performance of Infinity s business, the Company s management reviews underwriting profitability using statutory combined ratios. Accordingly, the discussion of underwriting results that follows will focus on these ratios and the components thereof.

**2009 compared to 2008**

Overall, the statutory combined ratio for the year ended December 31, 2009 of 87.2% improved 4.0 points from 91.2% for 2008. For the twelve months ended December 31, 2009, Infinity had $65.4 million of favorable development on prior accident period loss and LAE reserves compared with $29.4 million of favorable development for the year ended December 31, 2008. (See Critical Accounting Policies Insurance Reserves for a more detailed discussion of loss reserving and development.) Excluding the favorable development from both years, the combined ratio increased from 94.4% in 2008 to 94.9% in 2009. Catastrophe related losses were $1.0 million and $1.8 million during 2009 and 2008, respectively.

The combined ratio improvement in the Focus States during 2009 is primarily a result of favorable development on loss and LAE reserves in California and Florida. Excluding favorable development, the loss and LAE ratio in the Focus States for 2009 has increased when compared with 2008 primarily as a result of an increase in the loss ratio in California, where Infinity took rate decreases in late 2007 and mid-2008 in order to comply with the state s Fair Rate of Return regulations, as well as an increase in frequency and severity in bodily injury coverage.

The loss and LAE ratio in the Maintenance States declined for the year ended December 31, 2009 as compared with 2008 primarily as a result of favorable development on LAE reserves in Connecticut. The underwriting ratio in these states grew in 2009 due to fixed expenses over a decline in premium.

The loss and LAE ratio for the Commercial Vehicle business decreased substantially during 2009 when compared with 2008 primarily as a result of an extra-contractual claim in Florida recorded during 2008. Excluding this claim, the combined ratio for the twelve months ended December 31, 2008 would be 79.8%. This compares with 93.8% for the twelve months ended December, 31 2009. The increase in the combined ratio, excluding the extra-contractual claim, is a result of an increase in the loss ratio in California due to a shift toward new business, which typically has a higher loss ratio than renewal business.

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

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**2008 compared to 2007**

Overall, the statutory combined ratio for the year ended December 31, 2008 of 91.2% improved slightly from 91.8% for 2007. For the twelve months ended December 31, 2008, Infinity had $29.4 million of favorable development on prior accident period loss and LAE reserves compared with $13.5 million of favorable development for the year ended December 31, 2007. Excluding the favorable development from both years, the combined ratio increased 1.3 points from 93.1% in 2007 to 94.4% in 2008. Catastrophe related losses were $1.8 million and $0.7 million during 2008 and 2007, respectively.

The combined ratio improvement in the Focus States for the year ended December 31, 2008 as compared with 2007 is primarily a result of favorable development on LAE reserves in many of Infinity s Focus States. Excluding favorable development the combined ratio in the Focus States increased in 2008 compared with 2007 primarily as a result of an increase in the loss and LAE ratio in California, Infinity s largest state in terms of premium and underwriting profits. During 2008, Infinity took a 10.4% rate reduction as required by the new fair rate of return regulations which reduced average earned premium and increased the combined ratio. The 2008 combined ratio, excluding favorable development, did improve compared with 2007 in states such as Arizona, Florida, Pennsylvania and Texas primarily as a result of rate increases taken in the states to improve profitability.

The loss and LAE ratio in the Maintenance States declined for the year ended December 31, 2008 as compared with 2007 primarily as a result of favorable development on LAE reserves in Alabama and Missouri.

The loss and LAE ratio for the Commercial Vehicle business increased substantially during 2008 compared with 2007 as a result of an extra-contractual claim in Florida. Excluding this claim, the combined ratio for 2008 would be 79.8% compared with 62.2% in 2007. The increase in the combined ratio excluding the extra-contractual claim is a result of favorable development on prior accident period loss and LAE reserves recognized in 2007.

The Classic Collector loss and LAE ratio increased for the year ended December 31, 2008 primarily due to $0.7 million of losses from Hurricane Ike. Excluding losses from Hurricane Ike, the loss and LAE ratio for 2008 would be 40.0% compared with 38.4% for 2007. The expense ratio has improved for Classic Collector as a result of completing the transition of moving the business to a new computer platform.

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

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

***Investment Income***

Investment income primarily includes gross investment revenue and investment management fees as shown in the following table (in thousands):

| | Twelve months ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Investment income: | | | |
| Interest income on fixed maturities, cash and cash equivalents | $ 50,567 | $ 58,909 | $ 68,359 |
| Dividends on equity securities | 782 | 871 | 1,190 |
| Gross investment income | $ 51,349 | 59,780 | $ 69,549 |
| Investment expenses | (1,930) | (1,830) | (2,162) |
| Net investment income | $ 49,418 | $ 57,950 | $ 67,387 |
| Average investment balance | $ 1,222,816 | $ 1,298,112 | $ 1,408,470 |
| Net investment income over average investment balance | 4.0% | 4.5% | 4.8% |

**2009 compared to 2008**

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Net investment income declined $8.5 million for the twelve months ended December 31, 2009 as compared with the same period in 2008, primarily due to both a decrease in quarterly average invested assets of 5.8% in 2009 compared to 2008 and a decline in yields for high quality securities.

**2008 compared to 2007**

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Net investment income declined $9.4 million for the twelve months ended December 31, 2008 as compared with the same period in 2007. Infinity s gross investment income declined due to both a decrease in quarterly average invested assets of 7.8% in 2008 compared to 2007 and a decline in yields for high quality securities. Investment expenses declined primarily as a result of the lower average invested asset balance.

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

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

***Realized Gains (Losses) on Investments***

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

| | Twelve months ended December 31, 2009 | | |
|---|---|---|---|
| | Net Realized Gains (Losses) on Sales | Impairments Recognized in Earnings | Total Realized Gains (Losses) |
| Fixed maturities | $ 4,914 | $ (19,850) | $ (14,936) |
| Equities | 112 | | 112 |
| Total | $ 5,026 | $ (19,850) | $ (14,824) |

| | Twelve months ended December 31, 2008 | | |
|---|---|---|---|
| | Net Realized Gains (Losses) on Sales | Impairments Recognized in Earnings | Total Realized Gains (Losses) |
| Fixed maturities | $ 10,440 | $ (43,229) | $ (32,788) |
| Equities | | (18,590) | (18,590) |
| Total | $ 10,440 | $ (61,818) | $ (51,378) |

| | Twelve months ended December 31, 2007 | | |
|---|---|---|---|
| | Net Realized Gains (Losses) on Sales | Impairments Recognized in Earnings | Total Realized Gains (Losses) |
| Fixed maturities | $ (2,332) | $ (4,028) | $ (6,360) |
| Equities | 3,273 | | 3,273 |
| Total | $ 941 | $ (4,028) | $ (3,087) |

**2009 compared to 2008**

The total realized loss in 2009 was primarily a result of credit-related other-than-temporary impairments on asset-backed securities, particularly those with equipment leases as collateral, and non-investment grade corporate bonds.

**2008 compared to 2007**

The total realized loss in 2008 was primarily a result of impairments of fixed maturities issued by companies in the financial services industry and the impairment of Infinity s investment in an exchange-traded fund.

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

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

*Other Income*

| (in thousands) | Twelve months ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Finance charges on assumed business | $ | $ 6 | $ 16 |
| Gain on sale of Connecticut personal auto book | | 574 | 1,070 |
| Other | 439 | 1,315 | 1,276 |
| Total Other Income | $ 439 | $ 1,895 | $ 2,362 |

**2009 compared to 2008**

Other income for the twelve months ended December 31, 2009 decreased $1.5 million when compared to 2008. This decline is primarily attributable to a $0.6 million decline in fees received on renewal premium from the 2005 sale of the Assumed Agency Business s Connecticut personal auto book. The other items included in other income of $1.3 million in 2008 and $0.4 million in 2009 are of a non-recurring nature.

**2008 compared to 2007**

Other income for the twelve months ended December 31, 2008 decreased $0.5 million when compared to 2007. This decline is primarily attributable to a $0.5 million decline in fees received on renewal premium from the 2005 sale of the Assumed Agency Business s Connecticut personal auto book. The other items included in other income of $1.3 million in both 2007 and 2008 are non-recurring items.

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

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

***Interest Expense***

| **(in thousands)** | **Twelve months ended December 31, 2009** | **2008** | **2007** |
|---|---|---|---|
| Senior Notes | $ 11,055 | $ 11,071 | $ 11,067 |

The Senior Notes carry a coupon rate of 5.50%, effective yield of 5.55%, and require no principal payment until maturity in February 2014. (See Note 4 Long-Term Debt of the Notes to Consolidated Financial Statements for additional information on the Senior Notes).

***Corporate General and Administrative Expenses***

| **(in thousands)** | **Twelve months ended December 31, 2009** | **2008** | **2007** |
|---|---|---|---|
| Corporate General and Administrative Expenses | $ 6,713 | $ 6,958 | $ 7,843 |

**2009 compared to 2008**

Corporate general and administrative expenses decreased just 3.5%, or $245,000, in 2009 compared to 2008.

**2008 compared to 2007**

Corporate general and administrative expenses decreased 11.3% in 2008 compared to 2007 primarily as a result of a decrease in share-based compensation expense as stock options issued in 2003 were fully expensed during 2007, a decrease in contract service fees paid and a decrease in Directors and Officers insurance expense. (See Note 7 Share-Based Compensation of the Notes to Consolidated Financial Statements for additional information on Infinity s Stock Option Plan).

***Loss on Repurchase of Debt***

During 2009, Infinity repurchased $5.0 million of its long-term debt. Infinity recognized a loss of approximately $11,000 on the redemption due to unamortized bond issue costs and unamortized discount on the repurchased bonds.

***Restructuring Charges***

In October 2006, Infinity announced plans to consolidate certain of its customer service, centralized claims and information technology back-office operations. The objective of the restructuring is to improve service levels and to more consistently and cost effectively manage the operations.

| **(in thousands)** | **Twelve months ended December 31, 2009** | **2008** | **2007** |
|---|---|---|---|
| Restructuring Charges | $ 2 | $ 788 | $ 1,693 |

The $1.7 million charge during 2007 is primarily related to losses on subleases from facilities affected by the restructuring. Infinity incurred an additional $0.8 million in expenses during 2008, $0.4 million of which related to losses on subleases. In 2009, Infinity recognized just $2,000 in restructuring charges as the Company completed its restructuring efforts.

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

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

***Other Expenses***

| (in thousands) | Twelve months ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Corporate litigation expense | $ 771 | $ 590 | $ 636 |
| Loss on sublease | 1,447 | 497 | |
| Lease buyout | | | 1,975 |
| Other | 1,650 | 3,482 | 1,544 |
| Total Other Expenses | $ 3,868 | $ 4,570 | $ 4,155 |

**2009 compared to 2008**

Other expenses decreased $0.7 million for the twelve-month period ended December 31, 2009 as compared to 2008. The decline is primarily due to a decrease in operating expenses relating to Infinity s retail store initiative, which the company has decided to no longer pursue. The loss on sublease in 2009 was due to the sublet of 11,494 square feet of the Company s Colonnade Park corporate headquarters. Staff reductions and the shift of some operations to the Liberty Park building in 2008 and 2009 freed this space for sublet.

**2008 compared to 2007**

Other expenses increased $0.4 million for the twelve-month period ended December 31, 2008 as compared to 2007. The increase is primarily due to a loss on vacated office space as well as operating expenses relating to Infinity s retail store initiative. Beginning in 2006, Infinity launched this program to assess the viability of retail outlets that sell auto insurance coverage and offer other financial services.

***Income Taxes***

The following table reconciles the Company s U.S. statutory rate and effective tax rate for the periods ending December 31, 2009, 2008 and 2007.

| | Twelve months ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| U.S. statutory tax rate | 35.0% | 35.0% | 35.0% |
| Adjustments | | | |
| Dividends received deduction | (0.2)% | (0.3)% | (0.2)% |
| Tax exempt interest | (2.3)% | (5.2)% | (2.4)% |
| Adjustment to valuation allowance | 3.9% | 34.1% | 1.5% |
| Other | 0.1% | 0.8% | (0.1)% |
| Effective tax rate | 36.5% | 64.4% | 33.8% |

Infinity has recorded a valuation allowance equal to 100% of the available capital loss carry-forward. As capital gains are generated, Infinity takes credit for the deferred tax asset and reduces the valuation allowance. In addition, Infinity includes the tax on losses recorded on other-than-temporarily impaired securities in the valuation allowance.

## ITEM 7A

## Quantitative and Qualitative Disclosures about Market Risk

The information required by Item 7A is included in Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption, Exposure to Market Risk.

## ITEM 8

## Financial Statements and Supplementary Data

**Infinity Property and Casualty Corporation and Subsidiaries:**



## ITEM 9

## Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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## ITEM 9A

## Controls and Procedures

Infinity s Chief Executive Officer and Chief Financial Officer, with assistance from other management, have evaluated the effectiveness of Infinity s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2009. Based on that evaluation and due solely to the factors leading to the restatement of the Company s financial statements (set forth in Note 1 Significant Reporting and Accounting Policies of the Notes to Consolidated Financial Statements), they concluded that the controls and procedures were not effective. Infinity has identified and implemented the steps necessary to remedy the ineffectiveness.

**Management s Report on Internal Control over Financial Reporting**

Infinity s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Infinity s system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, Infinity conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2009 based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In performing this evaluation, management undertook a review, subsequent to year end 2009, of the Company s negative cash book balance accounting policy and concluded that the policy had not been in conformity with U.S. generally accepted accounting principles solely with respect to instances where no legal right of offset existed between funding institutions. This led the Company to restate its Consolidated Balance Sheets and Consolidated Statements of Cash Flows for the years ending December 31, 2007 and 2008. The Company then evaluated the impact of this restatement and determined that, based on guidance set forth in the Public Company Accounting Oversight Board ( PCAOB ) Auditing Standards Number 5, a material weakness existed in internal control over financial reporting and that effective control over financial reporting as of December 31, 2009 had not been maintained.

This report includes an attestation report of our independent registered public accounting firm regarding internal control over financial reporting.

**Changes in Internal Controls over Financial Reporting**

The Company has remediated the control deficiency discussed above as of February 26, 2010 by amending its accounting policy relating to the classification of negative cash book balances that was in place at December 31, 2009. There were no other changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Report of Independent Registered Public Accounting Firm on**

**Internal Control over Financial Reporting**

**Board of Directors**

**Infinity Property and Casualty Corporation**

We have audited Infinity Property and Casualty Corporation s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Infinity Property and Casualty Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management s assessment. Subsequent to the year end 2009, management concluded that its accounting policy regarding the classification of negative cash book balances had not been in conformity with U.S. generally accepted accounting principles solely with respect to instances where no legal right of offset existed between funding institutions. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2009 and 2008, and the related consolidated statements of earnings, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2009 financial statements and this report does not affect our report dated February 26, 2010, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Infinity Property and Casualty Corporation has not maintained effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

**/S/ ERNST & YOUNG LLP**

Birmingham, Alabama

February 26, 2010

## ITEM 9B

## Other Information

None.

# PART III

## ITEM 10

## Directors, Executive Officers and Corporate Governance

Infinity makes available free of charge within the Investor Relations section of its Internet website at www.ipacc.com, Infinity s Corporate Governance Guidelines, the Charter of each standing committee of the Board of Directors, and the Code of Ethics adopted by the Board and applicable to all Infinity directors, officers and employees. Requests for copies may be directed to our Corporate Secretary at Infinity Property and Casualty Corporation, 3700 Colonnade Parkway, Birmingham, Alabama 35243. Infinity intends to disclose any amendments to the Code of Ethics, and any waiver from a provision of the Code of Ethics granted to Infinity s Chief Executive Officer or Chief Financial Officer, on Infinity s website following such amendment or waiver. Infinity may disclose any such amendment or waiver in a report on Form 8-K filed with the SEC either in addition to or in lieu of the website disclosure. The information contained on or connected to Infinity s website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that Infinity files with or furnishes to the SEC.

The information required by this Item 10 regarding Directors, Executive Officers, Promoters, and Control Persons; Compliance with Section 16(a) of the Exchange Act of 1934; and Corporate Governance is incorporated by reference to Infinity s Proxy Statement for the 2010 Annual Meeting of Shareholders to be held on May 26, 2010.

## ITEM 11

## Executive Compensation

Incorporated by reference from Infinity s Proxy Statement for the 2010 Annual Meeting of Shareholders to be held on May 26, 2010.

## ITEM 12

## Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference from Infinity s Proxy Statement for the 2010 Annual Meeting of Shareholders to be held on May 26, 2010.

## ITEM 13

## Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference from Infinity s Proxy Statement for the 2010 Annual Meeting of Shareholders to be held on May 26, 2010.

## ITEM 14

## Principal Accounting Fees and Services

Incorporated by reference from Infinity s Proxy Statement for the 2010 Annual Meeting of Shareholders to be held on May 26, 2010.

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**INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Board of Directors**

**Infinity Property and Casualty Corporation**

We have audited the accompanying consolidated balance sheets of Infinity Property and Casualty Corporation and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of earnings, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Infinity Property and Casualty Corporation and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, Infinity Property and Casualty Corporation restated its consolidated balance sheet as of December 31, 2008, and the related consolidated statements of cash flows for each of the two years in the period ended December 31, 2008.

As discussed in Note 1 to the consolidated financial statements, Infinity Property and Casualty Corporation changed its method of accounting for impairment of debt securities with the adoption of the guidance originally issued in FASB Staff Position 115-2 and 124-2 Recognition and Presentation of Other-Than-Temporary Impairments (codified in FASB ASC Topic 320 Investments Debt and Equity Securities) effective April 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Infinity Property and Casualty Corporation and subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2010 expressed an adverse opinion thereon.

**/S/ ERNST & YOUNG LLP**

Birmingham, Alabama

February 26, 2010

**INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF EARNINGS**

**(In thousands, except per share data)**

| | Twelve months ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2009** | **2008** | **% Change** | **2007** | **% Change** |
| **Revenues:** | | | | | |
| Earned premiums | $ 848,391 | $ 922,451 | (8.0)% | $ 1,031,564 | (10.6)% |
| Net investment income | 49,418 | 57,950 | (14.7)% | 67,387 | (14.0)% |
| Realized gains (losses) on investments* | (14,824) | (51,378) | (71.1)% | (3,087) | 1,564.3% |
| Other income | 439 | 1,895 | (76.8)% | 2,362 | (19.8)% |
| Total revenues | $ 883,424 | 930,918 | (5.1)% | 1,098,226 | (15.2)% |
| **Costs and Expenses:** | | | | | |
| Losses and loss adjustment expenses | $ 564,160 | $ 648,410 | (13.0)% | $ 727,284 | (10.8)% |
| Commissions and other underwriting expenses | 186,468 | 205,046 | (9.1)% | 237,481 | (13.7)% |
| Interest expense | 11,055 | 11,071 | (0.1)% | 11,067 | |
| Corporate general and administrative expenses | 6,713 | 6,958 | (3.5)% | 7,843 | (11.3)% |
| Loss on repurchase of debt | 11 | | | | |
| Restructuring Cost | 2 | 788 | (99.8)% | 1,693 | (53.5)% |
| Other expenses | 3,868 | 4,570 | (15.4)% | 4,155 | 10.0% |
| Total costs and expenses | $ 772,277 | $ 876,843 | (11.9)% | $ 989,523 | (11.4)% |
| Earnings before income taxes | 111,147 | 54,075 | 105.5% | 108,703 | (50.3)% |
| Provision for income taxes | 40,553 | 34,818 | 16.5% | 36,759 | (5.3)% |
| **Net earnings** | $ 70,594 | $ 19,257 | 266.6% | $ 71,944 | (73.2)% |
| **Earnings per common share:** | | | | | |
| Basic | $ 5.17 | $ 1.25 | 313.6% | $ 3.91 | (68.0)% |
| Diluted | 5.09 | 1.23 | 313.8% | 3.87 | (68.2)% |
| Average number of common shares: | | | | | |
| Basic | 13,658 | 15,452 | (11.6)% | 18,390 | (16.0)% |
| Diluted | 13,870 | 15,680 | (11.5)% | 18,605 | (15.7)% |
| Cash dividends per common share | $ 0.48 | $ 0.44 | 9.1% | $ 0.36 | 22.2% |
| * Realized gains (losses) before impairment losses | $ 5,026 | $ 10,440 | (51.9)% | $ 941 | 1,009.5% |
| Total OTTI losses | (11,861) | (61,818) | (80.8)% | (4,028) | 1,434.7% |
| Non-credit portion in other comprehensive income | 3,783 | | | | |
| OTTI losses reclassed from other comprehensive income | (11,772) | | | | |
| Impairment losses recognized in earnings | $ (19,850) | $ (61,818) | $ (67.9)% | $ (4,028) | 1,434.7% |
| Total realized gains (losses) on investments | $ (14,824) | $ (51,378) | $ (71.1)% | $ (3,087) | 1,564.3% |

See Notes to Consolidated Financial Statements.

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**INFINITY PROPERTY AND CASUALTY CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except number of shares authorized and outstanding in line description)**

| | December 31, 2009 | December 31, 2008 Restated |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed maturities at fair value (amortized cost $1,125,776 and $1,024,121) | $ 1,146,692 | $ 1,032,237 |
| Equity securities at fair value (cost $31,331 and $31,157) | 39,438 | 31,157 |
| Total investments | $ 1,186,131 | $ 1,063,394 |
| Cash and cash equivalents | 99,700 | 127,568 |
| Accrued investment income | 11,237 | 11,028 |
| Agents balances and premium receivable, net of allowances for doubtful accounts of $10,853 and $11,652 | 295,691 | 300,751 |
| Property and equipment, net of accumulated depreciation of $42,092 and $49,989 | 27,916 | 33,342 |
| Prepaid reinsurance premium | 1,536 | 1,661 |
| Recoverables from reinsurers (includes $316 and $2,898 on paid losses and LAE) | 18,031 | 23,413 |
| Deferred policy acquisition costs | 68,839 | 70,101 |
| Current and deferred income taxes | 10,258 | 20,920 |
| Other assets | 9,057 | 14,779 |
| Goodwill | 75,275 | 75,275 |
| Total assets | $ 1,803,671 | $ 1,742,232 |
| **Liabilities and shareholders equity** | | |
| Liabilities: | | |
| Unpaid losses and LAE | $ 509,114 | $ 544,756 |
| Unearned premium | 376,068 | 380,425 |
| Payable to reinsurers | 58 | 954 |
| Long-term debt (fair value $192,309 and $179,063) | 194,651 | 199,567 |
| Commissions payable | 18,012 | 22,568 |
| Payable for securities purchased | 17,576 | 293 |
| Other liabilities | 70,032 | 68,337 |
| Total liabilities | $ 1,185,511 | $ 1,216,901 |
| Commitments and contingencies (See Note 16) | | |