INFINITY PROPERTY & CASUALTY CORP
Form 10-K
March 09, 2006
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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, 2005

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: None **Name of each exchange on which registered: None**
Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value

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

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

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

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

Indicate by check mark 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b of the Exchange Act). (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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, 2005, the aggregate market value of the voting stock held by non-affiliates of the registrant was $717,724,714.

As of March 1, 2006, there were 20,716,427 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 23, 2006, are incorporated by reference in Part III hereof.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain statements that 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, premiums, 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 litigation against Infinity, weather conditions (including the severity and frequency of storms, hurricanes, snowfalls, hail and winter conditions), 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.

ITEM 1

Business

Introduction

Infinity Property and Casualty Corporation (Infinity or the Company) is a holding company that, through subsidiaries, provides personal automobile insurance on a national level with a concentration on nonstandard auto insurance. Infinity is headquartered in Birmingham, Alabama. The Company employed approximately 2,100 persons at December 31, 2005.

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 Atlanta Casualty Company, Infinity Insurance Company, Leader Insurance Company and Windsor Insurance Company (collectively the NSA Group) and the in-force personal insurance business assumed through a reinsurance contract (the Assumed Agency Business) from American Financial Group Inc. s (AFG) principal property and casualty subsidiary, Great American Insurance Company (GAI). Unless indicated otherwise, the financial information herein is presented on a GAAP basis.

The Personal Automobile Market

Personal auto insurance is the largest line of property and casualty insurance, accounting for approximately 37% of the $440 billion of annual industry premiums. 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 higher premiums for similar coverage than do drivers qualifying for standard or preferred policies. While there is no established industry-recognized distinction between nonstandard policies and all other personal auto policies, 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.

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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. In the late 1990s, many automobile insurers attempted to capture more business by reducing rates. Infinity believes that these industry-wide rate reductions, combined with increased severity trends during the years 1998 through 2000, contributed to the deterioration of industry loss ratios in that period. Infinity reacted by increasing personal auto rates by 15% in 2001, 12% in 2002 and 2% in 2003. Most of the industry, including some of the largest companies, raised rates and tightened underwriting standards in order to address poor results. Other insurance companies withdrew from the market because of their inability to compete successfully, impaired capital positions, or because of a decrease in the availability of reinsurance. However, beginning in the second half of 2003, competitors who remained in the marketplace began to compete more aggressively for independent agents business by offering increased sales and commission incentives. This competition for the independent agents business continued in 2004 and throughout 2005. In 2005, Infinity also noted a growing number of competitors beginning to reduce their overall rates with larger rate reductions in certain segments of the business. The personal automobile component of the Consumer Price Index reflects this trend as it indicates personal automobile insurance rates increased just 1% in 2005 after an increase of 3% in 2004. Infinity has maintained its pricing discipline by raising personal auto rates in 2005 and 2004 by 2.2% and 2.7%, 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, coverages 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 2004, the five largest automobile insurance companies accounted for approximately 50% of the industry s net written premiums and the largest ten accounted for approximately 65% (2005 industry data not available). Approximately 365 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 estimates that approximately 96% of its personal auto business is nonstandard auto insurance. Based on data published by A.M. Best, Infinity believes that it is the third largest provider of nonstandard auto coverage through independent agents in the United States. Infinity also writes standard and preferred personal auto insurance, nonstandard commercial auto insurance and complementary personal lines insurance products.

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

	Twelve months ended December 31,		
	2005	**2004**	**2003**
Gross written premium	$ 1,002,813	$ 963,757	$ 1,005,133
Net written premium	979,635	917,756	817,639
Net earnings	106,308	96,398	58,236

	as of December 31,	
	2005	**2004**
Total assets	$ 1,971,728	$ 1,944,938
Total liabilities	1,345,134	1,397,517
Total shareholders equity	626,594	547,421

Infinity has a history of favorable underwriting results. The following table compares Infinity s statutory combined ratio in past years with those of the personal lines insurance industry as a whole. The statutory combined ratio is the sum of the loss ratio (the ratio of losses and loss adjustment expenses (LAE) to net earned premiums) and the expense ratio (when calculated on a statutory accounting basis, the ratio of underwriting expenses to net written premiums). 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.

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	2005	2004	2003	2002	2001	2000	2001-2005	1996-2005
Infinity	90.0%	90.3%	94.9%	92.6%	104.6%	108.7%	94.8%	98.5%
Industry (a)	97.3%	94.3%	98.4%	105.2%	110.8%	109.9%	101.2%	102.3%
Percentage points better than industry	7.3%	4.0%	3.5%	12.6%	6.2%	1.2%	6.4%	3.8%

(a) Personal lines combined ratios were obtained from A.M. Best. The industry combined ratio for 2005 is an estimate.

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.

Commercial Vehicle provides coverage to businesses for liability to others for bodily injury and property damage and for physical damage to businesses vehicles from collision and various other perils. Infinity offers nonstandard commercial automobile insurance to businesses that employ one or more nonstandard risk drivers. Target businesses include 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 and Other includes protection for classic collectible automobiles (Classic Collector) and several other personal lines insurance products. Infinity s Classic Collector program provides coverage to individuals with classic or antique automobiles for liability to others for bodily injury and property damage and for physical damage to an insured s own vehicle from collision and various other perils. Infinity also writes coverage on a limited basis for homes, personal watercraft, personal articles, such as jewelry, and umbrella liability protection. Infinity will continue to write Classic Collector business but is taking steps to exit the remaining lines of business and does not expect these actions to materially affect its results of operations as indicated in the summary shown below.

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

	Twelve months ended December 31,		
	2005	2004	2003
Personal Automobile	93%	94%	94%
Commercial Vehicle	5%	4%	4%
Classic Collector and Other	2%	2%	2%
Total	100%	100%	100%

Distribution and Marketing

Infinity distributes its products primarily through a network of over 15,000 independent agencies (with approximately 19,000 locations). Independent agencies were responsible for approximately 95% of Infinity s gross written premiums for the twelve-month period ended December 31, 2005. In 2005, one independent agency accounted for more than 2% of Infinity s gross written premiums, and two other agencies each accounted for more than 1% of the Company s gross written premiums. Infinity pays each agent a commission, based on contractual rates multiplied by the premiums the agent generates. On a limited basis, Infinity also offers contingent commission arrangements, typically in the form of higher commission rates, to agencies in order to spur premium growth in profitable areas. In 2005, payments under contingent commission arrangements were less than 1% of the total agency compensation.

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Infinity also fosters agent relationships by providing its agents 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 their businesses. For example, Infinity s Providing Agents Service and Support Program is an incentive-based program through which Infinity s agents receive assistance in critical areas such as training, advertising and promotion.

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. This channel represented approximately 5% of gross written premiums in 2005.

Infinity is licensed to write auto insurance in all 50 states, but is committed to growth in selected states that management believes offer the greatest opportunity for premium growth and profitability. Infinity classifies the states in which it operates into three categories:

Top Five Focus States States included in this category are California, Florida, Pennsylvania, Georgia and Connecticut.

Remaining Focus States States included in this category are Alaska, Alabama, Arizona, Indiana, Mississippi, Missouri, Ohio, South Carolina, Tennessee, Texas, Wisconsin and Virginia.

Non-Focus States Infinity is either maintaining its renewal writings in these states or ceasing operations in these states.
Gross premiums written among the three state categories are as follows:

	Twelve months ended December 31,		
	2005	2004	2003
Top Five Focus States:			
California	48%	48%	43%
Florida	18%	15%	10%
Pennsylvania	6%	6%	7%
Georgia	5%	6%	6%
Connecticut	5%	7%	10%
Sub-Total Top Five Focus States	82%	82%	76%
12 Remaining Focus States	15%	13%	13%
Sub-Total - All Focus States	97%	95%	89%
Non-Focus States	3%	5%	11%
Total - All States	100%	100%	100%

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 2004, years for which industry data are available, Infinity s statutory ratio of underwriting expenses to premiums written has averaged 22.7%, which is 3.0 points better than the independent agency segment of the private passenger automobile industry average of 25.7% for the same period.

Claims Handling

Infinity s claims organization employs approximately 1,000 people and has 32 field branch offices and five regional offices. Infinity 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.

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Infinity is committed to the field handling of claims, 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 areas where the volume of business will support them. Customer interactions can occur with generalists (multi-line claim representatives) and specialists (staff appraisers, field casualty representatives and special investigators) based on local market volume, density and performance. Nationally, over 75% of Infinity s claims are handled face-to-face. Infinity strives for accuracy, consistency and fairness in its claim resolutions.

Reinsurance

Infinity reinsures a portion of its business with other insurance companies. Ceding reinsurance permits diversification of risk and limits the maximum loss arising from large or unusually hazardous risks or catastrophic events. Infinity is subject to credit risk with respect to its reinsurers, as the ceding of risk to reinsurers generally does not relieve Infinity of its liability to insureds until claims are fully settled. To mitigate this credit risk, Infinity currently cedes business only to reinsurers that meet its credit ratings criteria. All reinsurers rated by A.M. Best, except one, have at least an A rating, with none lower than A- . The reinsurer presently rated A- has set aside, in trust, assets that fully collateralize its reinsurance obligation to Infinity. During the years 2002 through 2004, Infinity ceded a portion of its automobile physical damage business through reinsurance agreements with Inter-Ocean Reinsurance Company Ltd. and American-Re Insurance Company (collectively the Quota Share Agreements). The Quota Share Agreements were commuted before 2005 and were not renewed or replaced. See Note 10 of the Consolidated Financial Statements for further discussion.

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 have, on average, excellent balance sheet strength, operating performance and business profile when compared to the standards established by A.M. Best and, in A.M. Best s opinion, have an excellent ability to meet their ongoing obligations to policyholders.

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 requirements, prescribing statutory accounting methods and the form and content of statutory financial reports, regulating certain transactions involving the insurers and prescribing the type and amount of investments.

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 premiums 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 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 on-site visits and examinations of the insurers affairs. At December 31, 2005, Infinity s insurance subsidiaries were involved in nine market conduct examinations, including a field claims examination in California, which has raised questions over certain of Infinity s claims handling and settlement practices. These examinations have from time to time given rise to, and are likely to give rise to in the future, regulatory orders requiring remedial, injunctive or other action on the part of an insurance subsidiary or the assessment of substantial fines or other penalties against Infinity s insurance subsidiaries.

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.

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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 not objected in such time 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 three most recent years are shown in the following table (in thousands).

	2006	2005	2004
Maximum ordinary dividends available to Infinity	$ 160,350*	$ 62,664	$ 46,309
Dividends paid from subsidiaries to parent		62,500	28,500

* The 2006 maximum ordinary dividend includes a one-time addition of approximately $72 million due to a change in the intercompany reinsurance arrangements that became effective January 1, 2005.

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.

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.

California, Infinity s largest market, generated approximately 48% of Infinity s gross written premiums in 2005. Consequently, Infinity s revenues and profitability are affected by the dynamic nature of regulatory, legal, economic and competitive conditions in that state. Recent examples of potentially adverse regulatory or judicial developments in California include restrictions on the type of compensation paid to, or fees charged by, independent brokers, the prohibition of persistency discounts, proposals to further control referrals by insurers to repair shops and initiatives to eliminate or minimize territory as a rate factor and generally expand the insurance commissioner s power over rates. These measures could negatively affect premium revenue or make it more expensive or less profitable for Infinity to conduct business in the state.

Cyclical conditions in the personal automobile insurance industry, particularly in the market for nonstandard insurance, could reduce Infinity s profitability.

The personal automobile industry is in the midst of a soft market cycle, which is characterized by heightened price competition and excess underwriting capacity. To enhance revenue growth during this cycle, some insurers may opt to reduce rates or loosen underwriting standards. Such actions may make it more challenging for Infinity to maintain or grow market share and achieve desired underwriting margins. The soft market cycle may also cause some companies that have traditionally focused on writing standard and preferred risks to compete with Infinity for the nonstandard business. New competition from such companies, some of which have greater financial, technical and operating resources than Infinity, could adversely impact Infinity s profitability and growth prospects.

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, and is 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 geographic presence and experience. Consequently, Infinity could underprice risks, which could negatively affect its profit margins, or overprice risks, which could reduce sales volume and competitiveness. Either scenario could adversely affect profitability.

Extra-contractual liability arising from bad faith claims could result in losses that are material to Infinity s results of operations.

In California and Florida, among other states where Infinity has substantial operations, the judicial climate, case law or statutory framework are often viewed as less favorable toward an insurer in litigation brought against it by policyholders and third-party claimants. This tends to subject insurers to higher awards for pain and suffering and other compensatory damages. Such awards have in the past, and may in the future, result in losses to Infinity that are material in a given reporting period.

The failure to maintain and 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 its information technology and business systems performing efficiently and in an uninterrupted fashion to quote, process and service its business, and to perform actuarial functions necessary for pricing and product development. These systems must also possess the capability of undergoing modifications and improvements, from time to time, without interruptions or timely delays, so that Infinity may meet growing customer demands for user friendly on-line systems and high quality and convenient customer service. A material failure in these systems could interrupt operations and adversely affect our results of operations. The failure to constantly improve these systems would put Infinity at a competitive disadvantage.

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 revenues 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. Recent challenges to Infinity s practices relate to:

- the use of an applicant s credit and other rating factors in making risk selection and pricing decisions;
- the manner in which brokers are compensated and provided incentives;
- the use of automated databases to assist in the adjustment of bodily injury claims; and
- terms and conditions surrounding the use of direct repair shops and towing services.

Some of these practices are the subject of ongoing litigation (See Note 12 Legal Proceedings). How or when these issues are ultimately resolved is uncertain. The resolutions could, however, adversely impact Infinity s revenues or its methods of doing business.

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, who is under contract with the Company through December 2007. Infinity s future success will also depend on it attracting and retaining other executives and key personnel. The highly competitive nature of the industry, along with the advantages larger, more established or well known competing firms possess in the recruiting process, pose a challenge for companies like Infinity. 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 its growth plans and profitability.

Infinity may not be able to attract and retain independent agent and brokers, which could negatively affect revenues.

Infinity must compete with other insurance carriers for independent agents and brokers business in an increasingly competitive marketplace. Some competitors offer a larger variety of products, lower prices for insurance coverage, higher commissions or more attractive non-cash incentives. Recent or future regulations, legislation or litigation may also have the effect of limiting the manner in which its producers are compensated or provided incentives, particularly in California where Infinity deals predominantly with brokers. Such developments could negatively impact revenues in a given market.

Infinity is vulnerable to a reduction in the amount of business written by independent agents.

Reliance on the independent agency as its primary distribution channel makes Infinity vulnerable to the growing popularity of direct 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.

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ITEM 1B

Unresolved Staff Comments

None.

ITEM 2

Properties

Infinity s insurance subsidiaries lease approximately 715,000 square feet of office and warehouse space in numerous cities throughout the United States. Most of these leases expire within five years. The most significant leased office spaces are located in Birmingham, Alabama (Infinity s principal office); suburban Atlanta, Georgia; Irving, Texas; Windsor, Connecticut; and Los Angeles, California.

ITEM 3

Legal Proceedings

See Note 12 of the Consolidated Financial Statements for disclosure of the Company s material Legal Proceedings.

ITEM 4

Submission of Matters to a Vote of Security Holders

None.

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ITEM 5

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

Infinity had 33 registered holders of record and an estimated 3,480 total holders at March 1, 2006. Infinity s common stock is listed and traded on the NASDAQ National 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 March 1, 2006 was $39.35.

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)	Return to Shareholders (including dividends)
March 31, 2004	$ 38.29	$ 28.94	$ 31.41	$ 0.055	(5.0)%	(4.8)%
June 30, 2004	33.60	28.97	33.00	0.055	5.1%	5.2%
September 30, 2004	33.09	26.24	29.53	0.055	(10.5)%	(10.3)%
December 31, 2004	37.15	27.94	35.20	0.055	19.2%	19.4%
March 31, 2005	$ 37.10	$ 30.77	$ 31.26	$ 0.060	(11.2)%	(11.0)%
June 30, 2005	37.26	29.90	34.88	0.060	11.6%	