INFINITY PROPERTY & CASUALTY CORP
Form 10-K
February 28, 2008
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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, 2007

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	*(I.R.S. Employer*
incorporation or organization)	*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 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-2 of the Exchange Act). (Check one):

Large accelerated filer x	Accelerated filer ¨
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 29, 2007, the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was $978,050,335 based on the last sale price of Common Stock on that date as reported by The NASDAQ Global Select Market.

As of February 15, 2008, there were 16,200,996 shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement for the annual meeting of shareholders to be held on May 20, 2008, 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 or new 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.

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 2,100 persons at December 31, 2007.

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 American Financial Group Inc. s (AFG), formerly Infinity s parent company, 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 36% of the estimated $451 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 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. 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 and frequency 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 and 12% in 2002. During the same period, most of the industry, including some of the largest companies, raised rates and tightened underwriting standards in order to address poor results, and 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 through enhanced incentives has continued for the last several years, including 2007. Infinity also noted that during 2005 and 2006 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 0.8% and 1.0% during 2006 and 2005, respectively, after increasing 3.4% and 4.5% during 2004 and 2003, respectively. During 2007, Infinity observed competitors continuing to reduce rates in certain segments of the business, but also observed, in the latter part of the year, a few competitors in certain states increasing rates and tightening underwriting standards. Industry rates in 2007, as measured by the CPI, increased 0.5%. Infinity s average rate increases on its personal auto business were 3.5%, 0.8%, 2.2% and 2.7% for 2007, 2006, 2005 and 2004, 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 2006, the five largest automobile insurance companies accounted for approximately 49% of the industry s net written premiums and the largest ten accounted for approximately 65% (2007 industry data not available). Approximately 352 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 into two regions, East and West. Each region has its own product management and business development staff. The regions are also supported by the following centralized departments: marketing, claims, customer service, accounting, treasury, human resources and information technology resources. Monthly executive team meetings, which include the Chief Executive Officer, the Chief Financial Officer, the Chief Legal Officer, the Chief Human Resources Officer, the Chief Information Technology Officer, the Chief Actuary, the Chief Claims Officer and the two regional presidents, allow for sharing of information among regions and for setting policies and making key strategic decisions.

Infinity estimates that approximately 98% 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, monoline commercial auto insurance and classic collector automobile insurance.

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

	Twelve months ended December 31,		
	2007	**2006**	**2005**
Gross written premium	$ 1,019,119	$ 992,409	$ 1,002,813
Net written premium	1,014,262	982,190	979,635
Net earnings	71,944	87,282	106,308

	as of December 31,	
	2007	**2006**

Total assets	$ 1,916,610	$ 2,014,354
Total liabilities	1,315,386	1,349,753
Total shareholders equity	601,224	664,601

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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 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. Infinity has consistently performed better than the industry as shown below:

	2007	2006	2005	2004	2003	2003-2007	1998-2007
Infinity	91.8%	88.7%	90.0%	90.3%	94.9%	90.8%	96.3%
Industry (a)	97.5%	95.5%	95.1%	94.3%	98.4%	96.1%	100.2%
Percentage points better than industry	5.7%	6.8%	5.1%	4.0%	3.5%	5.3%	3.9%

(a) Private passenger auto industry combined ratios were obtained from A.M. Best. The industry combined ratio for 2007 is an estimate based on data obtained from A.M. Best.

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, 2007, Infinity s mix of personal automobile written premium was 14% Low-Cost, 84% Value-Added and 2% 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.

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

	Twelve months ended December 31,		
	2007	2006	2005
Personal Automobile	94%	93%	90%
Commercial Vehicle	4%	4%	4%
Classic Collector	2%	2%	2%
Other Lines	0%	1%	4%
Total	100%	100%	100%

Distribution and Marketing

Infinity distributes its products primarily through a network of over 13,000 independent agencies (with approximately 17,000 locations). Independent agencies were responsible for approximately 95% of Infinity s gross written premiums for the twelve-month period ended December 31, 2007. In 2007, three independent agencies each accounted for between 2% and 3% of Infinity s gross written premiums, and five other agencies each accounted for between 1% and 2% 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 2007, contingent commission arrangements represented approximately 1% of total agency compensation.

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

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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 2007, Infinity spent $9.6 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. This channel represented approximately 5% of gross written premiums in 2007.

Infinity also has two pilot programs for alternative methods of distribution. In November 2006, Infinity launched a pilot program based on considerable market research that suggested a need in urban Hispanic communities for a one-stop financial service center. This led to the establishment of an Infinity Plus retail store in Los Angeles. Through conveniently located and readily accessible Infinity Plus stores, consumers can purchase automobile insurance from Infinity, as well as, other insurance products, such as life insurance, offered by partner insurance companies. In addition, services such as check cashing, wire transfers and travel services are also available. Infinity currently has 5 company-owned Infinity Plus locations: one in suburban Los Angeles, one in Phoenix, and three in Chicago. Infinity also extends opportunities to select agents to offer Infinity Plus services and products in agent-owned stores. In 2007, Infinity launched a direct-to-consumer pilot program in Arizona through which consumers can quote and purchase automobile insurance over the Internet. Although 2007 gross written premiums from these two pilot programs represented less than 1% of total gross written premiums, the company views each of these initiatives as strategically important measures to ensure that Infinity is best positioned and prepared to meet the evolving needs and preferences of its targeted consumers. Infinity will continue to monitor the progress of these pilot programs to determine if they will be expanded beyond the test markets.

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 current and future Urban Zones in these states which include: Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Missouri, Nevada, Pennsylvania, Tennessee and Texas.

- Maintenance States Infinity is maintaining its writings in these states which include: Alabama, Indiana, Mississippi, Ohio, South Carolina and Virginia. These states contain no Urban Zones, but Infinity believes each Maintenance 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

California	Los Angeles, Sacramento, San Diego, San Francisco and San Joaquin Valley
Connecticut	Hartford
Florida	Jacksonville, Miami, Orlando and Tampa
Georgia	Atlanta
Missouri	Saint Louis
Pennsylvania	Philadelphia
Tennessee	Nashville
Texas	Dallas, El Paso, Fort Worth, Houston and San Antonio

Non-Urban Zones include all remaining areas in the Focus States outside of a designated Urban Zone.
Infinity continually evaluates its market opportunities, thus the Focus States, Urban Zones or Maintenance States may change over time as new market opportunities arise, as the allocation of resources changes, or as regulatory environments change.

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

	Twelve months ended December, 31		
	2007	**2006**	**2005**
Personal Auto Insurance			
Focus States:			
California			
Urban Zones	51%	48%	45%
Non-Urban Zones	2%	2%	2%
Florida			
Urban Zones	7%	7%	7%
Non-Urban Zones	6%	8%	8%
Georgia			
Urban Zones	3%	3%	2%
Non-Urban Zones	3%	4%	4%
Texas			
Urban Zones	4%	3%	2%
Non-Urban Zones	*	*	*
Pennsylvania			
Urban Zones	3%	3%	3%
Non-Urban Zones	2%	2%	2%
Arizona			
Urban Zones	3%	3%	2%
Non-Urban Zones	*	*	*
Connecticut			
Urban Zones	2%	2%	1%
Non-Urban Zones	*	*	*
Nevada			
Urban Zones			
Non-Urban Zones	2%	*	
Missouri			
Urban Zones	*	*	*
Non-Urban Zones	*	*	*
Tennessee			
Urban Zones	*	*	*
Non-Urban Zones	*	*	*
Colorado			
Urban Zones			
Non-Urban Zones	*	*	*
Illinois			
Urban Zones			
Non-Urban Zones	*		*
Total Focus States	90%	87%	82%
Maintenance States	3%	5%	5%
Other States	1%	1%	3%
Subtotal	94%	93%	90%
Commercial Vehicle	4%	4%	4%

Classic Collector	2%	2%	2%
Other	0%	1%	4%
Total All States and All Lines	100%	100%	100%
Total $ (in thousands) - All States and All Lines	1,019,011	986,741	988,670

(1) 2007, 2006 and 2005 exclude $0.1 million, $5.0 million and $9.8 million, respectively, of premiums written on behalf of other companies. 2006 and 2005 also exclude $0.7 million and $4.3 million, respectively, of unearned premium transfers.

(2) * 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 2006, years for which industry data are available from A.M. Best, Infinity s statutory ratio of underwriting expenses to premiums written has averaged 22.2%, which is 3.7 points better than the independent agency segment of the private passenger automobile industry average of 25.9% for the same period.

Claims Handling

Infinity strives for accuracy, consistency and fairness in its claim resolutions. Infinity s claims organization employs approximately 1,000 people and has 31 field locations. 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. In 2005, Infinity began operating claims service centers, which allow a customer to conveniently bring in their vehicles for damage appraisal. Five service centers were in operation in 2007 with five additional planned for opening in 2008 within certain of the company s Urban Zones.

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.

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 their standards, and in A.M. Best s opinion, have an excellent ability to meet their ongoing obligations to policyholders . A.M. Best bases its ratings on factors that concern policyholders and not upon factors concerning investor protection.

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 it 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. Some of these regulatory actions have come with the support of legislation, while others have been contested through judicial challenges.

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 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 on-site visits and examinations of the companies affairs. At December 31, 2007, Infinity s insurance subsidiaries were involved in four market

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conduct examinations. These examinations have from time to time given rise to, and are likely to give rise to in the future, regulatory orders requiring remedial, injunctive or other action on the part of an insurance subsidiary or the assessment of substantial fines or other penalties against Infinity s insurance subsidiaries. Every five years, Infinity s insurance subsidiaries are subject to a financial examination by the states in which the subsidiaries are domiciled. During 2007, the states examinations of 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):

	2008	2007	2006
Maximum ordinary dividends available to Infinity (a)	$ 79,001	$ 113,896	$ 160,350
Dividends paid from subsidiaries to parent		$ 90,291	$ 160,000

(a) The 2007 maximum ordinary dividend includes a one-time addition of approximately $33 million due to dividends paid to the lead insurance company in the pool from its insurance subsidiaries. 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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Reinsurance

Infinity reinsures a small portion of its business with other insurance companies. During 2007, Infinity ceded 0.5% of its gross written premiums. 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 of the reinsurers Infinity currently cedes business to that are 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.

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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.

Recently-enacted California regulations may have a material adverse affect on the Company s profitability.

Effective April 2007, California adopted amended rate approval regulations (Amended Regulations), which, among other changes, establishes, for personal auto and most other lines of property and casualty insurance written in California, a maximum permitted after-tax rate of return on invested capital at an insurance company level. Published monthly, the January 2008 rate was at 9.66%.

In October 2007, Infinity received approval for its base rates and class plan filings for its primary California program and implemented the changes effective January 1, 2008. The rate and class plan filings for Infinity s secondary program are currently pending approval with the Department of Insurance. The rate impact of the primary and secondary programs is a rate decrease of approximately 11.2%. Profitability in 2008 could be materially adversely affected by such reductions, with the extent of the impact on overall profitability to be determined by the shift of business within California, the mix of California business as a percentage of Infinity s countrywide total and the profitability of the states outside of California.

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 53% of Infinity s gross written premiums in 2007. Infinity s California business also generates substantial underwriting profit. 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 regulations 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. Also included in these regulations are measures regulating how an insurer establishes reasonable costs to be covered for paint and materials in automobile repairs and the manner in which an insurer can make referrals to an automobile repair shop. These developments 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. 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 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.

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Risk Factors

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

In California, Florida, and other states where Infinity has substantial operations, the judicial climate, case law or statutory framework are often viewed as unfavorable toward an insurer in litigation brought against it by policyholders and third-party claimants. This tends to increase Infinity s exposure to extra-contractual losses, or monetary damages beyond policy limits, in what are known as bad faith claims, for which the Company has no reinsurance. Such claims have in the past, and may in the future, result in losses to Infinity that materially reduce the Company s profitability (See Note 17 of the Consolidated Financial Statements, Subsequent Events).

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 currently undergoing fundamental changes and improvements to its service 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.

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 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 and physical damage claims; and
- the terms and conditions surrounding reference to or the use of direct repair shops and towing services.

Some of these practices are the subject of ongoing litigation (See Note 14 of the Consolidated Financial Statements, Legal Proceedings). How or when these issues are ultimately resolved is uncertain. The resolutions could, however, adversely impact Infinity s operating results 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 2009. 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, more well known competing firms possess in the recruiting process, pose 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.

Infinity may not be able to retain or increase the level of business that independent agents and brokers place with Infinity, 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 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. Further, legal restrictions on the type of compensation provided to brokers, particularly in California could negatively impact revenues in a given market.

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Risk Factors

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 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.

Infinity itself has initiated two pilot projects to determine the feasibility of selling automobile insurance directly over the Internet or through owned retail stores. Such initiatives, even as pilot projects, may adversely affect business relations with some of Infinity s independent agents which may result in a reduction in volume of business written on behalf of Infinity through these agents.

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ITEM 1B

Unresolved Staff Comments

None.

ITEM 2

Properties

Infinity s insurance subsidiaries lease approximately 865,000 square feet of office and warehouse space in numerous cities throughout the United States. All but one of these leases expire within ten years. The most significant leased office spaces are located in Birmingham, Alabama (Infinity s principal office), suburban Atlanta, Georgia, Irving, Texas, and suburban Los Angeles, California. See Note 15 of the Consolidated Financial Statements for further information about leases.

ITEM 3

Legal Proceedings

See Note 14 and Note 17 of the 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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PART II

ITEM 5

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

Infinity had 57 registered holders of record and an estimated 2,000 total holders at February 15, 2008. 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 15, 2008 was $40.80. See Note 16 of the 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, 2006	$ 42.51	$ 36.41	$ 41.74	$ 0.075	12.2%	12.4%
June 30, 2006	46.86	39.27	41.00	0.075	(1.8)%	(1.6)%
September 30, 2006	41.86	36.08	41.13	0.075	0.3%	0.5%
December 31, 2006	50.00	39.81	48.39	0.075	17.7%	17.8%
March 31, 2007	$ 50.34	$ 45.55	$ 46.86	$ 0.090	(3.2)%	(3.0)%
June 30, 2007	55.40	46.39	50.73	0.090	8.3%	8.5%
September 30, 2007	52.02	38.00	40.22	0.090	(20.7)%	(20.5)%
December 31, 2007	42.66	35.31	36.13	0.090	(10.2)%	(9.9)%
For the twelve months ended:						
December 31, 2006	50.00	36.08	48.39	0.300	30.0%	30.9%
December 31, 2007	55.40	35.31	36.13	0.360	(25.3)%	(24.6)%

(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, 2007, 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, 2007 by the Company or any affiliated purchaser of the Company as defined in Rule 10b-18(a)(3) under the Exchange Act.

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, 2007 October 31, 2007		$		$ 63,239,399
November 1, 2007 November 30, 2007				63,239,399
December 1, 2007 December 31, 2007	200,000	38.60	200,000	55,515,399
Total	200,000	$ 38.60	200,000	$ 55,515,399

(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 expiring on the earlier of December 31, 2008 or the completion of all purchases contemplated by the Plan, whereby the Company may repurchase up to an aggregate of $100 million of its outstanding shares.

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The following graph shows the percentage change in cumulative total shareholder return on Infinity s common stock since the initial public offering 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 the date of Infinity s initial public offering, February 18, 2003, through December 31, 2007.

Cumulative Total Return*

Cumulative Total Return as of December 31, 2007

(Assumes a $100 investment at the close of trading on February 17, 2003)

	2/18/03	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
IPCC	100.000	207.570	222.611	237.024	310.514	233.749
NASDAQ U.S. Index	100.000	148.133	161.208	164.635	180.879	196.140
NASDAQ Insurance Stocks	100.000	129.616	157.366	176.370	199.417	199.829

* Assumes reinvestment of dividends.

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ITEM 6

Selected Financial Data

(in thousands, except per share data)	2007	2006	2005	2004	2003
Infinity					
Gross written premium	$ 1,019,011	$ 986,741	$ 988,670	$ 940,221	$ 965,847
Net written premium	1,014,262	982,190	979,635	917,756	817,639
Net written premium growth	3.3%	0.3%	6.7%	12.2%	33.4%
Net premiums earned (a)	1,031,564	948,665	961,503	872,324	698,714
Total revenues	1,098,226	1,021,343	1,053,249	951,763	768,984
Loss & LAE ratio	70.5%	67.0%	68.7%	70.3%	81.0%
Underwriting ratio	23.0%	23.8%	23.3%	21.6%	14.4%
Combined ratio	93.5%	90.8%	92.0%	91.9%	95.4%
Net earnings	$ 71,944	$ 87,282	$ 106,308	$ 96,398	$ 58,236
Net earnings per diluted share	3.87	4.26	5.09	4.62	2.83
Return on average common shareholders equity	11.4%	13.5%	18.1%	19.2%	13.8%
Cash and investments	$ 1,323,312	$ 1,414,851	$ 1,447,685	$ 1,441,125	$ 1,392,170
Total assets	1,916,610	2,014,354	1,971,728	1,944,938	1,902,739
Unpaid losses and LAE	618,409	596,029	625,870	696,248	739,109
Debt outstanding	199,496	199,429	199,366	199,305	195,500
Total liabilities	1,315,386	1,349,753	1,345,134	1,397,517	1,447,369
Shareholders equity	601,224	664,601	626,594	547,421	455,370
Cash dividend per common share	$ 0.360	$ 0.300	$ 0.240	$ 0.220	$ 0.165
Common shares outstanding (b)	16,200	19,617	20,649	20,581	20,350
Book value per common share	$ 37.11	$ 33.88	$ 30.34	$ 26.60	$ 22.38
Ratios:					
Debt to total capital	24.9%	23.1%	24.1%	26.7%	30.0%
Interest coverage	10.8	12.9	14.5	13.1	14.4

(a) During the years 2003 and 2004, Infinity ceded a portion of its automobile physical damage business through reinsurance agreements which were commuted 12/31/2004 and were not renewed or replaced. The majority of the increase in net written and earned premium in years 2004 and 2005 is a result of the discontinuation of the reinsurance agreements.

(b) Common shares outstanding exclude non-vested restricted shares of 45, 90 and 134 as of December 31, 2005, 2004 and 2003, respectively.

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.

Overview

In 2007, Infinity continued to generate strong operating results with a return on equity of 11.4%. Net earnings and diluted earnings per share were $71.9 million and $3.87, respectively, in 2007, compared to $87.3 million and $4.26 in 2006. Operating earnings, which exclude realized gains and losses on investments, declined 12.0% primarily from a decline in underwriting income. Infinity reported a GAAP combined ratio of 93.5% for the twelve months ended December 31, 2007 compared to 90.8% for the same period in 2006. Underwriting results in 2007 and 2006 benefited from $13.5 million and $31.2 million, respectively, of favorable development on prior accident year loss and LAE reserves. Excluding favorable development, Infinity s GAAP combined ratio for 2007 increased to 94.8% from 94.1% in 2006, primarily as a result of increasing frequency trends in California, Florida and Pennsylvania. See *Results of Operations Underwriting Profitability* for a more detailed discussion of Infinity s underwriting results.

Total revenues increased 7.5% primarily due to an 8.7% increase in earned premium attributable to gross written premium growth during the last six months of 2006 and the first six months of 2007. Gross written premiums for the twelve months ended December 31, 2007 grew 3.3% compared to the same period of 2006. During the first six months of 2007, gross written premiums grew 14.6% primarily from growth in California as Infinity continued to benefit from the California

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

Department of Motor Vehicles implementation of electronic enforcement of compulsory auto insurance laws. However, during the last six months of 2007, gross written premiums declined 7.8% primarily as a result of slowing new business application counts in Arizona, California, Connecticut and Florida. See *Results of Operations Underwriting Premiums* for a more detailed discussion of Infinity s gross written premium growth.

During 2007, Infinity repurchased 3,587,411 shares or 18.3% of the shares outstanding on January 1, 2007. Book value per share at December 31, 2007 was $37.11, an increase of 9.5% from that at December 31, 2006.

In 2007, Infinity observed competitors aggressively trying to grow market share by increasing agency commission and other incentives, increasing advertising, loosening underwriting standards and modestly reducing rates. This level of competition is expected to continue throughout 2008. Infinity will continue to monitor its competitive position, rate adequacy and growth opportunities on a state-by-state basis while striving to maintain a desirable combination of profitability and growth.

Regulatory Environment

Effective April 3, 2007, California adopted amended rate approval regulations, which among other changes, establishes, for personal auto and most other lines of property and casualty insurance written in California, a maximum permitted after-tax rate of return on invested capital at an insurance company level, currently set at 9.66%. In response to these amended regulations, as well as regulations adopted in October 2006 restricting the use of territory as a rating variable, Infinity discussed over several months and came to an agreement with the California Department of Insurance to reduce base rates on its two principal programs by approximately 11.2%. In October, Infinity received approval for the base rate and class plan filings for its largest program in California and implemented the new filings effective January 1, 2008. Infinity expects to receive approval on the pending rate and class plan filings for its second program in California sometime during the first six months of 2008. Infinity believes that profitability in 2008 could be materially adversely affected to the extent that the reduction of base rates in California cannot be mitigated by improved risk selection within California, an increase in business at adequate margins in California, or an improvement in profitability in other states, or a combination of these factors.

Critical Accounting Policies

(See Note 1 of the Consolidated Financial Statements, Reporting and Accounting Policies)

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

- 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

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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 key underlying assumptions provided above are 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 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 92% of policies included within the nonstandard book of business include only the state-mandated minimum policy limits for bodily injury and property damage, 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.

The Company s management believes that the historical magnitude of adjustments to ultimate losses on an accident year basis are indicative of the sensitivity of currently held loss reserves to changes in underlying assumptions. Over the past six accident years (the years for which data is readily available), excluding the effect of corporate litigation costs, the combined effects of adjustments to the initial estimate for average ultimate claims frequency and severity have ranged from (5.4)% to 4.5% (averaging (0.5)%).

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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 diminishes in subsequent years.

Applying the six-year historical variances calculated above to the current 2007 accident year s estimate of ultimate losses, excluding corporate litigation losses, would yield an indication of sensitivity to held reserves from $(32.7) million to $27.1 million, or about (5.3)% to 4.4% of held reserves, generating an impact to after-tax income of $21.2 million to $(17.6) million, respectively. The final outcome may fall below or above these amounts.

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 based on Statement of Financial Accounting Standard (SFAS) No. 5 requirements that such accrual be probable and estimable. As such, no estimate is permissible under SFAS 5 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 reserve table below.

Calendar year losses incurred for corporate litigation losses, net of reinsurance, over the past six calendar years have ranged from $8.2 million to $15.8 million, averaging $11.3 million per year. Gross of reinsurance, corporate litigation losses have ranged from $8.2 million to $18.8 million, averaging $13.9 million over the past six calendar years.

The following tables present the development of Infinity s loss reserves, net of reinsurance, on a GAAP basis for the calendar years 1997 through 2007. 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, 2007, shows the re-estimated liability as of December 31, 2007. 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)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Liability for unpaid losses & LAE:											
As originally estimated*	$ 525	$ 589	$ 543	$ 630	$ 611	$ 719	$ 707	$ 669	$ 610	$ 568	$ 590
As re-estimated at December 31, 2007	555	570	543	699	701	788	709	627	558	554	N/A
Liability re-estimated:											
One year later	100.8%	95.0%	95.3%	98.5%	101.5%	103.2%	99.2%	97.5%	94.9%	97.6%	
Two years later	103.3%	93.6%	92.9%	102.1%	108.7%	107.1%	100.3%	94.2%	91.5%		
Three years later	102.6%	91.0%	94.4%	106.4%	112.1%	108.5%	99.5%	93.7%			
Four years later	100.9%	93.1%	96.0%	108.5%	112.8%	108.4%	100.2%				
Five years later	102.3%	93.8%	97.3%	108.6%	112.9%	109.6%					
Six years later	102.5%	94.4%	97.2%	109.1%	114.8%						
Seven years later	103.0%	94.2%	97.9%	111.0%							
Eight years later	102.6%	94.9%	100.0%								
Nine years later	103.4%	96.9%									
Ten years later	105.7%										
Cumulative deficiency (redundancy)	5.7%	(3.1)%	(0.0)%	11.0%	14.8%	9.6%	0.2%	(6.3)%	(8.5)%	(2.4)%	N/A
Cumulative deficiency (redundancy) excluding corporate litigation losses	2.4%	(6.6)%	(4.4)%	5.9%	8.4%	3.7%	(6.3)%	(12.1)%	(12.6)%	(5.1)%	N/A
Cumulative paid as of:											
One year later	59.3%	54.5%	53.0%	53.3%	51.3%	50.3%	48.4%	52.6%	50.3%	48.4%	
Two years later	81.3%	73.2%	69.6%	76.2%	80.3%	77.1%	75.8%	72.6%	66.5%		
Three years later	90.8%	80.6%	81.4%	92.0%	96.3%	94.3%	87.7%	80.1%			
Four years later	94.9%	86.5%	89.4%	100.0%	105.7%	101.5%	91.6%				
Five years later	98.0%	90.6%	93.1%	104.9%	109.2%	103.7%					
Six years later	100.7%	92.1%	95.7%	106.5%	110.4%						
Seven years later	101.5%	93.4%	96.4%	107.3%							
Eight years later	102.2%	93.8%	96.8%								
Nine years later	102.4%	94.1%									
Ten years later	102.6%										

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

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
As originally estimated											
Net liability shown above*	$ 525	$ 589	$ 543	$ 630	$ 611	$ 719	$ 707	$ 669	$ 610	$ 568	$ 590
Add reinsurance recoverables	6	11	10	13	37	33	32	27	16	28	28
Gross liability	$ 531	$ 600	$ 553	$ 643	$ 648	$ 752	$ 739	$ 696	$ 626	$ 596	$ 618
As re-estimated at December 31, 2007:											
Net liability shown above	$ 555	$ 570	$ 543	$ 699	$ 701	$ 788	$ 709	$ 627	$ 558	$ 554	N/A
Add reinsurance recoverables	25	33	47	54	82	77	58	49	38	32	N/A
Gross liability	$ 580	$ 603	$ 590	$ 753	$ 783	$ 865	$ 767	$ 676	$ 596	$ 586	N/A
Gross cumulative deficiency (redundancy)	9.1%	0.6%	6.7%	17.0%	20.8%	15.0%	3.7%	(3.0)%	(4.7)%	(1.7)%	N/A
Gross cumulative deficiency (redundancy) excluding corporate litigation losses	4.5%	(4.1)%	0.2%	9.7%	12.4%	7.2%	(4.6)%	(10.5)%	(9.3)%	(4.5)%	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

	1997	1998	1999	2000	2001	2002
Liability for unpaid losses & LAE:						
As originally estimated	$ 190	$ 150	$ 118	$ 106	$ 116	$ 126
As re-estimated at December 31, 2007	144	122	117	109	117	N/A
Liability re-estimated:						
One year later	88.9%	84.1%	102.9%	104.9%	106.8%	
Two years later	78.0%	86.2%	100.6%	106.8%	101.6%	
Three years later	79.5%	82.3%	101.1%	102.8%	103.4%	
Four years later	76.6%	81.7%	98.9%	104.5%	103.7%	
Five years later	76.5%	80.9%	100.7%	104.2%	101.5%	
Six years later	76.2%	81.7%	99.8%	102.7%	101.3%	
Seven years later	76.6%	81.2%	98.8%	102.8%		
Eight years later	76.2%	81.0%	98.9%			
Nine years later	76.3%	80.8%				
Ten years later	76.0%					
Cumulative deficiency (redundancy):	(24.0)%	(19.2)%	(1.1)%	2.8%	1.3%	
Cumulative paid as of:						
One year later	37.8%	38.6%	47.5%	47.0%	43.6%	
Two years later	55.2%	57.9%	69.5%	70.8%	60.2%	
Three years later	65.2%	69.4%	83.3%	80.8%	79.7%	
Four years later	70.2%	75.3%	88.1%	91.6%	90.4%	
Five years later	73.3%	76.4%	93.2%	96.3%	94.6%	
Six years later	73.8%	78.3%	95.4%	98.6%	97.1%	
Seven years later	74.8%	79.6%	96.5%	100.0%		
Eight years later	75.6%	80.0%	97.4%			
Nine years later	75.8%	80.4%				
Ten years later	76.0%					

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.

During calendar year 2006, Infinity experienced $31.2 million of favorable reserve development. This development came primarily from a reduction in ultimate estimates for average claim severities from accident years 2003-2005 in physical damage and bodily injury coverages. For those years, estimates for ultimate claim frequencies increased slightly.

During calendar year 2005, Infinity experienced $17.0 million of favorable reserve development, primarily from continued favorable development in the California business.

Other-than-Temporary Losses on Investments

Changes in the fair values of held investment securities are usually recorded as changes in unrealized gains or losses on investments, a component of shareholders equity. Net earnings are not affected until the disposition of a given security or, if an unrealized loss is deemed to be other-than-temporary, an impairment charge is recorded as a realized capital loss and the cost basis of the security is reduced.

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The determination of whether unrealized losses 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 extent to which fair value is less than cost basis;
- 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;
- third-party research and credit rating reports; and
- the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Management regularly evaluates for potential impairment each security position that either has a fair value of less than 95% of its book value, an unrealized loss that exceeds $100,000 or had 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. However, management believes that it is not likely that such impairment charges will have a significant effect on Infinity s liquidity.

Accruals for Litigation

Infinity continually evaluates potential liabilities and reserves for litigation using the criteria established by SFAS 5, Accounting for Contingencies. Under this guidance, reserves for loss may only be recorded if the likelihood of occurrence is probable and the amount is reasonably estimable. Management considers each legal action and records reserves for losses in accordance with this guidance. Infinity believes the current assumptions and other considerations used to estimate potential liability for litigation are appropriate. Certain claims and legal actions have been brought against Infinity for which, under the rules described above, no loss has been accrued. While it is not possible to know with certainty the ultimate outcome of these claims or lawsuits, management does not expect them to have a material effect on Infinity s financial condition or liquidity.

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, 2007, the capital ratios of all Infinity insurance subsidiaries exceeded 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 approximately $7.0 million annually since 2003.

At December 31, 2007, Infinity had $200 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 $5.5 million are due each February and August through maturity in February 2014. (See Note 3 of the Consolidated Financial Statements for more information on the Senior Notes).

In February 2008, Infinity increased its quarterly dividend to $0.11 per share from $0.09 per share. At this current amount, Infinity s 2008 annualized dividend payments will be approximately $7.1 million.

In January 2005, the Board of Directors authorized a share repurchase program expiring on December 31, 2007, whereby the

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Company could repurchase up to an aggregate amount of $50 million of its outstanding common shares. This program was completed on December 28, 2006. During 2006, Infinity repurchased 1,178,300 shares at an average cost of $41.53. During 2005, Infinity repurchased 29,720 shares at an average cost of $33.59.

In October 2006, the Board of Directors announced a second share repurchase program expiring on the earliest 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. During 2007, Infinity repurchased 1,032,479 shares at an average cost, excluding commissions, of $43.03.

In August 2007, the Company announced that the Board of Directors approved a third program to repurchase an additional $100 million of outstanding common stock. On September 7, 2007, Infinity repurchased 2,554,932 shares through an accelerated share repurchase (ASR). The shares were purchased from a dealer at $39.14 per share for a total cost of $100 million. The dealer began purchasing shares on October 8, 2007, and is expected to purchase an equivalent number of shares by the end of May 2008. At the end of the ASR program, Infinity may receive or be required to pay a price adjustment to the dealer based on the volume weighted average price of Infinity s common stock during the period of the ASR purchases. Infinity has the option to settle this price adjustment in either shares or cash. The price adjustment will be recorded as an adjustment to shareholders equity. The maximum number of shares Infinity could be required to issue to settle the ASR is 7,664,796. Had the ASR settled as of December 31, 2007, Infinity would have received from the dealer either $1.7 million or 46,060 shares. Infinity purchased a collar on a portion of the shares to provide some protection from a significant increase in Infinity s stock price.

Funds to meet expenditures at the holding company come primarily from dividends from the insurance subsidiaries, borrowing on its line of credit, as well as cash and investments held by the holding company. As of December 31, 2007, Infinity had $170.9 million of cash and investments. In 2007, Infinity s insurance subsidiaries paid Infinity $90.3 million in dividends. In 2008, Infinity s insurance subsidiaries may pay to Infinity up to $79.0 million in ordinary dividends without prior regulatory approval.

In August 2005, Infinity entered into an agreement for a $50 million three-year revolving credit facility that includes requirements to meet certain financial and other covenants. Under this agreement, there were no borrowings outstanding at December 31, 2007 or December 31, 2006. Infinity intends to enter into a new agreement for a revolving credit facility when the existing agreement ends in August 2008.

Infinity s insurance subsidiaries generate liquidity to satisfy their obligations, primarily by collecting and investing premiums in advance of paying claims. Infinity s insurance subsidiaries had positive cash flow from operations of approximately $74.0 million in 2007, $28.5 million in 2006, and $56.2 million in 2005. In addition, to satisfy their obligations, Infinity s insurance subsidiaries generate cash from maturing securities from their combined $1.1 billion fixed maturity portfolio.

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

Contractual Obligations

Infinity and its insurance subsidiaries contractual obligations as of December 31, 2007, are (in thousands):

Due in:	**Long-Term Debt & Interest**	**Operating Leases**	**Loss and LAE Reserves (a)**	**Postretirement Benefit Payments**	**Total**
2008	$ 11,000	$ 20,453	$ 315,806	$ 272	$ 347,531
2009-2010	22,000	30,183	199,924	587	252,694
2011-2012	22,000	14,446	67,678	607	104,731
2013 and after	216,500	20,496	35,001	1,564	273,561
Total	$ 271,500	$ 85,578	$ 618,409	$ 3,030	$ 978,517

(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 can and will vary from these estimates, as discussed above under Critical Accounting Policies and in Note 1 of the Consolidated Financial Statements, Reporting and Accounting Policies .

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Additionally, Infinity leases fleet vehicles for a minimum term of 12 months. After the minimum term, the lease becomes month-to-month. As of December 31, 2007, the total remaining minimum lease payments under the fleet operating lease were approximately $0.6 million.

Off-Balance Sheet Arrangements

On September 7, 2007, Infinity repurchased 2,554,932 shares through an accelerated share repurchase (ASR). The shares were purchased from a dealer at $39.14 per share for a total cost of $100 million. The dealer began purchasing shares on October 8, 2007, and is expected to purchase an equivalent number of shares by the end of May 2008. At the end of the ASR program, Infinity may receive or be required to pay a price adjustment to the dealer based on the volume weighted average price of Infinity s common stock during the period of the ASR purchases. Infinity has the option to settle this price adjustment in either shares or cash. The price adjustment will be recorded as an adjustment to shareholders equity. The maximum number of shares Infinity could be required to issue to settle the ASR is 7,664,796. Had the ASR settled as of December 31, 2007, Infinity would have received from the dealer either $1.7 million or 46,060 shares. Infinity purchased a collar on a portion of the shares to provide some protection from a significant increase in Infinity s stock price.

Investments

General

Infinity s Audit Committee has approved investment guidelines for the Company and its wholly-owned subsidiaries. The policy specifically addresses overall investment objectives, permissible assets, prohibited assets, permitted exceptions to the policy and credit quality.

On April 1, 2007, Infinity s four-year agreement with its previous investment manager ended. At that time, Infinity engaged two unaffiliated money managers for its fixed income portfolio and a Vanguard publicly traded 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. In the second and third quarters of 2007, the fixed income managers repositioned the investment portfolio to take advantage of opportunities identified in municipal and high quality, well collateralized mortgage-backed and CMO securities. The Company s Chief Financial Officer and the Audit Committee, at least quarterly, review the performance of the portfolio management and compliance with the Company s investment guidelines.

Infinity s consolidated investment portfolio at December 31, 2007 contained $1.2 billion in fixed maturity securities and $49.7 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, 2007, Infinity had pretax net unrealized gains of $11.4 million on fixed maturities and pretax net unrealized gains of $0.6 million on equity securities. The average duration of Infinity s fixed maturity portfolio was 3.5 years at December 31, 2007.

(in thousands)	Twelve months ended December 31, 2007			
			Gross Unrealized	
	Amortized Cost	Fair Value	Gain	Loss
Fixed maturities:				
U.S. government and agencies	$ 126,079	$ 129,051	$ 2,978	$ (6)
State and municipal	307,686	312,543	5,224	(367)
Public utilities	9,256	9,597	348	(7)
Mortgage-backed securities	449,884	451,678	5,101	(3,307)
Corporate and other	322,466	323,935	4,624	(3,155)
Total fixed maturities	$ 1,215,371	$ 1,226,804	$ 18,276	$ (6,843)
Equity securities	49,056	49,677	621	

Total	$ 1,264,427	$ 1,276,481	$ 18,897	$ (6,843)

Approximately 95% of the fixed maturities that Infinity held at December 31, 2007 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, 2007. 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.

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Investments in mortgage-backed securities (MBS) represented 37% of Infinity s fixed maturity portfolio at December 31, 2007. MBS 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. As of December 31, 2007, all of Infinity s MBS are investment grade according to the NAIC rating guidelines. In addition, 88% of the MBS portfolio is rated AAA by a nationally recognized rating agency.

The following table presents the yields of Infinity s investment portfolios as reflected in the financial statements.

	Twelve months ended December 31,		
	2007	2006	2005
Yield on fixed income securities:			
Excluding realized gains and losses	5.0%	5.1%	4.8%
Including realized gains and losses	4.5%	5.0%	6.1%
Yield on equity securities:			
Excluding realized gains and losses	2.4%	2.4%	3.0%
Including realized gains and losses	9.0%	7.9%	14.9%
Yield on all investments:			
Excluding realized gains and losses	4.9%	5.0%	4.8%
Including realized gains and losses	4.7%	5.1%	6.4%

Fixed Maturity Investments

The table below sets forth the scheduled maturities of fixed maturity securities at December 31, 2007 based on their fair values (in thousands). Securities that do not have a single maturity date are reported at average maturity. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid by the issuers.

Maturity	Securities With Unrealized Gains	Securities With Unrealized Losses	Securities With No Unrealized Gains or Losses	All Fixed Maturity Securities
One year or less	$ 9,497	$ 10,242	$	$ 19,739
After one year through five years	336,258	123,398	13,909	473,565
After five years through ten years	132,442	48,961	1,950	183,353
After ten years	92,277	5,911	281	98,469
Mortgage-backed securities	256,585	195,093		451,678
	$ 827,059	$ 383,605	$ 16,140	$ 1,226,804

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.

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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	$ 1,303,479	$ 1,267,411	$ 1,247,660	$ 1,226,804	$ 1,204,722	$ 1,181,412	$ 1,131,359
Fair value of long-term debt	212,576	201,834	196,705	191,734	186,906	182,226	173,280

The following table provides information about Infinity s fixed maturity investments at December 31, 2007 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. Actual cash flows may differ from those expected.

(in thousands)	**Principal Cash Flows**
For the twelve months ended December 31,	
2008	$ 73,274
2009	207,855
2010	235,921
2011	173,114
2012	159,378
Thereafter	359,884
Total	$ 1,209,426
Fair value	$ 1,226,804

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 $18.0 million or 1.5% of the fixed income investment portfolio. The top five investments make up 5.9% of the fixed income portfolio. The average credit quality rating for Infinity s fixed maturity portfolio was AA+ at December 31, 2007. Non-performing fixed maturities, securities that have not produced investment income during the previous twelve months, were $0.2 million or 0.02% of the $1.2 billion portfolio as of December 31, 2007.

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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, 2007 (in thousands).

NAIC Rating	Comparable S&P Rating	Amortized Cost	Fair Value Amount	%
1	AAA, AA, A	$ 1,095,749	$ 1,107,504	90.3%
2	BBB	53,825	54,344	4.4%
	Total investment grade	$ 1,149,574	$ 1,161,848	94.7%
3	BB	$ 28,369	$ 28,323	2.3%
4	B	33,228	31,977	2.6%
5	CCC, CC, C	3,998	3,968	0.3%
6	D	202	688	0.1%
	Total non-investment grade	$ 65,797	$ 64,956	5.3%
	Total	$ 1,215,371	$ 1,226,804	100.0%

During the second half of 2007, the mortgage industry experienced a rise in mortgage delinquencies and foreclosures, particularly among lower quality exposures (sub-prime and Alt-A). As a result of these increasing delinquencies and foreclosures, many MBS and CMOs with underlying sub-prime and Alt-A mortgages as collateral experienced significant drops in market value. Infinity has only modest exposure to these type investments. At December 31, 2007, Infinity s fixed maturity portfolio included 13 CMOs, or 2.1% of the total market value of the fixed income portfolio, with exposure to sub-prime and Alt-A mortgages. Although these CMOs have sub-prime mortgages as underlying collateral, all but one of them have AAA ratings and are in well secured tranches. One security, with a market value of $0.9 million, has an AA rating.

In early 2008, several municipal bond insurers had their credit ratings downgraded or placed under review by the major nationally recognized credit rating agencies. Fitch, one of the nationally recognized credit rating agencies, downgraded AMBAC to AA from AAA . These downgrades were as a result of a perceived weakening by the rating agencies of the insurers financial strength as a result of losses these insurers incurred from mortgage-backed and asset-backed securities they had insured that were now experiencing increased delinquencies and defaults from weakening of the economy in general and weakening within the housing market in particular. Infinity s investment portfolio consists of $312.5 million of municipal bonds, of which $233.3 million are insured. Of the insured bonds, 32% are insured with FSA, 32% with MBIA, 18% with FGIC, 17% with AMBAC and 1% with XL Capital. The following table presents the underlying ratings, represented by the lower of either Standard and Poor s or Fitch s ratings, of the insured municipal bond portfolio:

	Insured		Uninsured		Total	
(in thousands)	Market Value	% of Market Value	Market Value	% of Market Value	Market Value	% of Market Value
AAA	$ 39,364	16.9%	$ 53,460	67.4%	$ 92,824	29.7%
AA+, AA, AA-	83,506	35.8%	16,242	20.5%	99,748	31.9%
A+, A, A-	93,545	40.1%	7,512	9.5%	101,057	32.3%
BBB+, BBB, BBB-	8,486	3.6%	2,023	2.6%	10,509	3.4%
NR	8,405	3.6%			8,405	2.7%

Total	$ 233,306	100.0%	$ 79,237	100.0%	$ 312,543	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 3.9% of its total investment portfolio. During 2007, Infinity moved from a strategy of investing in large positions in individual stocks to an equity portfolio consisting of a Vanguard publicly traded exchange traded fund designed to track the MSCI U.S. Broad Market Index. At December 31, 2007, Infinity s equity portfolio was $49.7 million.

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Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, 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, 2007 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. The September 30, 2007 test results indicated that there was no impairment charge required at that date. Additionally, there was no indication of impairment at December 31, 2007.

Results of Operations

Underwriting

Premiums

Infinity s net earned premiums are as follows ($ in thousands):

	Twelve months ended December 31,			
	2007	2006	$ Change	% Change
Net Earned Premiums				
Gross written premium				
Personal Auto Insurance:				
Focus States				
Urban Zones	$ 745,427	$ 672,423	$ 73,004	10.9%
Non-Urban Zones	174,958	182,021	(7,063)	(3.9)%
Total Focus States	920,385	854,444	65,941	7.7%
Maintenance States	32,358	48,420	(16,062)	(33.2)%
Other States	7,040	15,702	(8,662)	(55.2)%
Subtotal	959,783	918,566	41,217	4.5%
Commercial Vehicle	37,537	43,160	(5,623)	(13.0)%
Classic Collector	20,089	18,402	1,687	9.2%
Other	1,602	6,613	(5,011)	(75.8)%
Total gross written premiums (1)	1,019,011	986,741	32,270	3.3%
Ceded reinsurance and effects of unearned premium transfers	(4,749)	(4,551)	(198)	4.4%
Net written premiums	1,014,262	982,190	32,072	3.3%
Change in unearned premiums	17,302	(33,525)	50,827	(151.6)%
Net Earned Premiums	$ 1,031,564	$ 948,665	$ 82,899	8.7%

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	Twelve months ended December 31,			
	2006	2005	$ Change	% Change
Net Earned Premiums				
Gross written premium				
Personal Auto Insurance:				
Focus States				
Urban Zones	$ 672,423	$ 621,122	$ 51,301	8.3%
Non-Urban Zones	182,021	185,263	(3,242)	(1.7)%
Total Focus States	854,444	806,385	48,059	6.0%
Maintenance States	48,420	54,139	(5,719)	(10.6)%
Other States	15,702	27,048	(11,346)	(41.9)%
Subtotal	918,566	887,572	30,994	3.5%
Commercial Vehicle	43,160	45,312	(2,152)	(4.7)%
Classic Collector	18,402	16,981	1,421	8.4%
Other	6,613	38,805	(32,192)	(83.0)%
Total gross written premiums (1)	986,741	988,670	(1,929)	(0.2)%
Ceded reinsurance and effects of unearned premium transfers	(4,551)	(9,035)	4,484	(49.6)%
Net written premiums	982,190	979,635	2,555	0.3%
Change in unearned premiums	(33,525)	(18,132)	(15,393)	84.9%
Net Earned Premiums	$ 948,665	$ 961,503	$ (12,838)	(1.3)%

(1) 2007, 2006 and 2005 exclude $0.1 million, $5.0 million and $9.8 million, respectively, of premiums written on behalf of other companies. 2006 and 2005 also exclude $0.7 million and $4.3 million, respectively of unearned premium transfers.

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

	As of December 31,			
	2007	2006	Change	%
Policies-in-Force				
Personal Auto Insurance:				
Focus States				
Urban Zones	591,150	532,794	58,356	11.0%
Non-Urban Zones	122,600	135,714	(13,114)	(9.7)%
Total Focus States	713,750	668,508	45,242	6.8%
Maintenance States	21,102	36,012	(14,910)	(41.4)%
Other States	2,776	8,797	(6,021)	(68.4)%
Subtotal	737,628	713,317	24,311	3.4%
Commercial Vehicle	14,149	14,636	(487)	(3.3)%
Classic Collector	59,941	58,439	1,502	2.6%

Other	881	3,885	(3,004)	(77.3)%
Total	812,599	790,277	22,322	2.8%

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	As of December 31,			
	2006	**2005**	**Change**	**%**
Policies-in-Force				
Personal Auto Insurance:				
Focus States				
Urban Zones	532,794	464,057	68,737	14.8%
Non-Urban Zones	135,714	134,553	1,161	0.9%
Total Focus States	668,508	598,610	69,898	11.7%
Maintenance States	36,012	37,762	(1,750)	(4.6)%
Other States	8,797	13,045	(4,248)	(32.6)%
Subtotal	713,317	649,417	63,900	9.8%
Commercial Vehicle	14,636	14,627	9	0.1%
Classic Collector	58,439	58,251	188	0.3%
Other	3,885	18,386	(14,501)	(78.9)%
Total	790,277	740,681	49,596	6.7%

2007 compared to 2006

Gross written premiums for the year ended December 31, 2007 increased 3.3% compared to the twelve months ended 2006. During the first six months of 2007, gross written premiums grew 14.6% primarily from growth in California as Infinity continued to benefit from new policies issued as a result of the California Department of Motor Vehicles implementation of electronic enforcement of compulsory insurance laws that were effective October 1, 2006. However, during the last six months of 2007 premiums declined 7.8% as the implementation of electronic enforcement in California was completed September 30, 2007 and as a result of slowing new business application counts in states such as Arizona, Connecticut and Florida. During 2007, Infinity implemented 52 rate revisions in various states with an overall rate increase of 3.3%. Infinity s policies-in-force at December 31, 2007 increased 2.8% compared to December 31, 2006.

Personal auto insurance in Infinity s twelve Focus States increased 7.7% for the year ended December 31, 2007 compared with 2006, primarily from growth in Arizona, California, Nevada and Texas. The 9.3% gross premium growth in California was primarily attributable to the 21.2% growth during the first six months of 2007 compared with the same period in 2006, during which time Infinity continued to benefit from new policies issued as a result of electronic enforcement of compulsory insurance laws. However, as expected, premium growth slowed during the third quarter of 2007 to 8.3% and declined 11.5% in the fourth quarter of 2007 as the implementation of electronic enforcement was completed on September 30, 2007. In addition, slowing new application counts, due in part to rate decreases taken by competitors, contributed to the decline in California during the fourth quarter of 2007.

Personal auto gross written premium growth in Arizona of 26.6% during the twelve months ended December 31, 2007 as compared with the same period in 2006 was primarily attributable to continued penetration in the Phoenix Urban Zone. However, gross written premiums in the fourth quarter of 2007 in Arizona were down compared to the fourth quarter of 2006. Infinity believes this decline in gross written premiums in the fourth quarter to be in part due to stricter immigration laws being enforced in Arizona.

Gross written premiums in Texas grew in each of the four quarters of 2007 as compared to 2006. Gross written premiums for the twelve months ended December 31, 2007 grew 30.1% compared to the same period in 2006. The growth can be attributed primarily to further penetration in the targeted Urban Zones of Dallas, Houston and San Antonio. Infinity s gross written premiums in Nevada continued to grow throughout 2007 following the introduction of the Low Cost and Value-Added products in Las Vegas in March 2006.

Offsetting gross written premium growth in Arizona, California, Nevada and Texas were declines in gross written premiums in Connecticut and Florida. Infinity raised rates 16.2% in Connecticut and 13.5% in Florida during the twelve months ending December 31, 2007, which slowed new business production. Gross written premiums in Florida were also negatively impacted by the sunset of the mandatory personal injury protection (PIP) coverage on October 1, 2007. Although the Florida legislature eventually reinstated PIP as a mandatory coverage, the new requirement did not go into effect until January 1, 2008 and Infinity believes as a result, fewer consumers were purchasing PIP coverage in the fourth quarter of 2007.

Personal auto gross written premiums in Infinity s 20 targeted Urban Zones grew 10.9% during 2007 compared with 2006,

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with 15 of the 20 urban zones posting gross written premium growth. Gross written premiums in the Non-Urban Zones declined 3.9% during 2007 as compared with 2006. This decline is primarily a result of a decline in Florida and Georgia s Non-Urban Zones as a result of rate increases and redirecting market efforts to the targeted Urban Zones in those states. Although actively trying to retain profitable business, Infinity does expect gross written premiums in the Non-Urban Zones to decline further in 2008.

Personal auto premiums in Infinity s Maintenance states declined 33.2% during the twelve months ended December 31, 2007 compared with the same period in 2006 primarily as a result of declines in Alabama, Mississippi and South Carolina. To improve profitability, Infinity increased rates in South Carolina by 5.2% during the fourth quarter of 2006 and raised rates in 2007 by 7.6% and 4.2% in Alabama and Mississippi, respectively, which has slowed new business production.

Gross written premium for the Commercial Vehicle program declined 13.0% during the twelve months ended December 31, 2007 compared with 2006. Premium growth in California and Georgia was more than offset by a decline in premium in Florida and New York. To improve profitability, Infinity increased rates in Florida by 9.3% during the fourth quarter of 2006 and another 1.7% during July 2007. Gross written premiums in New York should continue to decline as it is not a Focus State for Infinity.

Classic Collector gross written premium increased 9.2% during the twelve months ended December 31, 2007, compared with the same period in 2006, primarily as a result of premium growth in California, Florida and Texas.

Ceded reinsurance and the effects of unearned premium transfers grew by 4.4% during the twelve months ended December 31, 2007 compared with the same period in 2006. The increase is a result of a one-time unearned premium transfer of $0.7 million in 2006. Excluding this unearned premium transfer, ceded reinsurance premiums declined 9.6%. Infinity maintains an excess loss reinsurance treaty for higher limits personal auto liability coverages. Premiums ceded under this treaty declined during 2007 as Infinity sold the renewal rights on the Connecticut book of business assumed from Great American Insurance, which consisted predominately of higher policy limits for standard and preferred business.

2006 compared to 2005

Gross written premiums for the year ended December 31, 2006 declined 0.2% compared to 2005. By excluding the Assumed Agency Business, which is in runoff, gross written premiums would reflect a growth of 4.5%. During the first six months of 2006, competitor actions, such as new rate filings and aggressive marketing, resulted in Infinity s products being less competitive and an 8.9% decline in gross written premiums compared to the same period in 2005. However, California s implementation of electronic enforcement of compulsory insurance laws and actions taken by Infinity in California and its other focus states to stimulate gross written premium growth in the second half of 2006 led to gross written premium growth of 10.2% during the last six months of 2006 compared to the last six months of 2005. During 2006, Infinity implemented 52 rate revisions in various states with an overall rate impact of a modest 0.8% increase. Infinity s policies-in-force at December 31, 2006 increased 6.7% as compared to December 31, 2005 as a result of the strong gross written premium growth during the second half of 2006.

In Infinity s twelve Focus States, personal auto gross written premiums for the year ended December 31, 2006 grew 6.0% compared with 2005, primarily from growth in Arizona, California, Connecticut and Texas. Gross written premiums in California grew 5.3% during 2006 compared to that in 2005. Gross written premium growth of 14.4% during the last six months of 2006 as compared with that in the last six months of 2005 offset a 2.5% decline in premiums during the first six months of 2006 as compared with that in the same period in 2005. During the month of March, several competitors in California implemented new class plan filings that made Infinity s rates less competitive and as a result, new business applications declined. Although Infinity reacted by filing a class plan to refine the Company s rate structure, the plan was not approved by the California Department of Insurance until April with an effective date of June 1, 2006. This delayed approval suppressed gross written premium growth resulting in the 2.5% decline in gross written premiums during the first six months. However, during the fourth quarter of 2006, new application counts in California increased 57.1% compared to new application counts during the fourth quarter of 2005, which is primarily attributable to the California Department of Motor Vehicle s implementation of electronic enforcement of compulsory insurance laws on October 1, 2006. As a result, Infinity s gross written premiums in California grew 30.3% during the fourth quarter of 2006 compared to that of the same period of 2005. The implementation of electronic enforcement may have favorably impacted Infinity s retention ratio in California as the policy retention rate at December 31, 2006 increased nearly three points from the retention rate at September 30, 2006. Policies-in-force at December 31, 2006 increased 9.8% compared with the policies-in-force at December 31, 2005.

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The increasing profitability in Arizona allowed Infinity to take a modest rate decrease in April 2006, which increased the competitiveness of Infinity s products in Phoenix, resulting in the 48.2% growth during the twelve months ended December 31, 2006 compared with the same period in 2005. The growth in the Connecticut book of business of 73.8% during 2006 as compared to 2005 is a result of growth of Infinity s Low Cost product, which was introduced in the Connecticut market during February 2006. The increase in personal auto gross written premiums in Texas of 18.9% for the year ended December 31, 2006 compared with the same period in 2005 is primarily attributable to further penetration in Houston, where Infinity aggressively appointed new agents and expanded its marketing programs.

Although gross written premiums and policies-in-force in Florida declined 5.1% and 0.3%, respectively, during 2006 as compared to 2005, gross written premiums in Florida grew 7.9% during the last six months of 2006 as compared to the same period of 2005. During the last nine months of 2005, Infinity implemented rate increases, totaling 15%, to address increasing combined ratios in Florida. New business during the first six months of 2006 declined as a result of these rate actions. During the third quarter, several competitors in Florida also increased rates and as a result, Infinity s programs became more competitive.

Gross written premiums in the Maintenance States decreased 10.6% during 2006 as compared to 2005, primarily as a result of a decline in South Carolina. During the last half of 2005, Infinity increased rates in South Carolina 5.7% which slowed new business production during 2006.

Gross written premiums for the Commercial Vehicle business decreased 4.7% during 2006 as compared with 2005 as a result of declining gross written premiums in the Non-Focus state of New York. Excluding New York, gross written premiums and policies-in-force increased 4.0% and 4.9%, respectively, over gross written premiums and policies-in-force in 2005, primarily as a result of gross written premium growth of 22.4% and 8.4% in Texas and Florida, respectively. In both Texas and Florida, increased marketing efforts have contributed to the growth. In addition, in Texas, a new rating structure was introduced in April 2006, which made the program more competitive.

Gross written premiums and policies-in-force in the Classic Collector book of business grew 8.4% and 0.3%, respectively, during 2006 as compared with 2005. The gross written premium decline in Other premiums is a result of a substantial decline in premiums for the runoff Homeowners book of business. As of December 31, 2006, Infinity had completed the runoff of its homeowners in-force policies.

Ceded reinsurance declined 49.6% during 2006 as compared to 2005. Although Infinity maintained its 90% quota share agreement on its runoff Homeowners book of business during 2006, the amount of direct premium written in this program has substantially declined and, as a result, the amount ceded to reinsurers has also declined. In addition, Infinity maintains an excess of loss reinsurance treaty for higher limits personal auto liability coverages. Gross written premiums ceded under this treaty have declined as Infinity has sold the renewal rights on the GAI book of business in Connecticut, which consists predominantly of higher policy limits standard and preferred business.

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 premiums and (ii) underwriting expenses incurred as a percentage of net written premiums. 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 premiums 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.

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	Twelve months ended December 31, 2007			2006			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	72.3%	19.5%	91.8%	N/A	N/A	N/A	N/A	N/A	N/A
Non-Urban Zones	80.5%	23.1%	103.6%	N/A	N/A	N/A	N/A	N/A	N/A
Total Focus States	73.9%	20.2%	94.1%	66.8%	21.2%	88.0%	7.1%	(1.0)%	6.1%
Maintenance States	51.7%	24.2%	75.9%	76.8%	22.7%	99.5%	(25.1)%	1.5%	(23.6)%
Other States	36.0%	31.9%	67.9%	3.8%	26.4%	30.2%	32.2%	5.5%	37.7%
Subtotal	72.6%	20.4%	93.0%	66.1%	21.3%	87.4%	6.5%	(0.9)%	5.6%
Commercial Vehicle	44.9%	24.0%	68.9%	89.0%	18.9%	107.9%	(44.1)%	5.1%	(39.0)%
Classic Collector	38.4%	49.1%	87.5%	40.7%	45.7%	86.4%	(2.3)%	3.4%	1.1%
Other	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total statutory ratios	70.6%	21.2%	91.8%	67.0%	21.7%	88.7%	3.6%	(0.5)%	3.1%
GAAP ratios	70.5%	23.0%	93.5%	67.0%	23.8%	90.8%	3.5%	(0.8)%	2.7%

	Twelve months ended December 31, 2006			2005			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	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Non-Urban Zones	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Focus States	66.8%	21.2%	88.0%	65.3%	19.7%	85.0%	1.5%	1.5%	3.0%
Maintenance States	76.8%	22.7%	99.5%	83.8%	26.4%	110.2%	(7.0)%	(3.7)%	(10.7)%
Other States	3.8%	26.4%	30.2%	106.4%	27.2%	133.6%	(102.6)%	(0.8)%	(103.4)%
Subtotal	66.1%	21.3%	87.4%	67.9%	20.3%	88.2%	(1.8)%	1.0%	(0.8)%
Commercial Vehicle	89.0%	18.9%	107.9%	72.8%	23.1%	95.9%	16.2%	(4.2)%	12.0%
Classic Collector	40.7%	45.7%	86.4%	37.9%	36.9%	74.8%	2.8%	8.8%	11.6%
Other	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total statutory ratios	67.0%	21.7%	88.7%	68.7%	21.3%	90.0%	(1.7)%	0.4%	(1.3)%

GAAP ratios	67.0%	23.8%	90.8%	68.7%	23.3%	92.0%	(1.7)%	0.5%	(1.2)%

NM: not meaningful due to the low premium for these lines.

2007 compared to 2006

Overall, the statutory combined ratio for the year ended December 31, 2007 increased 3.1 points compared to 2006. For the twelve months ended December 31, 2007, Infinity had $13.5 million of favorable development on prior accident period loss and LAE reserves compared with $31.2 million of favorable development for the year ended December 31, 2006. Excluding the favorable development from both years, the combined ratio increased 1.1 points. Catastrophe related losses were $0.7 million and $0.8 million during 2007 and 2006, respectively.

The combined ratio in the twelve Focus States increased 6.1 points in 2007 compared to that in 2006. The loss and LAE ratio increased 7.1 points primarily as a result of increasing frequency trends in California, Florida and Pennsylvania as well as increasing severity trends in Florida. In addition, the settlement of an extra-contractual claim in Florida contributed 0.9 points to the increase in the loss and LAE ratio. (See Note 17 of the Consolidated Financial Statements for additional information on the settlement of the extra-contractual claim). The growth in gross written premiums over which to spread fixed costs has contributed to the 1.0 point decline in the underwriting expense ratio, in addition to a greater amount of fee income, which reduces underwriting expenses.

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In the Maintenance States, the 2007 combined ratio improved 23.6 points compared to 2006. The 25.1 point improvement in the loss and LAE ratio is primarily a result of improving loss and LAE ratios in Alabama and South Carolina where Infinity has increased rates over the last two years to improve profitability. Included in the 2006 underwriting expense ratio is a one-time benefit of $1.9 million related to a refund from the South Carolina Reinsurance Facility. Excluding this amount, the 2006 underwriting ratio in the Maintenance States would be 26.6% compared to the 24.2% expense ratio for 2007. This decline in the underwriting expense ratio is primarily attributable to an increase in fee income in 2007 as compared with 2006.

The combined ratio in the Other States for 2007 improved substantially compared to 2006 primarily due to favorable development on prior year loss reserves in New York.

The 2007 combined ratio for the Commercial Vehicle business declined 39.0 points compared to 2006 with a loss and LAE ratio decline of 44.1 points offset by a 5.1 point increase in the underwriting expense ratio. During 2006, in the state of Florida, Infinity incurred losses on a few extra-contractual claims and incurred two large losses. In 2007, Infinity had favorable development on extra-contractual claims in Florida. Combined, these items resulted in a 9.0 point reduction in the loss and LAE ratio. In addition, the loss and LAE ratio declined as a result of favorable development on prior accident year loss and LAE reserves experienced during 2007 compared to unfavorable development during 2006. The increase in the underwriting expense ratio is primarily due to a decline in premium written over which to spread fixed costs.

2006 compared to 2005

Overall, the statutory combined ratio for the year ended December 31, 2006 decreased 1.3 points compared to 2005. For the twelve months ended December 31, 2006, Infinity had $31.2 million of favorable development on prior accident period loss and LAE reserves compared with $17.0 million of favorable development for the year ended December 31, 2005. The favorable development in both years is primarily attributable to California. Excluding the favorable development from both years, the combined ratio increased 0.2 points, attributable to a higher underwriting expense ratio resulting from increased marketing and advertising expenses. Catastrophe related losses were $0.8 million and $2.3 million during 2006 and 2005, respectively.

The 2006 combined ratio in the Focus States increased 3.0 points compared to that in 2005. The loss and LAE ratio increased 1.5 points primarily from strengthening LAE reserves. The underwriting ratio increase of 1.5 points is primarily a result of an increase in advertising and in part from a larger portion of the shared service costs being attributed to these states.

Improvements in both the loss and LAE and underwriting ratios contributed to the 10.7 point improvement in the Maintenance States. During 2006, South Carolina had favorable development on prior accident period loss reserves. Included in the 2006 underwriting expense ratio is a one time benefit of $1.9 million related to a refund from the South Carolina Reinsurance Facility. Excluding this amount, the underwriting ratio for the Maintenance States would be 26.6%, a 0.2 point increase over the 26.4% in 2005.

The 2006 combined ratio in the Commercial Vehicle business increased 12.0 points compared to 2005. The increase in the loss and LAE ratio is primarily attributable to the state of Florida. During 2006, Infinity incurred losses on a few extra-contractual claims and incurred two large losses. These items combined added 7.5 points to the combined ratio. In addition, Infinity strengthened overall loss and LAE reserves on existing Commercial Vehicle claims during 2006. The underwriting expense ratio declined in part due to a smaller percentage of the shared service costs being attributed to Commercial Vehicle.

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Investment Income

Investment income is composed primarily of gross investment revenue, investment management fees and expenses and interest expense incurred on the Quota Share Agreements, as shown in the following table (in thousands):

	Twelve months ended December 31, 2007	2006	2005
Investment income:			
Interest income on fixed maturities, cash and cash equivalents	$ 68,359	$ 69,383	$ 66,547
Dividends on equity securities	1,190	1,518	1,255
Gross investment income	$ 69,548	$ 70,901	$ 67,802
Investment expenses	(2,162)	(2,488)	(2,315)
Net investment income	$ 67,387	$ 68,413	$ 65,487

2007 compared to 2006

Changes in investment income reflect fluctuations in market rates and changes in average invested assets. Investment income declined $1.0 million for the twelve months ended December 31, 2007 as compared with the same period in 2006. Gross investment income for the twelve months ended December 31, 2006 included a one-time benefit of $0.7 million related to the catch up of amortization of bond discount on securities sold that had previously been impaired. In addition, Infinity s gross investment income declined as average invested assets decreased 1.5% in 2007 compared to 2006. Investment expenses declined as a result of the lower average invested asset balance and as a result of lower investment management fees.

2006 compared to 2005

Investment income increased $2.9 million for the twelve months ended December 31, 2006 from 2005. Gross investment income for the twelve months ended December 31, 2006 included a one-time benefit of $0.7 million related to the catch up of amortization of bond discount on securities sold that had previously been impaired. Infinity s average invested assets increased 0.9%. With rising interest rates in 2006, Infinity used proceeds from sales and maturities of securities to acquire higher yielding securities. As a result, Infinity s weighted-average gross investment yield increased to 5.0% in 2006 from 4.8% in 2005.

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, 2007		
	Net Realized Gains (Losses) on Sales	Impairments on Securities	Total Realized Gains (Losses)
Fixed maturities	$ (2,332)	$ (4,028)	$ (6,360)
Equities	3,273		3,273

Total	$ 941	$ (4,028)	$ (3,087)

	Twelve months ended December 31, 2006		
	Net Realized Gains (Losses) on Sales	Impairments on Securities	Total Realized Gains (Losses)
Fixed maturities	$ (94)	$ (1,445)	$ (1,539)
Equities	8,533	(5,032)	3,501
Total	$ 8,439	$ (6,477)	$ 1,962

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	Twelve months ended December 31, 2005		
	Net Realized Gains (Losses) on Sales	Impairments on Securities	Total Realized Gains (Losses)
Fixed maturities	$ 18,007	$ (612)	$ 17,394
Equities			