BRISTOL WEST HOLDINGS INC
Form S-1/A
February 10, 2004

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As filed with the Securities and Exchange Commission on February 10, 2004

Registration No. 333-111259

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 6
to
Form S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

BRISTOL WEST HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware (Jurisdiction of incorporation or organization)	**6331** (Primary Standard Industrial Classification Code Number)	**13-3994449** (I.R.S. Employer Identification Number)

5701 Stirling Road
Davie, Florida 33314
(954) 316-5200

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Alexis S. Oster, Esq.
General Counsel
5701 Stirling Road
Davie, Florida 33314
(954) 316-5200

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

John B. Tehan, Esq. **Gary L. Horowitz, Esq.** **Simpson Thacher & Bartlett LLP** **425 Lexington Avenue** **New York, New York 10017** **(212) 455-2000**	**Alexander M. Dye, Esq.** **LeBoeuf, Lamb, Greene & MacRae, L.L.P.** **125 West 55th Street** **New York, New York 10019** **(212) 424-8000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering price	Amount of Registration Fee[(1)]
Common Stock, par value $0.01 per share(2)	17,250,000 shares	$21.00	$362,250,000	$32,158

(1) $24,270 of the total registration fee of $32,158 was paid on December 16, 2003, prior to the initial filing of the registration statement and $7,888 of the total registration fee of $32,158 was paid on January 28, 2004, prior to the filing of Amendment No. 2.

(2) Includes shares of common stock to be sold by certain selling stockholders identified herein.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 10, 2004

15,000,000 Shares

Bristol West Holdings, Inc.

Common Stock

We are selling 6,250,000 shares of common stock and the selling stockholders are selling 8,750,000 shares of common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Prior to this offering, there has been no public market for our common stock. The initial public offering price of the common stock is expected to be between $19.00 and $21.00 per share. We have applied to list our common stock on The New York Stock Exchange under the symbol "BRW."

The underwriters have an option to purchase a maximum of 2,250,000 additional shares from the selling stockholders to cover over-allotments of shares.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 7.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Bristol West Holdings, Inc.	Proceeds to Selling Stockholders
Per Share	$	$	$	$
Total	$	$	$	$

Delivery of the shares of common stock will be made on or about , 2004.

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

Credit Suisse First Boston Bear, Stearns & Co. Inc.

JPMorgan UBS Investment Bank

Dowling & Partners Securities, LLC Keefe, Bruyette & Woods

Cochran, Caronia & Co.

The date of this prospectus is , 2004.

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Dealer Prospectus Delivery Obligation

Until , 2004 (25 days after the commencement of the offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

Unless otherwise indicated or the context requires otherwise, in this prospectus:

- references to "Bristol West," "the company," "we," "us" and "our" are to Bristol West Holdings, Inc. and its combined operations;
- references to "our insurance subsidiaries" are to Coast National Insurance Company, Security National Insurance Company, Bristol West Casualty Insurance Company and Bristol West Insurance Company, collectively;
- references to "our non-insurance subsidiaries" are to Coast National Holding Company, Coast National General Agency, Inc., Bristol West Insurance Services of California, Inc., Bristol West Insurance Services, Inc. of Florida, Apex Adjustment Bureau, Inc., GP, LLC, Insurance Data Systems, G.P., Bayview Adjustment Bureau, Inc., Bristol West Insurance Services of Georgia, Inc., Bristol West Insurance Services of Pennsylvania, Inc., BWIS of Nevada, Inc., and Bristol West Insurance Services of Texas, Inc., collectively;
- insurance industry data and our market share or ranking in the industry were derived from data compiled by A.M. Best Company Inc.;
- the information assumes that the underwriters have not exercised their over-allotment option; and
- all share and per share data have been adjusted to reflect the 130.38-for-one stock split of our common stock.

PROSPECTUS SUMMARY

This summary may not contain all the information that may be important to you. You should carefully read the entire prospectus before making an investment decision, especially the information presented under the heading "Risk Factors."

Bristol West Holdings, Inc.

What We Do

We are a fast-growing provider of non-standard private passenger automobile insurance and related services. Non-standard automobile insurance provides coverage to drivers who find it difficult to purchase standard automobile insurance as a result of a number of factors, including their driving record, vehicle, age or claims history, or because they have limited financial resources. Typically, these drivers purchase minimal levels of insurance coverage in order to comply with state-mandated financial responsibility laws. Non-standard automobile insurance policies generally require higher premiums than standard or preferred automobile insurance policies for comparable coverage.

Our insurance subsidiaries offer insurance coverage exclusively through a network of approximately 4,300 independent agents and brokers, some of whom operate from multiple locations. We are licensed to provide insurance in 35 states and the District of Columbia, though we focus our resources in 17 states that we believe provide significant opportunity for profitable growth. Our markets include California, Florida and Texas, the three largest non-standard automobile insurance markets in the United States. Together, these three states accounted for 76.9% of our gross premiums written for the nine months ended September 30, 2003. Within the next 12 months, we intend to expand into five additional states. We believe this expansion will provide us with further profitable growth opportunities.

Our non-insurance subsidiaries provide our policyholders a variety of services, including policy servicing and installment payment plans. For these services, we receive separate non-insurance fees, which provide additional revenues of approximately 10% of the premiums we collect.

We commenced business in 1973. In 1998, we were acquired by Kohlberg Kravis Roberts & Co. L.P., or KKR. Since that time, we have expanded our operations from two to 17 states. From 1999, the first full year after our acquisition, to 2002, our annual gross premiums written grew from $220.1 million to $481.8 million. During that period, our annual policy service fee revenues grew from $25.8 million to $47.3 million. In addition, our combined ratio has improved from 94.9% in 1999 to 80.7% for the nine months ended September 30, 2003. For the nine months ended September 30, 2003, we generated $472.9 million in gross premiums written and $52.4 million in policy service fee revenues.

Our Competitive Strengths

We believe that the following competitive strengths will enable us to take advantage of market opportunities in the non-standard automobile insurance industry:

Focus on Non-Standard Automobile Insurance. We believe our focus on non-standard automobile insurance and related services allows us to adopt strategies, pursue objectives and develop products with features that better address the demands of non-standard customers.

Sophisticated Information Systems. We believe our highly sophisticated information systems give us the ability to identify and capitalize on profitable opportunities in our markets and enhance our relationships with our policyholders and producers. We believe our systems are unique for a company of our size and are scalable to support our continued growth.

Risk Taking and Service Based Revenues. We operate through insurance subsidiaries, which underwrite the risks associated with our insurance policies, and non-insurance subsidiaries, which provide services to our policyholders. Our non-insurance subsidiaries earn policy service fee

revenues, including policy origination fees and installment fees, which provide additional revenues of approximately 10% of the premiums we collect.

Attractive Product Structures. Because our billing and collections systems are designed to ensure that we are not exposed to risks for which we have not collected a premium, we are able to provide flexible policy terms and payment plans to fit our policyholders' budgets and make payments for automobile insurance more manageable. As a result, our products appeal to both non-standard customers and drivers whose driving records would qualify them for standard insurance. As of September 30, 2003, over 70% of our policyholders had no at-fault accidents on their driving records or moving violations that are chargeable under applicable state law.

Strong Relationships with Agents and Brokers. We have a network of highly incentivized, loyal and productive agents and brokers who are attracted to Bristol West because of our market-focused products, competitive compensation programs, stable presence and user-friendly, sophisticated underwriting and processing systems. Our goal is to be one of the top three non-standard automobile insurance carriers based on premiums with each agent and broker with whom we do business.

Disciplined Claims Handling Practices. We quickly investigate and fairly resolve all valid claims, and we vigorously defend frivolous and fraudulent claims. By quickly and fairly settling claims, we improve customer satisfaction while lowering our costs, such as vehicle storage and rental charges.

Management Experience and Incentive to Maximize Stockholder Value. Our strong premium growth and improved profitability in 2003 are due largely to operational improvements implemented by our new senior management team, which joined us beginning in September 2000. In addition, our management employees own stock in our company and receive a significant portion of their incentive compensation in the form of stock options. Our chief executive officer, James R. Fisher, has notified the underwriters that he intends to purchase up to 50,000 shares in this offering.

Our Strategies

We intend to continue our profitable growth by focusing on the following strategies:

Maintain Disciplined Pricing and Product Design. We are committed to establishing policy rates that properly charge for the risk and exposure we are underwriting. We evaluate risk and exposure by a number of variables, including vehicle type, driver age, driving record, type of coverage, miles driven and policy limits. We price our products to maintain our margins and structure payment plans to meet our policyholders' needs while limiting our credit risk.

Implement New Online Point-of-Sale Application System. We have an exclusive license to use OneStep , a new online point-of-sale application system. We believe OneStep will create a competitive advantage for us by reducing policy servicing costs, improving customer satisfaction and reducing cancellations.

Develop and Maintain Strong Policyholder and Producer Relationships. We believe each sale entails two customers, the policyholder and the producer, and we strive to maintain positive relationships with both of them. In addition to providing attractively structured and priced products, we strive to provide superior policy and claims service.

Closely Monitor Distribution. Our producer management process involves weekly, monthly and quarterly data analysis, which we use to monitor various aspects of a producer's business conduct, including adherence to our underwriting policies and procedures and the profitability of the producer's business with us.

Selectively Expand our Geographic Presence. Through our sophisticated modeling and analysis, we assess potential new markets in which to expand our operations, focusing on market size and the competitive, legal and regulatory environments. Based on the results of our analysis, we have identified five additional states that we believe will provide further profitable growth opportunities, and we intend to expand into those states in 2004.

Maintain an Efficient and Effective Operating Structure. We focus on systems consolidation and automation designed to eliminate redundancies and achieve greater operational efficiencies, which drive down the total cost of service.

Our Challenges

We face a number of challenges in capitalizing on our strengths and implementing our strategies. For example:

- The non-standard automobile insurance business is highly competitive and we compete with both large national insurance providers and smaller regional companies. Some of our competitors have more capital, higher ratings and greater resources than we have, and may offer a broader range of products and lower prices and down payments than we offer.

- Negative trends caused by irrational price competition or increased claims costs in the market for non-standard automobile insurance could cause our results of operations to suffer.

- Our success depends on our ability to underwrite and set rates accurately. If we fail to assess accurately the risks that we assume, we may fail to establish adequate premium rates, which could reduce our income or result in an operating loss.

- Our loss and loss adjustment expense reserves may deviate, perhaps substantially, from the amounts we will ultimately pay on claims and the related costs of adjusting those claims. If actual losses and loss adjustment expenses exceed our reserves, our net income and capital would decrease.

- We have no operating history as an independent public company and we may not be able to develop and implement the infrastructure necessary to operate successfully as an independent public company.

For further discussion of these and other challenges we face, see "Risk Factors."

Recent Developments

Results for the Year ended December 31, 2003

The following presents our preliminary unaudited financial results as of and for the year ended December 31, 2003. These results are subject to completion of our year-end audit by Deloitte & Touche LLP, our independent auditors. We derived the data as of and for the year ended December 31, 2002 from our consolidated financial statements audited by Deloitte & Touche LLP.

	As of or for the year ended December 31,	
	2003	**2002**
	(dollars in millions)	
Statement of Operations Data:		
Revenues:		
Net premiums earned	$ 274.0	$ 241.0
Policy service fee revenues	69.3	47.3
Total revenues	352.6	297.9
Net income[(1)]	33.5	11.5
Balance Sheet Data:		
Total assets	$ 775.6	$ 633.1
Unpaid losses and loss adjustment expenses	201.3	157.4
Stockholders' equity	137.7	102.8

	As of or for the year ended December 31,	
Operating Data:		
Gross premiums written	$ 648.2	$ 481.8
Net premiums written	263.0	236.3
Ratios:		
Loss ratio	57.9%	68.9%
Expense ratio	22.0%	21.1%
Combined ratio	79.9%	90.0%

(1) Net income for the year ended December 31, 2003 includes a non-cash stock compensation charge of $2.5 million and a litigation expense charge related to class actions of $17.4 million. Net of taxes, these two items impacted net income by $12.3 million. Net income for the year ended December 31, 2002 includes a non-cash stock compensation charge of $0.3 million and a litigation expense charge related to a class action of $14.3 million. Net of taxes, these two items impacted 2002 net income by $10.1 million.

Refinancing Activities

We are currently negotiating a new credit facility with a group of lenders, including an affiliate of Credit Suisse First Boston LLC, that we expect to enter on or about the time of the consummation of this offering. We expect the new credit facility to consist of a $50 million revolving credit facility maturing in 2009 and two term loan tranches totaling $75 million, one of which will mature in 2010 and the other in 2011. Our outstanding debt at December 31, 2003 was $71.5 million, which we expect to fully repay with the proceeds of the new term loans. We do not expect to make any borrowings under the revolving credit facility at the closing of the new credit facility. Based on our discussions with lenders, we expect that our interest expense may rise 50 basis points.

Our principal executive offices are located at 5701 Stirling Road, Davie, Florida 33314. Our telephone number is (954) 316-5200.

The Offering

Common stock offered by us:	6,250,000 shares
Common stock offered by the selling stockholders:	8,750,000 shares
Total common stock outstanding after this offering:	30,624,993 shares
Use of proceeds:	We estimate that we will receive net proceeds from this offering of approximately $114.5 million, assuming an initial public offering price of $20.00 per share (the midpoint of the range set forth on the cover page of this prospectus), after deducting the underwriting discounts and commissions and our estimated offering expenses. We intend to contribute $110.0 million of the proceeds that we receive from this offering to our insurance subsidiaries, which would increase their stockholder's equity. This additional capital will permit us to reduce our reinsurance purchases and to retain more gross premiums written over time. We intend to use the remainder of the net proceeds for general corporate purposes at the holding company level,

	including increased liquidity, interest and principal payments on our debt or payment of stockholder dividends.
	We will not receive any of the net proceeds from the sale of shares of our common stock by the selling stockholders. The selling stockholders will receive all net proceeds from the sale of shares of our common stock offered by them under this prospectus.
Dividend policy:	We currently expect to pay quarterly dividends of $0.05 per share. See "Dividend Policy."
Proposed New York Stock Exchange symbol:	BRW

The number of shares of common stock shown to be outstanding after this offering is based on the number of shares outstanding as of January 27, 2004. This number excludes:

- 4,167,161 shares of our common stock with a weighted average exercise price of $4.05 per share, issuable upon exercise of outstanding stock options and warrants; and
- 3,106,504 shares of our common stock reserved for future issuances under our existing employee and director compensation plans.

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Summary Historical Financial and Operating Data

The following tables summarize our historical financial and operating data as of the dates or for the periods indicated. We derived the summary data as of and for each of the three years ended December 31, 2002 from our consolidated financial statements audited by Deloitte & Touche LLP. We derived the summary data as of and for the nine months ended September 30, 2003 and 2002 from our unaudited consolidated financial statements, which include all adjustments, consisting of normal recurring accruals, that management considers necessary for a fair presentation of our financial position and results of operations as of the dates or for the periods indicated. The results of operations for past accounting periods are not necessarily indicative of the results to be expected for any future accounting periods. You should read this summary in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes appearing elsewhere in this prospectus.

	As of or for the nine months ended September 30,		As of or for the year ended December 31,		
	2003	**2002**	**2002**	**2001**	**2000**
	(dollars in millions, except per share data)				
Statement of Operations Data:					
Revenues:					
Net premiums earned	$ 210.1	$ 175.5	$ 241.0	$ 158.6	$ 185.7
Net investment income	5.1	4.7	6.4	6.4	7.9
Realized gain (loss) on investments	1.1	0.2	0.3	1.0	(0.2)
Policy service fee revenues	52.4	32.3	47.3	36.1	32.8
Outsourcing servicing fees[(a)]	0.0	0.0	0.9	18.6	0.0
Other income	1.2	1.6	2.0	1.4	0.6
Total revenues	$ 269.9	$ 214.3	$ 297.9	$ 222.1	$ 226.8
Costs and Expenses:					

	As of or for the nine months ended September 30,		As of or for the year ended December 31,		
Losses and loss adjustment expenses	$ 154.1	$ 146.9	$ 200.5	$ 128.9	$ 167.2
Commissions and other underwriting expenses	39.9	25.3	42.1	50.3	64.3
Other operating and general expenses	18.8	14.7	19.3	19.9	13.8
Litigation expense[b]	17.2	0.0	14.3	0.0	0.0
Interest expense	2.5	3.4	4.6	9.0	10.7
Goodwill amortization	0.0	0.0	0.0	2.7	2.6
Stock-based compensation	0.7	0.2	0.3	0.5	0.3
Total costs and expenses	$ 233.2	$ 190.5	$ 281.1	$ 211.3	$ 258.9
Income (loss) before income taxes	$ 36.7	$ 23.8	$ 16.8	$ 10.8	$ (32.1)
Income tax (benefit) expense	13.9	7.6	5.3	3.8	(10.7)
Net income (loss)	$ 22.8	$ 16.2	$ 11.5	$ 7.0	$ (21.4)
Balance Sheet Data:					
Cash and investments	$ 171.9	$ 137.6	$ 139.9	$ 114.2	$ 124.6
Total assets	752.6	588.0	633.1	534.5	428.2
Unpaid losses and loss adjustment expenses	199.1	132.4	157.4	106.0	81.5
Long-term debt	81.5	76.5	71.5	86.5	99.2
Total liabilities	626.7	482.2	530.3	446.0	349.0
Stockholders' equity	125.9	105.8	102.8	88.5	79.2
Operating Data:					
Gross premiums written	$ 472.9	$ 345.9	$ 481.8	$ 316.6	$ 230.6
Net premiums written	195.5	172.7	236.3	133.3	142.2
Per Share Data:					
Earnings (loss) per share	.91	.68	.48	.30	(.90)
Book value per share	5.28	4.44	4.32	3.72	3.34
Ratios:					
Loss ratio[c]	58.4%	70.2%	68.9%	60.0%	76.3%
Expense ratio[d]	22.3%	19.1%	21.1%	32.7%	35.6%
Combined ratio[e]	80.7%	89.3%	90.0%	92.7%	111.9%

(a) Outsourcing servicing fees represent fees earned under a contract with Reliance Insurance Company for servicing policies and claims on the run-off of their non-standard automobile insurance business. We entered into this contract in connection with our acquisition in April 2001 of Reliant, the non-standard automobile operations of Reliance Group Holdings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Reliant Acquisition." These outsourcing fees resulted from a one-time transaction and we do not expect to be earning such fees in the future.

(b) Litigation expense represents expense associated with the settlements of certain class action lawsuits. See "Business Legal Proceedings."

(c) Loss ratio is the ratio, expressed as a percentage, of (i) losses and loss adjustment expenses incurred, divided by (ii) the sum of (A) net premiums earned, (B) policy service fee revenues, (C) outsourcing servicing fees and (D) other income.

(d) Expense ratio is the ratio, expressed as a percentage, of (i) the sum of (A) commissions and other underwriting expenses and (B) other operating and general expenses divided by (ii) the sum of (A) net premiums earned, (B) policy service fee revenues, (C) outsourcing servicing fees and (D) other income.

(e) Combined ratio is the sum of the loss ratio and the expense ratio. This ratio is used by our management to evaluate our operating profitability.

RISK FACTORS

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

Risks Relating to Our Company

We face intense competition from other automobile insurance providers.

The non-standard automobile insurance business is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. We compete with both large national insurance providers and smaller regional companies. The largest automobile insurance companies include The Progressive Corporation, The Allstate Corporation, State Farm Mutual Automobile Insurance Company, GEICO and Farmers Insurance Group. Our chief competitors are Mercury General Corporation, Infinity Property & Casualty Corporation and Direct General Corporation. Some of our competitors have more capital, higher ratings and greater resources than we have, and may offer a broader range of products and lower prices and down payments than we offer. Some of our competitors that sell insurance policies directly to customers, rather than through agencies or brokerages as we do, may have certain competitive advantages, including increased name recognition among customers, direct relationships with policyholders and potentially lower cost structures. In addition, it is possible that new competitors will enter the non-standard automobile insurance market. Our loss of business to competitors could have a material impact on our growth and profitability. Further, competition could result in lower premium rates and less favorable policy terms and conditions, which could reduce our underwriting margins.

Our concentration on non-standard automobile insurance could make us more susceptible to unfavorable market conditions.

We underwrite only non-standard automobile insurance and provide related services. Given this focus, negative developments in the economic, competitive or regulatory conditions affecting the non-standard automobile insurance industry could have a material adverse effect on our results of operations and financial condition. In addition, these developments could have a greater effect on us, compared to more diversified insurers that also sell other types of automobile insurance products. Our profitability has been affected by cyclicality in the non-standard automobile insurance industry caused by price competition, which we participated in, and fluctuations in underwriting capacity in the market, as well as changes in the regulatory environment.

Our success depends on our ability to price the risks we underwrite accurately.

Our results of operations and financial condition depend on our ability to underwrite and set rates accurately for a full spectrum of risks. Rate adequacy is necessary to generate sufficient premiums to pay losses, loss adjustment expenses and underwriting expenses and to earn a profit. If we fail to assess accurately the risks that we assume, we may fail to establish adequate premium rates, which could reduce our income and have a material adverse effect on our results of operations or financial condition.

In order to price our products accurately, we must collect and properly analyze a substantial volume of data; develop, test and apply appropriate rating formulas; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. Our ability to undertake these efforts successfully, and as a result price our products accurately, is subject to a number of risks and uncertainties, including, without limitation:

- availability of sufficient reliable data;
- incorrect or incomplete analysis of available data;
- uncertainties inherent in estimates and assumptions, generally;
- selection and application of appropriate rating formulas or other pricing methodologies;

- unanticipated or inconsistent court decisions, legislation or regulatory action;
- ongoing changes in our claim settlement practices, which can influence the amounts paid on claims;
- changing driving patterns, which could adversely affect both frequency and severity of claims;
- unexpected inflation in the medical sector of the economy, resulting in increased bodily injury and personal injury protection claim severity; and
- unanticipated inflation in automobile repair costs, automobile parts prices and used automobile prices, adversely affecting automobile physical damage claim severity.

Such risks may result in our pricing being based on inadequate or inaccurate data or inappropriate analyses, assumptions or methodologies, and may cause us to estimate incorrectly future increases in the frequency or severity of claims. As a result, we could underprice risks, which would negatively affect our profit margins, or we could overprice risks, which could reduce our volume and competitiveness. In either event, our results of operations and financial condition could be materially and adversely affected.

Our losses and loss adjustment expenses may exceed our loss and loss adjustment expense reserves, which could adversely impact our results of operation and financial condition.

Our financial statements include loss and loss adjustment expense reserves, which represent our best estimate of the amounts that we will ultimately pay on claims and the related costs of adjusting those claims as of the date of the financial statements. We rely heavily on our historical loss and loss adjustment expense experience in determining these loss and loss adjustment expense reserves. The historic development of reserves for losses and loss adjustment expenses may not necessarily reflect future trends in the development of these amounts. In addition, factors such as inflation, claims settlement patterns and legislative activities and litigation trends may also affect loss and loss adjustment expense reserves. As a result of these and other risks and uncertainties, ultimate paid losses and loss adjustment expenses may deviate, perhaps substantially, from our estimates of losses and loss adjustment expenses included in the loss and loss adjustment expense reserves in our financial statements. If actual losses and loss adjustment expenses exceed our expectations, our net income and and our capital would decrease. In the past, we have found it necessary to make several adjustments to our loss and loss adjustment expense reserves. There can be no assurance that actual claims and loss adjustment expenses that we pay will not deviate from the loss and loss adjustment expense reserve estimates reflected in our financial statements.

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

We are subject to comprehensive regulation by government agencies in the states where our insurance subsidiaries are domiciled and where these subsidiaries issue policies and handle claims. Certain states impose restrictions or require prior regulatory approval of certain corporate actions, which may adversely affect our ability to operate, innovate, obtain necessary rate adjustments in a timely manner or grow our business profitably. In addition, certain federal laws impose additional requirements on insurers. Our ability to comply with these laws and regulations, and to obtain necessary regulatory action in a timely manner, is and will continue to be critical to our success.

Required Licensing. We operate under licenses issued by various state insurance authorities. If a regulatory authority denies or delays granting a new license, our ability to enter that market quickly can be substantially impaired.

Transactions Between Insurance Companies and Their Affiliates. Transactions between our subsidiaries and their affiliates (including us) generally must be disclosed to the state regulators, and prior approval of the applicable regulator generally is required before any material or extraordinary transaction may be consummated. State regulators may refuse to approve or delay approval of such a transaction, which may impact our ability to innovate or operate efficiently.

Regulation of Insurance Rates and Approval of Policy Forms. The insurance laws of most states in which our insurance subsidiaries operate require insurance companies to file insurance rate schedules and insurance policy forms for review and approval. If, as permitted in some states, we begin using new rates before they are approved, we may be required to issue refunds or credits to our policyholders if the new rates are ultimately deemed excessive or unfair and disapproved by the applicable state regulator. Accordingly, our ability to respond to market developments or increased costs in that state can be adversely affected. In 2000 and 2001, the time required to obtain regulatory approval of some of our rate filings delayed our ability to respond to market conditions in a timely manner.

Restrictions on Cancellation, Non-Renewal or Withdrawal. Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel or not renew policies. Some states prohibit an insurer from withdrawing from one or more lines of business in the state, except pursuant to a plan approved by the state insurance department. In some states, this applies to significant reductions in the amount of insurance written, not just to a complete withdrawal. These laws and regulations could limit our ability to exit or reduce our writings in unprofitable markets or discontinue unprofitable products in the future.

Other Regulations. We must also comply with regulations involving, among other things:

- the use of non-public consumer information and related privacy issues;
- investment restrictions;
- the use of credit history in underwriting and rating;
- the payment of dividends;
- the acquisition or disposition of an insurance company or of any company controlling an insurance company;
- the involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges;
- reporting with respect to financial condition.

Compliance with laws and regulations addressing these and other issues often will result in increased administrative costs. In addition, these laws and regulations may limit our ability to underwrite and price risks accurately, prevent us from obtaining timely rate increases necessary to cover increased costs and may restrict our ability to discontinue unprofitable relationships or exit unprofitable markets. These results, in turn, may adversely affect our profitability or our ability or desire to grow our business in certain jurisdictions, which could have an adverse effect on your investment. The failure to comply with these laws and regulations may also result in actions by regulators, fines and penalties, and in extreme cases, revocation of our ability to do business in that jurisdiction. In addition, we may face individual and class action lawsuits by our insureds and other parties for alleged violations of certain of these laws or regulations.

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

The laws of the states of domicile of our insurance subsidiaries impose risk-based capital standards and other minimum capital and surplus requirements. Failure to meet applicable risk-based capital requirements or minimum statutory capital requirements could subject us to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or liquidation. Any changes in existing risk-based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels, which we may be unable to do. As of September 30, 2003, each of our insurance subsidiaries maintained a risk-based capital level in excess of an amount that would require any corrective actions on our part.

Regulation may become more extensive in the future, which may adversely affect our business.

We cannot assure you that states will not make existing insurance laws and regulations more restrictive in the future or enact new restrictive laws. In such events, we may seek to reduce our writings in, or to withdraw entirely from, these states. In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary. We are unable to predict whether and to what extent new laws and regulations that would affect our business will be adopted in the future, the timing of any such adoption and what effects, if any, they may have on our operations, profitability and financial condition.

Our failure to pay claims accurately could adversely affect our business, financial results and liquidity.

We must accurately evaluate and pay claims that are made under our policies. Many factors affect our ability to pay claims accurately, including the training and experience of our claims representatives, our claims organization's culture and the effectiveness of our management, our ability to develop or select and implement appropriate procedures and systems to support our claims functions and other factors. Our failure to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our image and materially adversely affect our financial results and liquidity.

In addition, if we do not train new claims employees effectively or lose a significant number of experienced claims employees our claims department's ability to handle an increasing workload could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, we could suffer in decreased quality of claims work, which in turn could lower our operating margins.

As a holding company, we are dependent on the results of operations of our subsidiaries and their ability to transfer funds to us to meet our obligations.

We are a holding company without significant operations of our own. Dividends from our subsidiaries are our principal source of funds to meet our cash needs, including debt service payments and other expenses, and to pay dividends to our stockholders. Insurance laws limit the ability of our insurance subsidiaries to pay dividends to us. In addition, for competitive reasons, our insurance subsidiaries maintain financial strength ratings that require us to sustain certain capital levels in those subsidiaries. The need to maintain these required capital levels may affect the ability of our insurance subsidiaries to pay dividends to us. In 2003, our insurance subsidiaries could not pay dividends without seeking regulatory approval. Our non-insurance subsidiaries' ability to pay dividends to us is not limited by insurance law. Nevertheless, these non-insurance subsidiaries' earnings are dependent on fees paid by policyholders, and those fees are subject to insurance regulation.

The policy service fee revenues of our non-insurance subsidiaries could be adversely affected by insurance regulation.

Policy service fee revenues earned by our non-insurance subsidiaries provide additional revenues of approximately 10% of the premiums we collect. These fees include policy origination fees and installment fees to compensate us for the costs of providing installment payment plans, as well as late payment, policy cancellation, policy rewrite and reinstatement fees. Our revenues could be reduced by changes in insurance regulation that restrict our ability to charge these fees. In addition, these fees are paid to our non-insurance subsidiaries pursuant to servicing arrangements between our insurance subsidiaries and non-insurance subsidiaries. Those arrangements are subject to insurance holding company act regulation in the states where our insurance subsidiaries are domiciled. Continued payment of these fees to our non-insurance subsidiaries could be affected if insurance regulators in these states determined that these arrangements are not permissible under the insurance holding company acts.

New pricing, claim and coverage issues and class action litigation are continually emerging in the automobile insurance industry, and these new issues could adversely impact our results of operations and financial condition.

As automobile insurance industry practices and regulatory, judicial and consumer conditions change, unexpected and unintended issues related to claims, coverage and business practices may emerge. These issues can have an adverse effect on our business by changing the way we price our products, including limiting the factors we may consider when we underwrite risks, by extending coverage beyond our underwriting intent, by increasing the size or frequency of claims or by requiring us to change our claims handling practices and procedures or our practices for charging fees. The effects of these unforeseen emerging issues could negatively affect our revenues or our results of operations and financial condition.

We may be unable to attract and retain independent agents and brokers.

We distribute our products exclusively through independent agents and brokers. We compete with other insurance carriers to attract producers and maintain commercial relationships with them. Some of our competitors offer a larger variety of products, lower prices for insurance coverage or higher commissions. While we believe that the products, pricing, commissions and services we offer agents and brokers are competitive, we cannot assure you that we will be able to continue to attract and retain independent agents and brokers to sell our products. Our inability to continue to recruit and retain productive independent agents and brokers would have an adverse effect on our financial condition and results of operations.

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

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and have an effect on an insurance company's sales. A.M. Best Company Inc., or A.M. Best, maintains a letter scale rating system ranging from "A++ (Superior)" to "F" (in liquidation). A.M. Best has assigned our insurance subsidiaries a rating of "B" (Fair), which is the 7th highest of 15 rating levels. According to A.M. Best, "B" ratings are assigned to insurers that have a fair ability to meet their current obligations to policyholders, but are financially vulnerable to adverse changes in underwriting and economic conditions. The rating of our insurance subsidiaries is subject to at least annual review by, and may be revised downward or revoked at the sole discretion of, A.M. Best. Many of our competitors have ratings higher than those of our insurance subsidiaries. A downgrade in the financial strength rating of our insurance subsidiaries would have an adverse impact on our ability to effectively compete with other insurers with higher ratings or our attractiveness to policyholders and agents and brokers.

A.M. Best bases its ratings on factors that concern policyholders and not upon factors concerning investor protection. Such ratings are subject to change and are not recommendations to buy, sell or hold securities.

We rely on information technology and telecommunication systems, and the failure of these systems could materially and adversely affect our business.

Our business is highly dependent upon the successful and uninterrupted functioning of our information technology and telecommunications systems. We rely on these systems to process new and renewal business, provide customer service, make claims payments and facilitate collections and cancellations. These systems also enable us to perform actuarial and other modeling functions necessary for underwriting and rate development. We have a highly trained staff that is committed to the continual development and maintenance of these systems. However, the failure of these systems could interrupt our operations or materially impact our ability to evaluate and write new business. Because

our information technology and telecommunications system interface with and depend on third-party systems, we could experience service denials if demand for such service exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to write and process new and renewal business and provide customer service or compromise our ability to pay claims in a timely manner. This could result in a material adverse effect on our business.

We are parties to multiple lawsuits, which, if decided adversely against us, could have a negative impact on our financial results.

We are named as a defendant in a number of lawsuits, including certain class action lawsuits challenging various aspects of our business operations, and we may be subject to further litigation in the future. We recently settled two coordinated class actions that alleged that we improperly canceled our insureds' automobile insurance policies. A related pending action asserts claims for breach of contract and bad faith on behalf of more than 500 individuals who have opted out of the settlement. We recently settled another class action that alleged that we improperly classified our claims adjusters as exempt employees. As a result of these lawsuits, at September 30, 2003, our consolidated statement of operations reflected a charge in the amount of $17.2 million on a pre-tax basis. In addition, we may be subject to future litigation that alleges bad faith and seeks extra-contractual damages from us in addition to damages claimed under an insurance policy. If we are found to have acted in bad faith in our handling of a claim, the insured may be entitled to damages, including punitive damages, that are not limited by the terms of the policy we issued. Litigation, by its very nature, is unpredictable and the outcome of any case is uncertain. We are unable to predict the precise nature of the relief that may be sought or granted in any lawsuits or the effect that pending or future cases may have on our business, operations, profitability or financial condition.

Our ability to operate our company effectively could be impaired if we lose key personnel.

We manage our business with a number of key personnel, including the executive officers listed in the "Management" section of this prospectus, the loss of whom could have a material adverse effect on us. Only our chief executive officer, James R. Fisher, has an employment agreement with us, which has an initial term that will expire on June 30, 2005. In addition, as our business develops and expands, we believe that our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. We cannot assure you that key personnel will continue to be employed by us or that we will be able to attract and retain qualified personnel in the future. We do not have "key person" life insurance to cover our executive officers. Failure to retain or attract key personnel could have a material adverse effect on us.

Our debt service obligations could impede our operations, flexibility and financial performance.

Our financial performance could be affected by our level of debt. As of September 30, 2003, we had a relatively high level of consolidated indebtedness as compared to our stockholders' equity. As of that date, we had consolidated indebtedness (other than trade payables and certain other short term debt) of approximately $81.5 million and additional availability under our credit facility of $45.0 million. In addition, borrowings under our credit agreement bear interest at rates that may fluctuate. Therefore, increases in interest rates on the obligations under our credit agreement would adversely affect our income and cash flow that would be available for the payment of interest and principal on the loans under our credit agreement. Our interest expense for the year December 31, 2002 and for the nine months ended September 30, 2003 was $4.6 million and $2.5 million, respectively.

Our level of debt could have important consequences for you, including the following:

- we will need to use a portion of the money we earn to pay principal and interest on outstanding amounts due under our senior credit facility, which will reduce the amount of money available to us for financing our operations and other business activities;

- we may have a much higher level of debt than certain of our competitors, which may put us at a competitive disadvantage;
- we may have difficulty borrowing money in the future; and
- we could be more vulnerable to economic downturns and adverse developments in our business.

We expect to obtain the money to pay dividends to our stockholders, to pay our expenses and to pay the principal and interest on our outstanding debt from our operations. Our ability to meet our expenses and debt service obligations thus depends on our future performance, which will be affected by financial, business, economic, demographic and other factors, including competition.

If we do not have enough money to pay our debt service obligations, we may be required to refinance all or part of our existing debt, sell assets, borrow more money or raise equity. In that event, we may not be able to refinance our debt, sell assets, borrow more money or raise equity on terms acceptable to us or at all.

We are subject to restrictive debt covenants, which may restrict our operational flexibility.

Our credit facility contains various operating covenants, including among other things, restrictions on our ability to incur additional indebtedness, pay dividends on and redeem capital stock, make other restricted payments, including investments, sell our assets and enter into consolidations, mergers and transfers of all or substantially all of our assets. These restrictions could limit our ability to take actions that require funds in excess of those available to us.

Our credit facility also requires us to maintain specified financial ratios and satisfy financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control and we cannot assure you that we will meet those ratios and tests. A breach of any of these covenants, ratios, tests or restrictions could result in an event of default under the credit facility. If an event of default exists under the credit facility, the lenders could elect to declare all amounts outstanding thereunder to be immediately due and payable. If the lenders under our credit facility accelerate the payment of the indebtedness, we cannot assure you that our assets would be sufficient to repay in full that indebtedness and our other indebtedness that would become due as a result of any acceleration.

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

Our results of operations depend in part on the performance of our invested assets. As of September 30, 2003, 98.9% of our investment portfolio was invested in fixed maturity securities with the remainder in one private common stock position. Certain risks are inherent in connection with fixed maturity securities, including loss upon default and price volatility in reaction to changes in interest rates, credit spreads, deterioration in the financial condition of the issuers and general market conditions. An increase in interest rates lowers prices on fixed maturity securities, and any sales we make during a period of increasing interest rates may result in losses. Also, investment income earned from future investments in fixed maturity securities will decrease if interest rates decrease.

In addition, our investment portfolio is subject to risks inherent in the capital markets. The functioning of those markets, the values of our investments and our ability to liquidate investments on short notice may be adversely affected if those markets are disrupted by national or international events including, without limitation, wars, terrorist attacks, recessions or depressions, high inflation or a deflationary environment, the collapse of governments or financial markets, and other factors or events.

If our investment portfolio were impaired by market or issuer-specific conditions to a substantial degree, our liquidity, financial position and financial results could be materially adversely affected. Further, our income from these investments could be materially reduced, and write-downs of the value of certain securities could further reduce our profitability. In addition, a decrease in value of our investment portfolio could put us at risk of failing to satisfy regulatory capital requirements. If we were

not able to supplement our subsidiaries' capital by issuing debt or equity securities on acceptable terms, our ability to continue growing could be adversely affected.

Our operations could be adversely affected if conditions in the states where our business is concentrated were to deteriorate.

For the year ended December 31, 2002, we generated approximately 85.7% of our gross premiums written in our top three states, California, Florida and Michigan. California, our largest market, represented approximately 64.8% of our gross premiums written in 2002. For the nine months ended September 30, 2003, 82.2% of our gross premiums written were derived from our top three states, with 63.9% being derived from California. Our revenues and profitability are therefore subject to prevailing regulatory, legal, economic, demographic, competitive and other conditions in those states. Changes in any of those conditions could have an adverse effect on our results. Adverse regulatory developments in any of those states, which could include, among others, reductions in the rates permitted to be charged, inadequate rate increases, restrictions on our ability to reject applications for coverage or on how we handle claims, or more fundamental changes in the design or implementation of the automobile insurance regulatory framework, could have a material adverse effect on our results of operations and financial condition.

Severe weather conditions and other catastrophes may result in an increase in the number and amount of claims filed against us.

Our business is also exposed to the risk of severe weather conditions and other catastrophes in the states in which we operate. Catastrophes include severe winter weather, hurricanes, tornadoes, hail storms, floods, windstorms, earthquakes, fires and other events such as terrorist attacks and riots, each of which tends to be unpredictable. Such conditions generally result in higher incidence of automobile accidents and increase the number of claims. Because many of our insureds live near the coastlines, we have potential exposure to hurricanes and major coastal storms.

The loss of, or significant reduction in, business from our largest producers could adversely affect our financial condition and results of operations.

Some of our producers are material to our business. For the nine months ended September 30, 2003, our top three producers accounted for 23.5% of our gross premiums written, with our single largest producer accounting for 15.2%. Although we believe that our relationships with our major producers are good, we do not have long-term contracts with any of them, which is typical of our industry. If any of these producers were to reduce their business with us, or if we were unable to continue to do business with them on terms as favorable to us as our current terms or at all, our financial condition and results of operations could suffer materially.

We may not be successful in reducing our risk and increasing our underwriting capacity through reinsurance arrangements, which could adversely affect our business, financial condition and results of operations.

In order to reduce our underwriting risk and increase our underwriting capacity, we transfer portions of our insurance risk to other insurers through reinsurance contracts. We have historically relied on quota share and excess of loss reinsurance agreements to maintain our exposure to loss at or below a level that is within the capacity of our capital resources. Ceded premiums written amounted to 58.7% of our gross premiums written for the nine months ended September 30, 2003. The availability, cost and structure of reinsurance protection is subject to changing market conditions, which are outside of our control. In order for these contracts to qualify for reinsurance accounting and thereby provide the additional underwriting capacity that we desire, the reinsurer generally must assume significant risk and have a reasonable possibility of a significant loss.

Although the reinsurer is liable to us to the extent we cede risk to the reinsurer, we remain ultimately liable to the policyholder on all risks reinsured. As a result, ceded reinsurance arrangements do not limit our ultimate obligations to policyholders to pay claims. We are subject to credit risks with respect to the financial strength of our reinsurers. We are also subject to the risk that our reinsurers may dispute their obligations to pay our claims. As a result, we may not recover claims made to our reinsurers in a timely manner, if at all. As of September 30, 2003, we had a total of $86.3 million of unsecured reinsurance recoverables, or 61.7% of our total reinsurance recoverables, and our largest unsecured recoverable from a single reinsurer was $67.9 million. In addition, our reinsurance agreements are subject to specified limits and we would not have reinsurance coverage to the extent that we exceed those limits.

Because we intend to reduce our use of reinsurance, we will retain more risk, which could result in losses.

We currently use reinsurance primarily to increase our underwriting capacity and to reduce our exposure to losses. Using the proceeds from this offering, we intend to reduce our reinsurance purchases. Thus, we will retain more gross premiums written over time, but will also retain more of the related losses. Reducing our reinsurance purchases will increase our risk and exposure to losses, which could have a material adverse effect on our financial condition and results of operations.

Risks Relating to Our Common Stock and This Offering

There is no existing public market for our common stock, and we cannot assure you that an active trading market will develop.

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

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

The market price of our common stock could decline as a result of sales of a large number of shares of common stock in the market after the offering or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Sales of our common stock will be restricted by lock-up agreements that all of our directors and executive officers and substantially all of our other existing stockholders will enter into with the underwriters and with us. The lock-up agreements will restrict our directors, officers and those existing stockholders who are a party to such agreements, subject to specified exceptions, from selling or otherwise disposing of any shares for a period of 180 days after the date of this prospectus without the prior written consent of both Credit Suisse First Boston LLC and Bear, Stearns & Co. Inc. Although there is no present intent or arrangement to do so, all or any portion of the shares may be released from the restrictions in the lock-up agreements and those shares would then be available for resale in the market. Any release would be considered on a case by case basis.

After this offering, we will have approximately 30.6 million shares of common stock outstanding. Of those shares, the 15.0 million shares we and the selling stockholders are offering will be freely tradeable. The approximately 15.6 million shares that were outstanding immediately prior to this offering, as adjusted to reflect the sale of shares by existing stockholders, will be eligible for resale from time to time, subject to contractual restrictions and restrictions under the Securities Act of 1933, as amended. Of those shares, 229,657 may be resold under Rule 144(k) without regard to volume limitations and approximately 15.4 million shares may be sold subject to the volume, manner of sale and other conditions of Rule 144. KKR, which will own 14.3 million shares of our common stock, will have the ability to cause us to register the resale of its shares.

In addition, after this offering, approximately 2.2 million shares will be issuable upon the exercise of presently outstanding stock options and approximately 3.1 million shares have been reserved for future issuance under our 1998 Stock Option Plan for Management and Key Employees of Bristol West Holdings, Inc. and Subsidiaries and under our 2004 Stock Incentive Plan for Bristol West Holdings, Inc. and Subsidiaries under which no options have yet been granted. Following the consummation of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register the sale of shares issued or issuable upon the exercise of all these stock options. Subject to the exercise of issued and outstanding options and contractual restrictions, shares registered under the registration statement on Form S-8 will be available for sale into the public market after the expiration of the 180-day lock-up agreements.

An additional 1.9 million shares will be issuable upon the exercise of presently outstanding stock options and warrants held by non-employees after this offering.

We cannot predict what effect, if any, future sales of our common stock, or the availability of common stock for future sale, will have on the market price of our common stock. Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your shares of common stock at a time and price which you deem appropriate.

Public investors will suffer immediate and substantial dilution as a result of this offering.

The initial public offering price per common share is higher than our net tangible book value per share. Accordingly, if you purchase common stock in this offering, you will suffer immediate and substantial dilution of your investment. Based upon the issuance and sale of 6.25 million shares of common stock by us at an assumed initial public offering price of $20.00 per share (the midpoint of the price range set forth on the cover page of this prospectus), you will incur immediate dilution of approximately $15.38 in the net tangible book value per share if you purchase shares in this offering. We also have a large number of outstanding stock options to purchase common stock with exercise prices that are below the estimated initial public offering price of the common stock. To the extent that these options are exercised, there will be further dilution.

KKR controls us and may have conflicts of interest with other stockholders in the future.

After the offering, KKR will own 46.6% of our common stock, or 44.0% if the underwriters exercise their over-allotment option in full. As a result, KKR will continue to be able to control the election of our directors, determine our corporate and management policies and determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including potential mergers or acquisitions, asset sales and other significant corporate transactions. KKR will also have sufficient voting power to amend our organizational documents. We cannot assure you that the interests of KKR will coincide with the interests of other holders of our common stock. For example, KKR could cause us to make acquisitions that increase the amount of our indebtedness or sell revenue-generating assets. Additionally, KKR is in

the business of making investments in companies and may, from time to time, acquire and hold interests in businesses that compete directly or indirectly with us. KKR may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as KKR continues to own a significant amount of the outstanding shares of our common stock, it will continue to be able to strongly influence or effectively control our decisions.

Certain provisions of our charter, as well as applicable insurance laws and Delaware corporate law, may make it difficult to effect a change of control of our company, which may prevent efforts by our stockholders to change the direction or management of our company.

Our Amended and Restated Certificate of Incorporation authorizes our board of directors to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock, without any vote or action by our stockholders. We could issue a series of preferred stock that could impede the completion of a merger, tender offer or other takeover attempt. In addition, before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the insurer is domiciled. In addition, certain anti-takeover provisions of the Delaware General Corporation Law could make it more difficult for a third party to acquire us. These provisions of our charter and these laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable. As a result, efforts by our stockholders to change the direction or management of our company may be unsuccessful.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Some of the statements under "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus may include forward-looking statements that reflect our current views with respect to future events and financial performance. These statements include forward-looking statements both with respect to us and the insurance industry. Statements that include the words "believe", "expect", "may", "will", "should", "seek", "intend", "plan", "estimate", "anticipate" or the negative version of those words or other comparable terminology and similar statements of a future or forward-looking nature identify forward-looking statements.

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

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $114.5 million, assuming an initial public offering price of $20.00 per share (the midpoint of the range set forth on the cover page of this prospectus), after deducting the underwriting discounts and commissions and our estimated offering expenses. We intend to contribute $110.0 million of the proceeds from this offering that we receive to our insurance subsidiaries, which would increase their stockholder's equity. Our insurance subsidiaries will purchase high quality, marketable securities consistent with our investment policies with the cash received. This additional capital will permit us to reduce our reinsurance purchases and to retain more gross premiums written over time. We intend to use the remainder of the net proceeds for general corporate purposes at the holding company level, including increased liquidity, interest and principal payments on our debt or payment of stockholder dividends.

We will not receive any of the net proceeds from the sale of shares by the selling stockholders. The selling stockholders will receive all net proceeds from the sale of shares of our common stock offered by them under this prospectus.

DIVIDEND POLICY

We currently intend to declare and pay quarterly dividends of $0.05 per share. The declaration and payment of dividends is subject to the discretion of our board of directors, and will depend on, among other things, our financial condition, results of operations, capital and cash requirements, future prospects, regulatory and contractual restrictions on the payment of dividends by our subsidiaries, restrictions under our credit facility on our ability to pay dividends to our stockholders and other factors deemed relevant by the board. For a discussion of our cash resources and needs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

We are a holding company without significant operations of our own. Dividends from our subsidiaries are our principal source of funds. Insurance laws limit the ability of our insurance subsidiaries to pay dividends to us. Our non-insurance subsidiaries' earnings are generally unrestricted as to their availability for the payment of dividends subject to customary state corporate laws regarding solvency.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2003, on an actual basis and as adjusted to give effect to (1) the sale of 6,250,000 shares of common stock offered by us in this offering at an assumed initial public offering price of $20.00 per share (the midpoint of the range set forth on the cover page of this prospectus) after deducting estimated underwriting discounts and commissions and our estimated offering expenses totaling approximately $10.5 million, (2) the receipt by us of approximately $2.0 million for the exercise price of options and warrants being exercised by selling stockholders in order to sell shares in the offering and (3) approximately $3.3 million of tax benefit to us from options and warrants being exercised by selling stockholders in order to sell shares in the offering. You should read this table in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus and "Selected Historical Financial and Operating Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	(Unaudited)	
	Actual	**As Adjusted**
	(in millions)	
Debt:		
Long-term debt	$ 81.5	$ 81.5
Total Debt	81.5	81.5
Stockholders' Equity:		
Common stock, par value $0.01 per share (32,595,000 shares authorized; 23,844,155 shares issued and outstanding) (200,000,000 shares authorized as adjusted; 30,624,993 shares issued and outstanding as adjusted[(1)]) and additional paid-in capital	96.3	216.1
Treasury stock, at cost (662,330 shares)	(2.6)	(2.6)
Stock subscription receivable	(0.6)	(0.6)
Retained earnings	30.8	30.8
Accumulated other comprehensive income	2.0	2.0
Total Stockholders' Equity	125.9	245.7
Total Capitalization	$ 207.4	$ 327.2

(1) Includes 530,838 shares that will be issued upon exercise of outstanding options and warrants immediately prior to consummation of this offering.

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DILUTION

Dilution is the amount by which the offering price paid by the purchasers of the common stock to be sold in this offering will exceed the net tangible book value per share of common stock after the offering. The net tangible book value per share is equal to the amount of our total tangible assets (total assets less intangible assets) less total liabilities, divided by the number of shares of our common stock outstanding as of September 30, 2003. After giving effect to (1) the sale of shares of common stock in this offering at an assumed initial public offering price of $20.00 per share (the midpoint of the range set forth on the cover page of this prospectus) and after deducting estimated underwriting discounts and commissions and our estimated offering expenses totaling approximately $10.5 million, (2) the receipt by us of approximately $2.0 million for the exercise price of options and warrants being exercised by selling stockholders in order to sell shares in the offering and (3) approximately $3.3 million of tax benefit to us from options and warrants being exercised by selling stockholders in order to sell shares in the offering, our adjusted net tangible book value as of September 30, 2003 would have been $141,478,000, or $4.62 per share of common stock. This represents an immediate increase in net tangible book value of $3.71 per share to existing stockholders and an immediate dilution in net tangible book value of $15.38 per share to new investors.

The following table illustrates this per share dilution:

Initial public offering price per share		$ 20.00
Net tangible book value per share before this offering	$ 0.91	
Increase per share attributable to this offering	3.71	
Adjusted net tangible book value per share after this offering		4.62
Dilution per share to new investors		$ 15.38

The following table summarizes, on an adjusted basis as of January 27, 2004, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing stockholders and by new investors purchasing shares in this offering:

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders[(1)]	24,374,993	79.6%	$ 93,531,735	42.8%	$ 3.84
New investors	6,250,000	20.4	125,000,000	57.2	20.00
Total	30,624,993	100.0%	$ 218,531,735	100.0%	

(1) Includes 530,838 shares that will be issued upon exercise of outstanding options and warrants immediately prior to consummation of this offering.

The tables and calculations above assume no exercise of outstanding options. As of January 27, 2004, there were 4,167,161 shares of our common stock reserved for issuance upon exercise of outstanding options at a weighted average exercise price of $4.05 per share. To the extent that these options are exercised, there will be further dilution to new investors. See "Management Executive Compensation Option Grants" and "Description of Capital Stock."

SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following tables present our historical financial and operating data as of the dates or for the periods indicated. We derived the data (i) as of December 31, 1998 or for the period from July 10, 1998 through December 31, 1998 and (ii) as of and for each of the four years ended December 31, 2002 from our consolidated financial statements audited by Deloitte & Touche LLP. We derived the data (i) as of July 9, 1998 and for the period from January 1, 1998 through July 9, 1998 and (ii) as of and for the nine months ended September 30, 2003 and 2002 from our unaudited consolidated financial statements, which include all adjustments, consisting of normal recurring accruals, that management considers necessary for a fair presentation of our financial position and results of operations as of the dates or for the periods indicated. The results of operations for past accounting periods are not necessarily indicative of the results to be expected for any future accounting periods. You should read this summary in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes appearing elsewhere in this prospectus.

				Predecessor Company
	As of or for the nine months ended September 30,	As of or for the year ended December 31,	As of December 31, 1998 or for the period from July 10,	As of July 9, 1998 or for the period from

	2003	2002	2002	2001	2000	1999	through December 31, 1998	Predecessor Company January 1, through July 9, 1998
	(dollars in millions, except per share data)							
Statement of Operations Data:								
Revenues:								
Net premiums earned	$ 210.1	$ 175.5	$ 241.0	$ 158.6	$ 185.7	$ 173.3	$ 78.4	$ 44.9
Net investment income	5.1	4.7	6.4	6.4	7.9	8.4	3.7	1.6
Realized gain (loss) on investments	1.1	0.2	0.3	1.0	(0.2)	(0.2)	0.1	(0.5)
Policy service fee revenues	52.4	32.3	47.3	36.1	32.8	25.8	11.5	11.9
Outsourcing servicing fees[(a)]	0.0	0.0	0.9	18.6	0.0	0.0	0.0	0.0
Other income	1.2	1.6	2.0	1.4	0.6	1.0	0.3	0.3
Total revenues	$ 269.9	$ 214.3	$ 297.9	$ 222.1	$ 226.8	$ 208.3	$ 94.0	$ 58.2
Costs and Expenses:								
Losses and loss adjustment expenses	$ 154.1	$ 146.9	$ 200.5	$ 128.9	$ 167.2	$ 121.1	$ 49.0	$ 35.1
Commissions and other underwriting expenses	39.9	25.3	42.1	50.3	64.3	58.2	23.8	15.2
Other operating and general expenses	18.8	14.7	19.3	19.9	13.8	10.7	5.3	3.4
Litigation expense[(b)]	17.2	0.0	14.3	0.0	0.0	0.0	0.0	0.0
Interest expense	2.5	3.4	4.6	9.0	10.7	10.1	4.9	0.0
Goodwill amortization	0.0	0.0	0.0	2.7	2.6	2.7	1.2	0.0
Stock-based compensation	0.7	0.2	0.3	0.5	0.3	0.0	0.0	0.0
Total costs and expenses	$ 233.2	$ 190.5	$ 281.1	$ 211.3	$ 258.9	$ 202.8	$ 84.2	$ 53.7
Income (loss) before income taxes	$ 36.7	$ 23.8	$ 16.8	$ 10.8	$ (32.1)	$ 5.5	$ 9.8	$ 4.5
Income tax (benefit) expense	13.9	7.6	5.3	3.8	(10.7)	1.0	3.3	0.6
Net income (loss)	$ 22.8	$ 16.2	$ 11.5	$ 7.0	$ (21.4)	$ 4.5	$ 6.5	$ 3.9
Balance Sheet Data:								
Cash and investments	$ 171.9	$ 137.6	$ 139.9	$ 114.2	$ 124.6	$ 147.8	$ 168.8	$ 70.3
Total assets	752.6	588.0	633.1	534.5	428.2	394.2	355.6	190.5
Unpaid losses and loss adjustment expenses	199.1	132.4	157.4	106.0	81.5	65.0	72.3	60.4
Long-term debt	81.5	76.5	71.5	86.5	99.2	109.3	110.0	6.0
Total liabilities	626.7	482.2	530.3	446.0	349.0	295.1	256.4	154.0
Stockholders' equity	125.9	105.8	102.8	88.5	79.2	99.1	99.2	36.5
Operating Data:								
Gross premiums written	$ 472.9	$ 345.9	$ 481.8	$ 316.6	$ 230.6	$ 220.1	$ 82.3	$ 96.5
Net premiums written	195.5	172.7	236.3	133.3	142.2	216.3	77.6	74.5
Per Share Data:								
Earnings (loss) per share	.91	.68	.48	.30	(.90)	.18	.27	
Book value per share	5.28	4.44	4.32	3.72	3.34	4.11	4.11	
Ratios:								
Loss ratio[(c)]	58.4%	70.2%	68.9%	60.0%	76.3%	60.5%	54.3%	61.5%
Expense ratio[(d)]	22.3%	19.1%	21.1%	32.7%	35.6%	34.4%	32.3%	32.6%
Combined ratio[(e)]	80.7%	89.3%	90.0%	92.7%	111.9%	94.9%	86.6%	94.1%

(a) Outsourcing service fees represent fees earned under a contract with Reliance Insurance Company for servicing policies and claims on the run-off of their non-standard automobile insurance business. We entered into this contract in connection with our acquisition in April 2001 of Reliant, the non-standard automobile operations of Reliance Group Holdings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Reliant Acquisition." These outsourcing fees resulted from a one-time transaction and we do not expect to be earning such fees in the future.

(b) Litigation expense represents expense associated with the settlements of certain class action lawsuits. See "Business Legal Proceedings."

(c) Loss ratio is the ratio, expressed as a percentage, of (i) losses and loss adjustment expenses incurred, divided by (ii) the sum of (A) net premiums earned, (B) policy service fee revenues, (C) outsourcing servicing fees and (D) other income.

(d) Expense ratio is the ratio, expressed as a percentage, of (i) the sum of (A) commissions and other underwriting expenses and (B) other operating and general expenses divided by (ii) the sum of (A) net premiums earned, (B) policy service fee revenues, (C) outsourcing servicing fees and (D) other income.

(e) Combined ratio is the sum of the loss ratio and the expense ratio. This ratio is used by our management to evaluate our operating profitability.

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

The following is a discussion and analysis of our financial condition and results of operations. This discussion should be read in conjunction with "Selected Historical Financial and Operating Data" and our audited consolidated financial statements and related notes contained elsewhere in this prospectus.

Overview

We are a fast-growing provider of non-standard private passenger automobile insurance and related services. Non-standard automobile insurance provides coverage to drivers who find it difficult to purchase standard automobile insurance as a result of a number of factors, including their driving record, vehicle, age or claims history, or because they have limited financial resources. Typically, these drivers purchase minimal levels of insurance coverage in order to comply with state-mandated financial responsibility laws. Non-standard automobile insurance policies generally require higher premiums than standard or preferred automobile insurance policies for comparable coverage.

Our insurance subsidiaries offer insurance coverage exclusively through a network of approximately 4,300 independent agents and brokers, some of whom operate from multiple locations. We are licensed to provide insurance in 35 states and the District of Columbia, though we focus our resources in 17 states that we believe provide significant opportunity for profitable growth. Our non-insurance subsidiaries provide our policyholders a variety of services, including policy servicing and installment payment plans.

Our revenues are derived principally from the following:

- net premiums earned, which are the difference between the premiums we earn from sales of non-standard automobile insurance policies and the portion of those premiums that we cede to our reinsurers;
- net investment income we earn on our invested assets;
- policy service fee revenues, which are composed primarily of policy origination fees and installment fees charged by our non-insurance subsidiaries to our policyholders; and
- other income, which primarily represents commission income we earn through a general agency we own in Texas.

Our expenses consist predominately of the following:

losses and loss adjustment expenses, including estimates for losses and loss adjustment expenses incurred during the period and changes in estimates from prior periods, less the portion of those insurance losses and loss adjustment expenses that we ceded to our reinsurers;

commissions and other underwriting expenses, which consist of commissions we pay to agents and brokers, premium taxes and company expenses related to the production and underwriting of insurance policies, less ceding commissions that we receive under our reinsurance contracts;

other operating and general expenses, which include general and administrative expenses, depreciation and other expenses; and

interest expense under our bank credit facility.

Reliant Acquisition

In April 2001, we acquired Reliant, the non-standard automobile operations of Reliance Group Holdings, including two insurance companies, all employees, claims and processing systems, and the renewal rights to business written in 13 states. At closing, Reliant had approximately $6.1 million of loss and loss adjustment expense reserves and $17.0 million of unearned premium reserves, which were transferred to us as part of the acquisition. Through the acquisition of Reliant, we added five members to our senior management, as well as expanded the scope of our operations into 11 states in which we had not previously written business.

We received outsourcing servicing fee revenues for servicing policies and adjusting claims on the run-off of the Reliant business that we did not acquire. We performed most of these services from April 1, 2001 to November 2, 2001. Accordingly, we recorded outsourcing servicing fees of $18.6 million in 2001 and another $0.9 million in the fourth quarter of 2002. Due to the associated expenses we incurred related to the servicing of those policies, we believe this arrangement had little effect on our pre-tax income.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires us to make estimates and assumptions that affect amounts reported in our financial statements. As additional information becomes available, these estimates and assumptions are subject to change and thus impact amounts reported in the future. We have identified below three accounting policies that we consider to be critical due to the amount of judgment and uncertainty inherent in the application of these policies.

Estimation of Unpaid Losses and Loss Adjustment Expenses. Our actuarial staff reviews our insurance subsidiaries' loss and loss adjustment expense reserves. When estimating our liability for losses and loss adjustment expenses under the terms of our insurance policies, we rely heavily on our historical loss and loss adjustment expense experience. We periodically adjust our loss and loss adjustment expense reserves for changes in product mix, underwriting standards and rules, loss cost trends and other factors. Our loss and loss adjustment expense reserves may also be impacted by factors such as the rate of inflation, claims settlement patterns and legislative activities and litigation trends, which we incorporate into our analyses. As our experience develops or additional information becomes known, we increase or decrease our loss and loss adjustment expense reserve levels, as necessary. These changes to our loss and loss adjustment expense reserves are reflected in our results of operations in the period in which our estimates change. Ultimately, our actual losses and loss adjustment expenses may differ materially from the estimates we have recorded.

At each financial reporting date, we record our best estimate, which is a point estimate, of loss and loss adjustment expense reserves, gross and net of reinsurance. In selecting the best estimate, we utilize up to 15 different actuarial methodologies. Each of these methodologies is designed to forecast the number of claims we will be called upon to pay and the amounts we will pay on average to settle those claims. In arriving at our best estimate, our actuaries consider the likely predictive value of the various loss development methodologies employed in light of underwriting practices, premium rate changes and claim settlement practices that may have occurred, and weight the credibility of each methodology. Our actuarial methodologies take into account various factors, including, but not limited to, paid losses, liability estimates for reported losses, paid allocated loss adjustment expenses, salvage and other recoveries received, reported claim counts, open claim counts and counts for claims closed with and without payment of loss.

In establishing our best estimate of unpaid losses and loss adjustment expenses, we determine the number of claims that have been reported as of the financial reporting date and make an estimate of claims that have been incurred but not yet reported to us as of that date. Because our evaluations are based upon historical patterns, if the rate of claims reported to us or paid by us differs from our historical patterns, our evaluations may underestimate the number of claims that will ultimately be paid, and, therefore, the amount of unpaid losses and loss adjustment expenses recorded for the period.

In 2000, we reorganized our claims department into specialized teams, resulting in multiple individuals adjudicating claims that previously would have been handled by one claims adjuster. This change slowed our claims processes and caused us to open and settle claim files slower than in the past, causing us to underestimate our projected ultimate claim counts used in estimating our projected ultimate losses and loss adjustment expenses for 2000 and 2001. In addition, this slowdown in our claims processes generally had the effect of delaying the settlement of more expensive claims, which caused us to conclude that our average cost per closed claim was decreasing. These claims were eventually settled and the ultimate cost of paying claims increased compared to historical averages because, generally, the longer claimants wait to be paid, the higher their demand and the ultimate settlement cost.

In calendar years 2000, 2001 and 2002 and for the nine months ended September 30, 2003, we experienced adverse development on loss and loss adjustment expense reserves for years prior to each of those calendar years in the amount of $6.3 million, $17.3 million, $28.2 million and $8.0 million, respectively. The most significant factors influencing this development have been the adverse impact of the reorganization of our claims department in 2000 and the pricing and product design assumptions we utilized from 1998 through 2000. In addition, our 2002 loss and loss adjustment expense reserve increases related to 2000 were adversely impacted as a result of previously exhausting our excess of loss reinsurance coverage. Essentially, we were required to reflect 100% of our continuing 2000 adverse development in our 2002 income statement due to the exhaustion of that coverage.

From mid-1998 through 2000, we lowered premium rates and relaxed underwriting standards in California, our largest market, due to our overestimation of the profitability of our California business. We took these actions believing we could reduce our premium rates and maintain acceptable underwriting profits. This assumption proved incorrect, and as loss trends emerged, we increased our estimate of loss and loss adjustment expenses and began to tighten underwriting standards and file for premium rate increases beginning in January 2001. From January 1, 2001 through December 31, 2002, we increased our rates in California four times. In addition, we sold a poorly structured and priced product in Texas. Contrary to the product pricing assumptions, we experienced subsequent adverse loss and loss adjustment expense development as pricing assumptions ultimately proved to be wrong and the business was written at a loss. From January 1, 2001 through December 31, 2002, we increased rates in Texas 14 times. In both California and Texas, the successive rate increases were precipitated by continuing adverse development. As actual claim emergence became higher than expected, loss and loss adjustment expense reserve estimates were revised upward in 2001 and 2002.

Had we recognized the full 2002 impact of these and other adverse factors at December 31, 2001, we would have recorded $28.2 million of additional loss and loss adjustment expense reserves before taxes. This additional loss and loss adjustment expense would have resulted in 2001 net income decreasing by $17.5 million (assuming a 38% effective state and federal tax rate) and a loss for 2001 of approximately $10.5 million. Since we actually recorded these losses in 2002, our 2002 net income would have increased by $17.5 million to $29.0 million as a result of this change.

If our estimate of gross unpaid losses and loss adjustment expenses of $201.3 million at December 31, 2003 decreases or increases in 2004 by one percent, our net income or loss for 2004 would decrease or increase by $1.2 million after tax (assuming a state and federal effective tax rate of

38%). We determine the impact of such changes on our net income using gross rather than net unpaid losses and loss adjustment expenses since a change in ceded loss and loss adjustment expense reserves would be offset by an increase or decrease in ceded commission due from our reinsurers.

Since mid-2001, our new management team focused on restoring our claims practices, procedures and workflow to historical standards of quickly settling claims. These improvements continued into 2002, during which time we were continuing to revise our estimates of the impact on loss and loss adjustment expense reserves. In the fourth quarter of 2002, we recruited a new senior vice president of our claims department to continue that process. In addition, in the course of 2002 and 2003, we made numerous improvements to increase the sophistication of our analyses. These improvements included the following:

- performing all actuarial analyses of unpaid losses and loss adjustment expenses on a quarterly basis;
- reviewing loss and loss adjustment expense reserves gross of salvage and subrogation and separately developing estimates of these items to estimate reserves net of salvage and subrogation;
- increasing the number of analytical methods to include claim count analysis to develop more elaborate estimation methods; and
- utilizing an automated loss and loss adjustment expense reserving process, virtually eliminating manual spreadsheets.

Based on these actions, we believe that we have addressed the issues related to unfavorable development of our loss and loss adjustment expense reserves, and that the liabilities that we have recorded for losses and loss adjustment expenses are adequate to cover the ultimate net cost of losses and loss adjustment expenses incurred to date.

Accruals for Litigation. We continually evaluate potential liabilities and reserves for litigation using the criteria established by Statement of Financial Accounting Standards, or SFAS, No. 5, *"Accounting for Contingencies."* We believe the current assumptions and other considerations we use to estimate our potential liability for litigation are appropriate. While it is not possible to know with certainty the ultimate outcome of these claims or lawsuits, we believe our existing known litigation is adequately reserved and will not have a material effect on our future financial condition or results of operations.

Accounting and Reporting for Reinsurance. Pursuant to SFAS No. 113, *"Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*," we are required to review the contractual terms of all our reinsurance purchases to ensure compliance with that statement. The statement establishes the conditions required for a contract with a reinsurer to be accounted for as reinsurance and prescribes accounting and reporting standards for those contracts. The accounting standards depend on whether the contract is long duration or short duration and, if short duration, on whether the contract is prospective or retroactive. For all reinsurance transactions, immediate recognition of gains is precluded unless our liability to our policyholders is extinguished. Contracts that do not result in the reasonable possibility that the reinsurer may realize a significant loss from the insurance risk assumed generally do not meet the conditions for reinsurance accounting and must be accounted for as deposits.

SFAS No. 113 also requires us to disclose the nature, purpose and effect of reinsurance transactions, including the premium amounts associated with reinsurance assumed and ceded. It also requires disclosure of concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums.

We believe we have properly accounted for all of our reinsurance contracts.

Results of Operations

Nine Months Ended September 30, 2003 compared to Nine Months Ended September 30, 2002

Revenues

Gross Premiums Written. Gross premiums written for the nine months ended September 30, 2003 were $472.9 million, compared to $345.9 million for the same period in 2002, which represents an increase of 36.7%. The increase was attributable to an increase in policies-in-force of 58,002 from 377,308 to 435,310, or 15.4 points of the total increase, with the balance attributable to an increase in the average premium charged per policy. We believe that the automobile insurance market fundamentals improved, which we attribute to some competitors retrenching or exiting the 17 states in which we operate, while other competitors, seeking to improve their financial results, increased premium rates. At the same time, losses suffered by reinsurers due to the poor financial results of certain insurance carriers in non-standard automobile insurance, as well as in other lines of insurance, led to diminished reinsurance capacity for non-standard automobile risks. This reduction of reinsurance capacity has forced additional pricing discipline as insurance carriers were required to retain more risk. In addition to these marketplace changes, we increased our marketing efforts by hiring additional marketing and product management staff in 2003, including three product managers, two senior marketing managers and a senior vice president of product research and development.

Net Premiums Written. Net premiums written for the nine months ended September 30, 2003 were $195.5 million, compared to $172.7 million for the same period in 2002, a 13.2% increase. The disparity between the growth in gross premiums written of 36.7% and the growth in net premiums written was attributable to an increase in the percentage of our gross premiums ceded under our quota share reinsurance agreements from 49.5% in 2002 to 60% in 2003.

Net Premiums Earned. Net premiums earned for the nine months ended September 30, 2003 were $210.1 million, compared to $175.5 million for the same period in 2002, an increase of 19.7%. The increase in net premiums earned was attributable to the increase in net premiums written noted above, as well as the impact of increased net premiums written in the latter half of 2002 that were earned in 2003.

Net Investment Income. Net investment income, excluding realized gains and losses, for the nine months ended September 30, 2003 was $5.1 million, as compared to $4.7 million for the same period in 2002. The increase was the result of a higher level of invested assets, offset by a decline in the weighted average pre-tax equivalent yield earned on our fixed income portfolio. The pre-tax equivalent yield on the holdings in our portfolio was 4.61% at September 30, 2003, compared to 5.55% at September 30, 2002.

Policy Service Fee Revenues. Policy service fee revenues were $52.4 million for the nine months ended September 30, 2003, compared to $32.3 million for the same period in 2002, an increase of 62.2%. The increase in policy service fee revenues was attributable to growth in policies-in-force, as fees are charged on a per policy basis, as well as increased fees being charged on our products in the first nine months of 2003 versus the first nine months of 2002.

Costs and Expenses

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses increased to $154.1 million from $146.9 million, a 4.9% increase, for the nine months ended September 30, 2003,

compared to the same period in 2002, primarily due to the increase in net premiums earned. Our loss ratio for the nine months ended September 30, 2003 was 58.4%, compared to 70.2% for the same period in 2002. The decrease in the loss ratio was primarily the result of lower adverse development of $8.0 million in the loss and loss adjustment expense reserves for prior years in the nine months ended September 30, 2003, compared to $24.9 million for the same period in 2002. Increased policy service fee revenues in 2003 also contributed to a decrease in the loss ratio.

Commissions and Other Underwriting Expenses. Commissions and other underwriting expenses increased to $39.9 million from $25.3 million for the nine months ended September 30, 2003, compared to the same period in 2002, an increase of 57.7%. The increase was caused by the 36.7% increase in gross premiums written and gross premiums earned causing an increase in amounts paid to agents and brokers and premium taxes. In addition, ceding commissions received for the nine months ended September 30, 2003 decreased as a percentage of ceded earned premiums, as compared to the same period in 2002 which contributed to the increase in commissions and other underwriting expenses.

Other Operating and General Expenses. Other operating and general expenses were $18.8 million for the nine months ended September 30, 2003, compared to $14.7 million for the same period in 2002, an increase of 27.9%. This increase was the result of an increase in our general and administrative expenses related to the increase in the employee base necessary to support the 36.7% increase in gross premiums written.

Ratios. Our combined ratio for the nine months ended September 30, 2003 was 80.7%, compared to 89.3% for the first nine months of 2002. Our loss ratio for the nine months ended September 30, 2003 decreased to 58.4% from 70.2% for the same period in 2002, as explained above. For the nine months ended September 30, 2003, our expense ratio increased to 22.3%, compared to 19.1% for the same period in 2002, primarily as a result of the reduction in ceding commission income relative to earned premiums, as explained above.

Litigation Expense. Our total pre-tax charge for litigation expense aggregated $17.2 million for the nine months ended September 30, 2003.

For the nine months ended September 30, 2003, our consolidated statement of operations included a charge in the amount of $14.4 million on a pre-tax basis related to two coordinated class actions that alleged, among other things, improper cancellations of our insurance policies and a pending related action. This amount reflected our estimate of the ultimate costs with respect to these actions, which includes the expected class member payments, defense costs and other expenses associated with these lawsuits and the change in the law related to cancellations. See "Business Legal Proceedings."

For the nine months ended September 30, 2003, our consolidated statement of operations included a charge in the amount of $2.8 million on a pre-tax basis, which increased the overall charge to $17.1 million for a class action, which alleged, among other things, improper classification of our claims adjusters. $14.3 million of the overall charge related to this class action was recorded in 2002. The $2.8 million increase in our estimate was due to new facts that emerged as we processed claims forms that were submitted as required by our settlement agreement. The total amount reflected our estimate of the ultimate costs associated with this action, which include expected class member payments, plaintiff attorney fees and other related expenses. As of December 8, 2003, all claimants have settled.

Interest Expense. Interest expense is comprised of interest paid on outstanding borrowings made under a bank credit agreement that we entered into on July 10, 1998. The credit agreement is a floating rate borrowing facility and the interest rate we pay increases or decreases with the changes in interest rates, specifically the London Inter-Bank Offered Rate, or LIBOR. Interest expense for the period ended September 30, 2003 was $2.5 million, compared to $3.4 million for the same period in

2002. The decrease is the result of a decrease in average outstanding borrowings from $83.2 million to $73.7 million, in addition to a decrease in the applicable interest rate.

Income Taxes. Income taxes for the nine months ended September 30, 2003 were $13.9 million, or an effective tax rate of 37.9% when measured as a percentage of income before income taxes, as compared to $7.6 million, or an effective tax rate of 31.9%, for the same period in 2002. The difference between the effective tax rates is primarily due to higher state taxes from higher state taxable income primarily in our California non-insurance subsidiary, as well as varying levels of tax exempt interest income.

Twelve Months Ended December 31, 2002 compared to Twelve Months Ended December 31, 2001

Revenues

Gross Premiums Written. Gross premiums written for the year ended December 31, 2002 were $481.8 million, compared to $316.6 million for the year ended December 31, 2001, which represents an increase of 52.2%. The increase was primarily attributable to an increase in policies-in-force of 84,194 from 297,659 to 381,853, representing 28.3 points of the total increase, with the balance attributable to an increase in the average premium charged per policy. The remaining portion of the increase was attributable to recording a full twelve months of Reliant written premiums in 2002 compared to only nine months in 2001. We believe that there were improved automobile insurance market fundamentals in 2002 compared to 2001, which we attribute to competitors retrenching or exiting the 15 states in which we operated, while other competitors, seeking to improve their financial results, increased premium rates. At the same time, due to poor financial results suffered by certain insurance carriers in the non-standard automobile insurance industry, as well as in other lines of insurance, there was diminished reinsurance capacity for non-standard automobile risks. This reduction of reinsurance capacity forced additional pricing discipline. In addition to these marketplace changes, we increased our marketing efforts by hiring two additional product managers and two additional territory marketing managers.

Net Premiums Written. Net premiums written for the year ended December 31, 2002 were $236.3 million, compared to $133.3 million for the year ended December 31, 2001, a 77.3% increase. The increase was principally attributable to the growth in gross premiums written and our retention of a higher percentage of our gross premiums written.

Net Premiums Earned. Net premiums earned for the year ended December 31, 2002 were $241.0 million, compared to $158.6 million for the year ended December 31, 2001, an increase of 52.0%. The increase in net premiums earned was primarily attributable to the growth in gross premiums written noted above.

Net Investment Income. Net investment income, excluding realized gains and losses, for the years ending December 31, 2002 and 2001, was $6.4 million. The higher level of average invested assets was offset by a decline in the weighted average pre-tax equivalent yield earned on our fixed income portfolio. The pre-tax equivalent yield on our portfolio was 5.45% at December 31, 2002, compared to 6.05% at December 31, 2001.

Policy Service Fee Revenues. Policy service fee revenues were $47.3 million for the year ended December 31, 2002, compared to $36.1 million for the year ended December 31, 2001, an increase of 31.0%. The increase in policy service fee revenues was attributable to growth in policies-in-force, as fees are charged on a per policy basis.

Costs and Expenses

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses increased to $200.5 million from $128.9 million, a 55.5% increase, for the year ended December 31, 2002, compared to the year ended December 31, 2001. Our loss ratio for the year ended December 31, 2002 was 68.9%, compared to 60.0% for the year ended December 31, 2001. The 2002 loss ratio included loss and loss adjustment expense reserve additions for prior accident years of $28.2 million, or 9.7 points, as compared to $17.3 million, or 8.1 points, for 2001. The 2001 loss ratio included 5.6 points of benefit from the outsourcing servicing fees relating to the run-off of the Reliant business. During 2002, we made significant improvements to our loss and loss adjustment expense reserve estimation process. These improvements included moving from an accident year analysis to an accident quarter analysis for all business. The accident quarter methodology provides us the ability to identify trends in the data faster and revise loss reserve estimates accordingly. In addition, we completed the conversion of all claims handling to CUDA, a powerful real-time, in-house claims system acquired with Reliant, which has positively impacted our claim reserving and settlement processes.

Commissions and Other Underwriting Expenses. Commissions and other underwriting expenses decreased to $42.1 million from $50.3 million, a 16.3% decrease, for the year ended December 31, 2002 compared to the year ended December 31, 2001. The decrease related to an increase in ceding commissions earned under our quota share reinsurance agreements due to an increase in ceded premiums. In addition, the expenses related to outsourcing service fees earned from managing the
run-off of the Reliant business during 2001 decreased as a result of terminating the contract, with the exception of the Texas business.

Other Operating and General Expenses. Other operating and general expenses were $19.3 million for the year ended December 31, 2002, compared to $19.9 million for the year ended December 31, 2001. These expenses are primarily fixed, such as rent and utilities, and do not vary with premium volumes. The minor decrease is attributable to our successfully integrating the Reliant business and offsetting the increased cost of additions to our staff by eliminating redundant positions.

Ratios. Our combined ratio for the year ended December 31, 2002 was 90.0%, compared to 92.7% for the year ended December 31, 2001. As explained above, our loss ratio for the year ended December 31, 2002 increased to 68.9% from 60.0% for the year ended December 31, 2001. For the year ended December 31, 2002, our expense ratio decreased to 21.1%, compared to 32.7% for the year ended December 31, 2001, primarily due to an increase in ceding commission income and the non-recurrence of expenses incurred in 2001 related to managing the run-off of the Reliant business.

Litigation Expense. At December 31, 2002, our consolidated statement of operations reflected a charge in the amount of $14.3 million on a pre-tax basis related to a class action that alleged improper classification of our claims adjusters. This amount reflected our estimate of the ultimate costs associated with this action at that time, which included expected class member payments, plaintiff attorney fees and other related expenses. No charges related to litigation outside of the normal course of business were recorded for the year ended December 31, 2001.

Interest Expense. Interest expense for the year ended December 31, 2002 was $4.6 million, compared to $9.0 million for the year ended December 31, 2001. The decrease was the result of a decrease in average outstanding borrowings from $98.1 million to $81.1 million for the year ended December 31, 2002 compared to year ended December 31, 2001, in addition to a decrease in the applicable interest rate.

Goodwill Amortization. Goodwill amortization expense was zero in 2002, as a result of adopting SFAS No. 142, whereas goodwill was amortized prior to 2002 and was $2.7 million in 2001.

Income Taxes. Income taxes for the year ended December 31, 2002 were $5.3 million, an effective tax rate of 31.5% when measured as a percentage of income before income taxes, as compared to $3.8 million, or an effective tax rate of 35.2% for the same period in 2001. Our effective tax rate decreased in 2002 primarily as a result of a lower state tax paid due to of the $14.3 million charge related to the aforementioned class action lawsuit.

Twelve Months Ended December 31, 2001 compared to Twelve Months Ended December 31, 2000

Revenues

Gross Premiums Written. Gross premiums written for the year ended December 31, 2001 were $316.6 million, compared to $230.6 million for the same period in 2000, which represents an increase of 37.3%. The Reliant acquisition, which closed in April 2001, accounted for $59.2 million of the increase. The remainder of the increase was due to growth in the average premium per policy on the rest of our business, offset by a decrease in policies-in-force exclusive of the Reliant acquisition, from 245,979 policies-in-force at December 31, 2000 to 218,896 at December 31, 2001. The decrease in policies-in-force resulted from an increase in the average premium rate charged and tightening of underwriting standards during 2001.

Net Premiums Written. Net premiums written for the year ended December 31, 2001 were $133.3 million, compared to $142.2 million for the year ended December 31, 2000, a 6.4% decrease. The decrease was attributable to an increase in ceded premiums, which more than offset the growth in gross premiums written noted above.

Net Premiums Earned. Net premiums earned for the year ended December 31, 2001 were $158.6 million, compared to $185.7 million for the year ended December 31, 2000, a decrease of 14.6%. The decrease in net premiums earned was attributable to the quota share reinsurance agreements that we entered into, the first of which was effective January 1, 2000, whereby 25% of the premium related to all policies incepted during 2000 and 50% of the premium related to all policies incepted in 2001 were ceded to reinsurers. This treaty covered written premiums in the states where we were doing business prior to the acquisition. The second contract was effective April 1, 2001, whereby 80% of the business written by Reliant was ceded to two reinsurers.

Net Investment Income. Net investment income, excluding realized gains and losses, for the year ended December 31, 2001, was $6.4 million compared to $7.9 million for the year ended December 31, 2000. The decrease was the result of a higher level of invested assets, offset by a decline in the weighted average pre-tax equivalent yield earned on our fixed income portfolio. The pre-tax equivalent yield on the holdings in our portfolio was 6.05% at December 31, 2001, compared to 6.34% at December 31, 2000.

Policy Service Fee Revenues. Policy service fee revenues were $36.1 million for the year ended December 31, 2001, compared to $32.8 million for the year ended December 31, 2001, an increase of 10.1%. The increase in policy service fee revenues was attributable to growth in policies-in-force, as fees are charged on a per-policy basis.

Costs and Expenses

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses decreased to $128.9 million from $167.2 million, a 22.9% decrease, for the year ended December 31, 2001, compared to the year ended December 31, 2000. Our loss ratio for the year ended December 31, 2001 was 60.0%, and includes additions for prior years of $17.3 million, or 8.1 points, compared to 76.3% for the year ended December 31, 2000. The 2001 loss ratio included 5.6 points of benefit from the outsourcing

servicing fees relating to the run-off of the Reliant business. The majority of the balance of improvement in the 2001 loss ratio related to our estimate of the benefits we expected from policy rate increases and underwriting improvements we made in our business. Based on the loss and loss adjustment expense reserve development we experienced in 2002, the actual benefits we received from these improvements were less than expected.

Commissions and Other Underwriting Expenses. Commissions and other underwriting expenses decreased to $50.3 million from $64.3 million for the year ended December 31, 2001 compared to the year ended December 31, 2000, a 27.8% decrease. The decrease was caused by an increase in ceding commission income earned under our quota share reinsurance agreements for the year ended December 31, 2001, as compared to the prior year. Our ceding commission income increased because we increased the percentage of our premiums ceded to our reinsurers.

Other Operating and General Expenses. Other operating and general expenses were $19.9 million for the year ended December 31, 2001 compared to $13.8 million for the year ended December 31, 2000 an increase of 30.7%. The increase in other operating and general expenses was primarily the result of recording nine months of operating expenses associated with the Reliant acquisition in 2001.

Ratios. Our combined ratio for the year ended December 31, 2001 was 92.7%, compared to 111.9% for the year ended December 31, 2000. Our loss ratio for the year ended December 31, 2001 decreased to 60.0% from 76.3% for the year ended December 31, 2000, as explained above. For the year ended December 31, 2001, our expense ratio decreased to 32.7% from 35.6% for the year ended December 31, 2000. The decrease was due to an increase in ceding commission income relative to our net premiums earned and an increase in policy service fee revenues relative to our expenses.

Interest Expense. Interest expense for the year ended December 31, 2001 was $9.0 million, compared to $10.7 million for the year ended December 31, 2000, a decrease of 15.9%. The decrease was the result of a decrease in average outstanding borrowings to $98.1 million from $108.1 million for the year ended December 31, 2001, compared to the same period in 2000, in addition to a decrease in the applicable interest rate.

Income Taxes. Income taxes for the year ended December 31, 2001 were $3.8 million, or an effective tax rate of 35.2% when measured as a percentage of income before income taxes as compared to a tax benefit of $10.7 million, or an effective tax benefit of 33.3% for the year ended December 31, 2000 as a result of our net operating losses.

Liquidity and Capital Resources

We are organized as a holding company with all of our operations being conducted by our insurance subsidiaries, which underwrite the risks associated with our insurance policies, and our non-insurance subsidiaries, which provide our policyholders and our insurance subsidiaries a variety of services related to the insurance policies we provide. We have continuing cash needs for the payment of principal and interest on borrowings, dividends, taxes and administrative expenses. These ongoing obligations are funded with dividends from our non-insurance subsidiaries and taxes are paid by each subsidiary through an inter-company tax allocation agreement.

There are no restrictions on the payment of dividends by our non-insurance subsidiaries other than customary state corporation laws regarding solvency. Dividends from our insurance subsidiaries are subject to restrictions relating to statutory surplus and earnings. See "Regulatory Matters." As of September 30, 2003, our insurance subsidiaries could not pay dividends without seeking regulatory approval. Our insurance subsidiaries have not paid any dividends since 1999, which has not impacted our ability to meet our obligations. In addition, we do not anticipate that our insurance subsidiaries will

pay dividends in the foreseeable future because we wish to reduce our reinsurance purchases in order to retain more of the gross premiums written we generate and seek stronger financial strength ratings for our insurance subsidiaries, both of which require that the capital of our insurance subsidiaries be increased. Because our non-insurance subsidiaries generate revenues, profits and net cash flows that are generally unrestricted as to their availability for the payment of dividends, we expect to use those revenues to service all of our corporate financial obligations, such as debt service and stockholder dividends, if declared.

Our insurance subsidiaries' primary sources of funds are premiums received, investment income and proceeds from the sale and redemption of investment securities. Our non-insurance subsidiaries' primary source of funds are policy service fee revenues. Our subsidiaries use funds to pay claims and operating expenses, make payments under the tax allocation agreement, purchase investments and pay dividends to us.

Net cash provided by (used in) operating activities was $42.9 million, $(1.3) million and $(12.5) million for the years ended December 31, 2002, 2001 and 2000, respectively, and $28.8 million and $32.4 million for the first nine months of 2003 and 2002, respectively. The increase in cash flow generated from operations from 2001 to 2002 resulted from the improvement in the underlying business. Cash flow from operations for the first nine months of 2003, as compared to the first nine months of 2002, decreased slightly as the result of an increase in ceded reinsurance expense in 2003 and litigation expenses paid to resolve certain class action lawsuits.

Net cash provided by (used in) investment activities amounted to $(30.7) million, $11.4 million and $27.5 million for the years ended December 31, 2002, 2001 and 2000, respectively, and $(22.9) million and $(28.1) million for the nine months ended September 30, 2003 and 2002, respectively, and was used principally to purchase fixed income securities. The increase in cash used in investment activities from 2000 to 2002 resulted from the improved cash flow from operations as noted above. The decrease in cash used in investment activities during the first nine months of 2003, as compared to the first nine months of 2002, is the result of the decrease in the cash flow from operations noted above.

Net cash provided by (used in) financing activities, principally debt repayments, was $(15.1) million, $(12.2) million and $(11.9) million for the years ended December 31, 2002, 2001 and 2000, respectively, and $10.0 million and $(10.1) million for the nine months ended September 30, 2003 and 2002, respectively.

We paid no federal income taxes during the years ended December 31, 2002, 2001 and 2000 as a result of a $30.1 million loss reported on our federal consolidated income tax return for the year ended December 31, 2000. The loss reported in 2000, as allowed under the Internal Revenue Code, was carried forward, applied against and completely offset our consolidated taxable income reported for the years 2001 and 2002, resulting in no federal income taxes being due for those years.

We entered into a credit facility on July 10, 1998. The credit agreement consists of three term loans, a revolving credit line and borrowings on same-day notice ("swing line") loans. The interest rate we pay fluctuates in accordance with changes in LIBOR. The revolving credit line is limited to $55.0 million and the swing line is limited to $10.0 million. We had no borrowings on the swing line or the revolving credit line during the years ended December 31, 2002, 2001 and 2000. We borrowed

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$10.0 million on the revolving credit line on August 12, 2003. The maximum spread over LIBOR is 2.75%. The following is a schedule of the maturities of these loans at December 31, 2002:

Maturity	Year Ending December 31, 2002
	(in millions)
2003	$
2004	
2005	6.4
2006	32.9
2007	32.2
Total	$ 71.5

We believe that existing cash and investment balances, as well as new cash flows generated from operations are adequate to meet our future liquidity needs.

Contractual Obligations and Commitments

The following table identifies our contractual obligations by payment due period as of December 31, 2002.

	2003	2004	2005	2006	2007	2008 or Later	Total
				(in millions)			
Long Term Debt Obligations	$	$	$ 6.4	$ 32.9	$ 32.2	$	$ 71.5
Operating Leases	6.2	5.3	2.6	2.0	1.5	7.5	25.1
Total Contractual Obligations	6.2	5.3	9.0	34.9	33.7	7.5	96.6

Quantitative and Qualitative Disclosures about Market Risk

We believe that we are principally exposed to two types of market risk: interest rate risk and credit risk.

Interest Rate Risk

Investments. Our investment portfolio consists primarily of debt securities, all of which are classified as available for sale. Accordingly, the primary market risk exposure to our debt securities portfolio is interest rate risk, which we strive to limit by managing duration to a defined range of three to four years and laddering or utilizing an even distribution in the maturities of the securities we purchase to achieve our duration target. Interest rate risk includes the risk from movements in the underlying market rate and in the credit spread of the respective sectors of the debt securities held in our portfolio. The fair value of our fixed maturity portfolio is directly impacted by changes in market interest rates. As interest rates rise, the market value of our fixed-income portfolio falls, and the converse is also true. We expect to manage interest rate risk by selecting investments with characteristics such as duration, yield and liquidity tailored to the anticipated cash outflow characteristics of our liabilities. The effective duration of the portfolio as of September 30, 2003 was 3.59 years. Should market interest rates increase 1.0%, our fixed income portfolio would be expected to decline in market value by $6.1 million, or 3.6%. Conversely, a 1.0% decline in interest rates would result in a $5.7 million, or 3.3%, appreciation in the market value of our fixed income portfolio. These

market value changes are a result of the effective duration of the portfolio, as well as the slightly negative convexity of the portfolio.

Credit Facility. Our exposure to market risk for changes in interest rates also relates to the interest expense of variable rate debt under a bank credit agreement that we entered into on July 10, 1998. The credit agreement is a floating rate borrowing facility and the interest rate we pay increases or decreases with the changes in interest rates, specifically LIBOR. Based on our borrowings under the floating rate credit agreement at September 30, 2003, a 10% change in market interest rates would increase our annual net interest expense by approximately $124,000.

Credit Risk

Investments. An additional exposure to our debt securities portfolio is credit risk. We attempt to manage our credit risk through issuer and industry diversification. We regularly monitor our overall investment results and review compliance with our investment objectives and guidelines. Our investment guidelines include limitations on the minimum rating of debt securities in our investment portfolio, as well as restrictions on investments in debt securities of a single issuer. With the exception of two immaterial preferred stock positions which were sold for a small gain in October 2003, all of the debt securities in our portfolio were rated investment grade by the National Association of Insurance Commissioners, or the NAIC, and Standard & Poor's as of September 30, 2003.

Reinsurance. We are subject to credit risks with respect to our reinsurers. Although our reinsurers are liable to us to the extent we cede risk to them, we are ultimately liable to our policyholders on all risks we have reinsured. As a result, reinsurance agreements do not limit our ultimate obligations to pay claims to policyholders and we may not recover claims made to our reinsurers. Our reinsurers are rated from "A-" to "A++" by A.M. Best.

Effects of Inflation

We do not believe that inflation has had a material effect on our results of operations, except insofar as inflation may affect interest rates and claim costs. The effects of inflation are also considered in pricing and in estimating reserves for unpaid claims and claim expenses. The actual effects of inflation on our results cannot be accurately known until claims are ultimately settled. In addition to general price inflation, we are exposed to a persisting long-term upwards trend in the cost of judicial awards for damages. We make every effort to take this into account in our pricing and establishing loss and loss adjustment expense reserves.

BUSINESS

Overview

We are a fast-growing provider of non-standard private passenger automobile insurance and related services. Non-standard automobile insurance provides coverage to drivers who find it difficult to purchase standard automobile insurance as a result of a number of factors, including their driving record, vehicle, age or claims history, or because they have limited financial resources. Typically, these drivers purchase minimal levels of insurance coverage in order to comply with state-mandated financial responsibility laws. Non-standard automobile insurance policies generally require higher premiums than standard or preferred automobile insurance policies for comparable coverage.

Our insurance subsidiaries offer insurance coverage exclusively through a network of approximately 4,300 independent agents and brokers, some of whom operate from multiple locations. We are licensed to provide insurance in 35 states and the District of Columbia, though we focus our resources in 17 states that we believe provide significant opportunity for profitable growth. Our markets include California, Florida and Texas, the three largest non-standard automobile insurance markets in the United States. Together, these three states accounted for 76.9% of our gross premiums written for the nine months ended September 30, 2003. Within the next 12 months, we intend to expand into five additional states. We believe this expansion will provide us with further profitable growth opportunities.

Our non-insurance subsidiaries provide our policyholders a variety of services, including policy servicing and installment payment plans. For these services, we receive separate non-insurance fees, which provide additional revenues of approximately 10% of the premiums we collect.

Our Competitive Strengths

We believe that the following competitive strengths will enable us to take advantage of market opportunities in the non-standard automobile insurance industry:

Focus on Non-Standard Automobile Insurance. We provide only non-standard automobile insurance and related services. We believe this focus allows us to adopt strategies, pursue objectives and develop products with features that better address the demands of non-standard customers. Our singular market focus differentiates us from many of our competitors and has helped us to become one of the fastest growing providers of non-standard automobile insurance in the United States.

Sophisticated Information Systems. We believe our highly sophisticated information systems give us the ability to identify and capitalize on profitable opportunities in our markets and enhance our relationships with our policyholders and producers. We have developed a proprietary data warehouse that allows us to analyze over one billion data points on a real-time basis. This comprehensive analysis permits us to better identify profitable segments and to respond or act quickly with changes in our pricing, product structures and underwriting guidelines, when appropriate. We have also developed a claims administration system that provides our staff with complete, real-time claims handling capabilities at each desktop in all of our claims offices. This allows us to investigate and resolve claims promptly, which reduces our overall claims costs. Our internal timing goals for contacting claimants, inspecting damaged vehicles and resolving valid claims are significantly quicker than regulatory requirements. Finally, we are in the process of implementing OneStep, a new online point-of-sale application system, which we believe will reduce policy servicing costs and improve policyholder and producer satisfaction. We believe our systems are unique for a company of our size and are scalable to support our continued growth. We expect to continue to make strategic investments in our information systems.

Risk Taking and Service Based Revenues. We operate through insurance subsidiaries, which underwrite the risks associated with our insurance policies, and non-insurance subsidiaries, which

provide services to our policyholders. Our insurance subsidiaries earn risk-bearing policy premiums. Our non-insurance subsidiaries earn policy service fee revenues, including policy origination fees, which are paid at inception of the policy, and installment fees, which are paid over the course of the policy term. In the aggregate, these fees received from policyholders provide additional revenues of approximately 10% of the premiums we collect. Our policy service fee revenues have grown from $25.8 million in 1999 to $52.4 million for the nine months ended September 30, 2003. The ability of our insurance subsidiaries to pay dividends is limited by insurance laws and regulations. However, the earnings of our non-insurance subsidiaries are generally unrestricted as to their availability for the payment of dividends. As a result, our non-insurance subsidiaries' earnings are more readily available to us for the payment of stockholder dividends, as well as debt service and other holding company expenditures.

Attractive Product Structures. We have developed systems that allow us to offer our policyholders a selection of policy terms and payment plan options. We believe these plans provide flexibility to fit our policyholders' budgets and make payments for automobile insurance more manageable. Our strong controls within our billing and collections systems enable us to offer these attractive plans without sustaining significant credit losses. Our billing and collections systems are designed to ensure that we are not exposed to risks for which we have not collected a premium. As a result of our attractive policy pricing and structures, our products appeal to both non-standard customers and drivers whose driving records would qualify them for standard insurance. As of September 30, 2003, over 70% of our policyholders had no at-fault accidents on their driving records or moving violations that are chargeable under applicable state law. In addition, we offer minimum state-mandated limits of insurance coverage and, as of September 30, 2003, 90% of our policyholders elected to purchase minimum limits of bodily injury coverage, which limits our exposure to loss.

Strong Relationships with Agents and Brokers. We have created a network of highly incentivized, loyal and productive agents and brokers. We devote a considerable amount of time and resources to developing and maintaining our relationships with these producers, and we are dedicated to providing them with high-quality service and a stable presence in their markets. Our goal is to be one of the top three non-standard automobile insurance carriers based on premiums with each agent and broker with whom we do business. We believe that agents and brokers are attracted to Bristol West because of our market-focused products, competitive compensation programs, stable presence and user-friendly, sophisticated underwriting and processing systems. In addition, we offer easy-to-use proprietary software to agents and brokers that provides timely and centralized information about their customers, enhancing their ability to retain existing policyholders and providing them with more time to generate new business. In order to assess and enhance producer satisfaction, we survey our producers annually to obtain their views on our products and services. In the past, we have consistently received a very favorable overall review of our products and services. We are also continuously improving existing systems and developing new tools for our agents and brokers. This includes our newly developed OneStep application system, which we believe will increase premiums written and improve productivity and policyholder retention. In addition, we have maintained long-term relationships, averaging over 8.5 years, with our top ten producers, as measured by premium volume for the year ended December 31, 2003.

Disciplined Claims Handling Practices. We quickly investigate and fairly resolve all valid claims, and we vigorously defend frivolous and fraudulent claims. Our claims department includes approximately 480 claims adjusters and managers. We maintain effective internal controls on our claims settlement processes, and we continuously monitor the timeliness of our response to and resolution of each reported claim. By quickly and fairly settling claims, we improve customer satisfaction while lowering our costs, such as vehicle storage and rental charges. In addition, we

employ 20 in-house attorneys to defend against frivolous claims. To reduce our losses related to fraud, we maintain a special investigation unit that investigates suspicious or complex cases.

Management Experience and Incentive to Maximize Stockholder Value. Our strong premium growth and improved profitability in 2003 are due largely to operational improvements implemented by our new senior management team, which joined us beginning in September 2000. Members of our senior management team have an average of 18 years experience in the property and casualty insurance industry. In addition, our management employees own stock in our company and receive a significant portion of their incentive compensation in the form of stock options. Our chief executive officer, James R. Fisher, has notified the underwriters that he intends to purchase up to 50,000 shares in this offering.

Our Strategies

We intend to continue our profitable growth by focusing on the following strategies:

Maintain Disciplined Pricing and Product Design. We are committed to establishing policy rates that properly charge for the risk and exposure we are underwriting. We evaluate risk and exposure by a number of variables, including, but not limited to, vehicle type, driver age, driving record, type of coverage, miles driven and policy limits. Using our proprietary actuarial pricing technology that analyzes both our own and industry trends, we continuously evaluate and modify our policy rates in order to maintain an acceptable level of underwriting profitability on each risk we insure. Accordingly, we price our products to maintain our margins and structure payment plans to meet our policyholders' needs while limiting our credit risk.

Implement New Online Point-of-Sale Application System. We are implementing OneStep, a new online point-of-sale application system. We have an exclusive license to use this software in the non-standard automobile insurance industry through September 2008. We believe OneStep will create a competitive advantage for us by reducing policy servicing costs, improving customer satisfaction and reducing cancellations associated with "uprates." An uprate occurs when, after a customer's application is processed, the initially quoted rate increases due to the discovery of new facts not disclosed on the application, such as an accident or traffic violation. With the applicant's consent, OneStep accesses the applicant's driving records and other verifiable underwriting data in order to instantly generate a firm price. It then produces all required documents, such as the policy, identification cards and policy declaration page, to complete the sale within minutes. We have rolled out OneStep in South Carolina. We expect to deploy OneStep in California, our largest market, in the first six months of 2004, and in other states thereafter.

Develop and Maintain Strong Policyholder and Producer Relationships. We believe each sale entails two customers, the policyholder and the producer, and we strive to maintain positive relationships with both of them. In addition to providing attractively structured and priced products, we strive to provide superior policy and claims service. To achieve this goal, we closely monitor service levels, such as response times in our call centers and processing times for both claims and policy administration. Our outstanding service is exemplified by the recent performance of our claims department. For the three months ended September 30, 2003, our staff responded to 81% of claims within 24 hours of notification and inspected 66% of damaged vehicles within 72 hours of notification. In addition, our producer management process enables us to focus our resources on servicing our more motivated and productive agents and brokers. Our marketing department regularly visits and works closely with our agents and brokers in order to keep them up to date on our products and to gather data about industry trends.

Closely Monitor Distribution. Our producer management process involves weekly, monthly and quarterly data analysis, which we use to monitor various aspects of a producer's business

conduct, including adherence to our underwriting policies and procedures and the profitability of the producer's business with us. We evaluate each producer on numerous key factors, including the following:

- loss experience on their business with us;
- adherence to our underwriting guidelines;
- frequency of uprates;
- compliance with our application processing guidelines; and
- premium volume.

We may suspend or terminate our relationship with producers who fail to meet our standards or we may agree on a mutually acceptable action plan, which, if met, will allow the producer to continue to sell our products.

Selectively Expand our Geographic Presence. Through our sophisticated modeling and analysis, we assess potential new markets in which to expand our operations, focusing on market size and the competitive, legal and regulatory environments. Based on the results of our analysis, we have identified five additional states that we believe will provide further profitable growth opportunities, and we intend to expand into those states in 2004.

Maintain an Efficient and Effective Operating Structure. We are continually engaged in various efforts to improve our profitability by focusing on key operational initiatives, including:

- continuously analyzing customer and market profitability and adjusting our policy rates and terms to maximize profitability; and
- focusing on systems consolidation and automation designed to eliminate redundancies and achieve greater operational efficiencies, which drive down the total cost of service.

The Non-Standard Automobile Insurance Industry

Non-standard automobile insurance provides coverage to drivers who find it difficult to purchase standard automobile insurance as a result of a number of factors, including their driving record, vehicle, age or claims history, or because they have limited financial resources. Typically, these drivers purchase minimal levels of insurance coverage in order to comply with state-mandated financial responsibility laws. Non-standard automobile insurance policies generally require higher premiums than standard or preferred automobile insurance policies for comparable coverage. While there is no established industry-recognized demarcation between non-standard policies and all other personal passenger automobile insurance policies, we believe that non-standard auto risks generally constitute between 20% and 25% of the personal automobile insurance market, with this range fluctuating according to competitive conditions in the market. The non-standard automobile insurance market in the United States approximated $33.3 billion in premiums in 2002 according to A.M. Best.

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. We believe that these industry-wide rate reductions, combined with increased severity trends, during the period contributed to the deterioration of industry loss ratios in the years 1999 through 2001. Since that time, most of the industry, including others in the industry and us, has begun to raise rates and tighten underwriting standards. Some insurance companies have recently withdrawn from the market because of their inability to compete successfully, their impaired capital positions or because of a decrease in the availability of reinsurance.

Our Products and Services

Policies. We offer a wide range of coverage options to meet our policyholders' needs. Our liability-only policies generally include:

- bodily injury liability coverage, which protects insureds if they are involved in accidents that cause bodily injuries to others, and also provides insureds with a defense if they are sued by others for covered damages; and

- property damage liability coverage, which protects insureds if they are involved in accidents that cause damage to another's property.

Our liability-only policies in certain states may include personal injury protection coverage, which provides insureds coverage for their own injuries without regard to fault.

In addition to the coverages described above, our policies may include, at the option of the policyholder, physical damage coverage, which includes:

- collision coverage, which pays for damages to the insured's vehicle when damaged by a collision with another vehicle or object, regardless of fault; and

- comprehensive coverage, which pays for damages to the insured's vehicle when damaged as a result of causes other than collision, such as vandalism, theft, wind, hail or water.

The policies we offer in Arizona, California, Florida, Nevada and Pennsylvania are tailored to the typical non-standard customer, whose selection of an insurance policy is driven mostly by payment terms (such as low down payments and bill plans). Our experience has shown us that total policy cost, although a variable in the purchasing decision, is not as important as being able to pay on an installment basis with a low down payment. Accordingly, our products in these states are designed to be competitive by minimizing the up-front cash outlay through down payments that are lower than those required by many of our competitors. Our billing and collections systems allow us to offer these attractive payment plans while avoiding significant credit risk. We offer discounts for good driving records, proof of having purchased automobile insurance within a prescribed prior time period, vehicle safety and anti-theft equipment.

In the other 14 states in which we operate, our policies are designed to target insureds who, due to a driving record transgression, their age, recent financial instability or the purchase of an ineligible vehicle, they are not eligible for the standard automobile insurance. We have found that the total cost of the policy is the most important consideration for these customers, so our products are structured accordingly. We offer discounts for having purchased automobile insurance within a prescribed prior time period and maintaining homeowners insurance, however, there are surcharges for traffic violations and accidents.

Policy Services. Our non-insurance subsidiaries provide our policyholders a variety of services for which they charge incremental fees. These fees include policy origination fees and installment fees to compensate us for the costs of providing installment payment plans. We may also charge additional fees for late payment, policy cancellation, policy rewrite and reinstatement and other reasons. These fees represent additional revenues of approximately 10% of the premiums we collect.

Distribution and Marketing

We distribute our products through a network of approximately 4,300 independent agents or brokers, some of whom operate from multiple locations. As a result, building and maintaining strong relationships with our independent agents and brokers is a key element to our long-term success. We strive to maintain these relationships through providing our agents and brokers with high-quality service and a stable presence in their markets and through our competitive compensation programs. We also provide our producers with easy-to-use underwriting software and we offer flexible and competitively priced product installment billing plans and superior service to our customers, making us highly

attractive to insureds, agents and brokers. We have a goal of being one of the top three non-standard automobile insurance carriers based on premiums with each agent and broker with whom we do business.

Geographic Distribution

We have licenses to provide insurance in 35 states and the District of Columbia, but we focus on 17 states that we believe provide significant opportunity for profitable growth based upon historical results, current market conditions and each state's legal and regulatory environment. In addition, within the next 12 months, we intend to expand our business into Alabama, Colorado, Mississippi, Oregon and Tennessee. We believe this expansion will provide us with further profitable growth opportunities.

For the year ended December 31, 2002 our top three states represented 85.7% of our gross premiums written. The following table sets forth the distribution of our gross premiums written by state as a percent of total gross premiums written for the nine months ended September 30, 2003 and for the years ended December 31, 2002, 2001, 2000:

		December 31,		
	September 30, 2003	2002	2001	2000
California	63.9%	64.8%	69.5%	68.9%
Florida	11.3	13.5	13.5	12.6
Michigan	7.0	7.4	6.2	0.0
Georgia	3.4	2.3	1.6	0.0
Pennsylvania	2.2	1.8	2.3	0.0
South Carolina	2.0	1.2	0.3	0.0
Texas	1.7	2.7	2.9	5.1
Maine	1.7	1.0	0.3	0.0
Indiana	1.4	1.4	1.3	0.0
Virginia	1.1	0.7	0.3	0.0
All other states	4.3	3.2	1.8	13.4
	100.0%	100.0%	100.0%	100.0%

Major Producers

Our top ten producers, as measured by premium volume, accounted for 33.7% and 33.3% of our gross premiums written for the nine months ended September 30, 2003 and for the twelve months ended December 31, 2002, respectively. For the nine months ended September 30, 2003, our top three producers accounted for 23.5% of our gross premiums written, with our single largest producer accounting for 15.2%. No other single producer accounted for more than 10% of our gross premiums written. Although we believe that our relationships with our major producers are good, we do not have long-term contracts with any of them.

Relationships with Agents and Brokers

We have created a network of highly incentivized, loyal and productive agents and brokers. We devote a considerable amount of time and resources to developing and maintaining our relationships with these producers, and we are dedicated to providing them with high-quality service and a stable presence in their markets.

To improve existing underwriting processes and develop new tools to enhance our agents' and brokers' productivity and retention rates, we have created two separate producer advisory boards. One is comprised of principals from our top brokers in California and the other consists of 13 principals who represent all of the other states in which we currently conduct business. The producer advisory boards represent a broad cross-section of our agents and brokers. Through these boards, we receive

input in areas where we can improve, such as technological advances, service standards and new product development. We use this information to refine our products and develop strategies to better serve the needs of our policyholders and our producers. We have found that the communication between producers and our management facilitated by the producer advisory boards has significantly improved producer loyalty and productivity.

Our marketing department regularly visits and works closely with our agents and brokers in order to keep them up to date on our products and to gather data on industry trends. The amount of contact is directly proportional to the producer's production and potential production, with larger producers being visited by a marketing representative at least once every month. To ensure that we maximize the value of each producer communication, we develop a strategic plan for all producer visits to highlight the strengths of our company and our products. The most appealing of these strengths to our producers are our competitive compensation programs, which include incentive plans for specific products, and are emphasized by commission comparisons to our competitors. In addition, on their producer visits, our marketing professionals provide software and product updates, provide training on all underwriting tools, update our producer database and encourage the producers to quote one of our products to every customer.

We also offer easy-to-use proprietary software to agents and brokers that provides timely and centralized information about their customers, enhancing their ability to retain existing policyholders and providing them with more time to generate new business. We are continuously improving existing systems and developing new tools for our agents and brokers. This includes our newly developed OneStep application system, which we believe will lead to an increase in gross premiums written and improve productivity and policyholder retention.

Producer Management Process

Our producer management process also involves weekly, monthly and quarterly data analysis, which is used to monitor various aspects of a producer's business conduct, including adherence to our underwriting policies and procedures and the profitability of the producer's business with us. We evaluate each producer on numerous key factors, including the following:

- loss experience on their business with us;
- violations of our underwriting guidelines;
- frequency of uprates: we monitor how often the producer erroneously grants discounts or does not disclose critical underwriting information, such as an accident or traffic violation, causing the rate quoted to the customer upon application to increase upon discovery of those facts;
- consistently submitting manual applications and failing to utilize our online underwriting software, which is not cost efficient for us;

claim timing: we will terminate our relationships with producers who we have found backdating policies to make them effective prior to the occurrence of a loss; and

premium volume: we measure our producers' business activity to identify and actively manage producers that are not consistently quoting or renewing our products and thus maintaining our relationship with them is not cost effective for us.

We may suspend or terminate our relationship with producers who fail to meet our standards or we may agree on a mutually acceptable action plan which, if met, will enable the producer to continue to sell our products. Since the introduction of this producer management process, most poor performers have been eliminated from our distribution channel, allowing us to focus our resources on servicing our more motivated and productive producers.

Producer Compensation

Our producer compensation programs are designed to be competitive in each market in which we operate. Commissions are paid on new and renewal business at a percentage, specified in the producer's contract, of the full term policy premium, and the full commission is paid at policy inception or renewal. Paying the full term commission up front, although creating cash flow stress on us, is highly valued by our producers. However, should a policy cancel before its termination, the producer is contractually bound to return the unearned commission to us.

In addition to new and renewal commissions, we may, on a case-by-case basis, negotiate profit sharing agreements with our larger producers. These agreements pay the producer a percentage of a specified profit target that we earn on the business they place with us. The ratio of commissions we pay to our gross premiums written, which incorporates all of these incentives was 14.9%, 15.7% and 14.3% for the periods ended September 30, 2003, December 31, 2002 and December 31, 2001, respectively.

We believe that agents and brokers are attracted to Bristol West because of our market-focused products, competitive compensation programs, stable presence and user-friendly, sophisticated underwriting and processing systems. Our efforts, including product design and pricing, utilization of technology and our producer compensation programs, are designed to develop highly incentivized and loyal producers.

Underwriting and Pricing

We strive to closely control the underwriting standards for our products. We are committed to establishing policy rates that properly charge for the risk and exposure we are underwriting. We establish policy rates utilizing a variety of factors, including, but not limited to, vehicle type, driver age, driving record, type of coverage, miles driven and policy limits. Using our proprietary actuarial pricing technology that analyzes both our own and industry trends, we continuously evaluate and modify our policy rates in order to maintain an acceptable level of underwriting profitability on each risk we insure. Accordingly, we price our products to maintain our margins and structure payment plans to meet our policyholders' needs while limiting our credit risk.

We maintain an extensive proprietary database, which contains statistical records with respect to our insureds, including the insured's rating classification, motor vehicle records, miles driven, years licensed, loss experience by zip code and type of automobile. Using this database, our actuarial and product managers are able to produce a wide range of analytical reports and analyses, which enable us to identify opportunities in each market through better risk selection or segmentation. The database allows us to analyze over one billion data points related to historical premium and loss data on a real-time basis in order to identify trends by product, customer type and region. This analysis permits us to respond or act quickly with changes in our pricing, product structures and underwriting guidelines, when appropriate.

In addition, we have product managers for each state in which we operate or that we are considering entering. Each state product manager reports to one of our two national product managers who in turn report to our Senior Vice President Actuarial/Product. Each state manager is responsible for monitoring our competitive position and profitability. They interface with our pricing actuaries, marketing department and senior staff to develop or alter our product and pricing strategies.

Claims Handling

Our claims department includes approximately 480 claims adjusters and managers and handles claims from 13 offices around the country. Each claims office has an assigned geographic service area, but has the flexibility to handle claims from other areas as workloads and available staff dictate.

To improve our customer service, beginning in the second quarter of 2003, we established a toll-free access number that allows policyholders to report claims 24 hours a day, seven days a week. Our policy is to contact all parties involved in an accident within 24 hours of our receiving notification. We

require our claims managers to review all new claims within 24 hours of our receiving notification and to provide specific instructions to the adjuster receiving the assignment. Assignments are determined based upon the known facts of the claim and the experience level of the adjuster; the more difficult the claim, the more experienced the adjuster receiving the assignment will be.

Once contact is established, arrangements are made to have the vehicles appraised as soon as possible. Our minimum service level goal is to have at least 60% of all claims for damaged property inspected within 72 hours. There are three methods for appraising a damaged vehicle:

Drive-in assignments. Policyholders take their vehicles to various body shops or one of our local offices and have their damages appraised by our field appraisers.

Field assignments. Our field appraisers arrange to see the vehicle at the policyholder's home, workplace, body shop of choice or other location.

Independent appraiser assignments. Third-party vendors that we hire inspect the damaged vehicle in an area we do not staff or when claim volume warrants outside assistance. All of these estimates are reviewed and approved for payment by our claims adjusters.

Our staff currently investigates virtually all claims, with a small percentage of physical damage claims handled by independent appraisers. We utilize our sophisticated information technology systems to monitor settlement practices by both our in-house staff and third-party vendors. We focus on resolving claims promptly, and we resist frivolous and fraudulent claims vigorously. We employ 20 in-house attorneys. Most of the lawsuits brought against our insureds are defended by our in-house legal staff. Our claims department is supported by a special investigation unit, with 32 employees deployed nationwide to control costs through fraud mitigation and to ensure our compliance with certain anti-fraud regulations. Our special investigation unit works with a sophisticated anti-fraud database that identifies suspicious losses. We also have a claim quality control group comprised of experienced claims professionals who monitor our claims files on a real-time basis, providing assistance when issues arise, as well as training and mentoring our adjusters to improve the effectiveness of our claims handling capabilities. In addition, we conduct internal audits of our claim handling, focusing on procedures, financial controls, data integrity and regulatory compliance to further improve our processes.

Technology

In order to provide our policyholders and producers with superior service and realize profitable growth, we have substantially upgraded our information technology capabilities in recent years. Our goal is to continue to make strategic investments in technology in order to develop sophisticated tools that enhance our customer service, product management and data analysis capabilities. Examples of our investments in technology, which we believe are unique for a company of our size and differentiate us from our competitors, include:

Data Warehouse. We establish premium rates utilizing a variety of factors. In order to more precisely underwrite and price our products, we maintain an extensive proprietary database, which contains statistical records with respect to our insureds, which includes, among other data, the insured's rating classification, motor vehicle records, miles driven, years licensed, loss experience by zip code and type of automobile. This custom-designed data warehouse application, named SOON, provides our actuarial and product managers with the ability to produce a wide range of analytical reports and analyses in real time. SOON provides detailed loss reserve information by the quarter in which the accident occurs across all product lines and by type of coverage and real-time monitoring of key assumptions made in our loss reserve analysis. More importantly, SOON allows for the analysis of over one billion data variables related to historical premium and loss data, allowing for additional segmentation and analysis by our product managers. SOON enables us to identify trends emerging in our business and to respond with indicated prices, product or underwriting changes.

Claims Administration. CUDA, our in-house claims administration system, helps us to investigate and resolve promptly all valid claims by enabling complete, real-time claims handling at each desktop in all claims offices. The system maintains all notes, diaries and related party information on each claim and provides automated on-line management reports on the number of outstanding claims and service levels. CUDA also provides an important financial control, as claims checks are issued directly from the system in accordance with our internal control procedures regarding payment levels of authority for each adjuster. In addition, CUDA automatically generates and maintains loss and loss adjustment expense reserves.

OneStep. We are implementing OneStep, a new online point-of-sale application system. We have an exclusive license to use this software in the non-standard automobile insurance industry through September 2008. OneStep provides fast and accurate quotes by using automated underwriting technology and by accessing third-party information, including an applicant's driving record, accident history and, where permitted by law, credit reports. This automated process reduces the frequency of the industry-wide problem of uprates that may occur when an application is incomplete or inaccurate, and allows for all required documents, such as the policy, the identification cards and the policy declaration page, to be delivered to the customer within minutes. We believe the reduction of uprates will improve new policy generation and retention rates and reduce write-offs for billed but uncollectible uprated premiums. We have rolled out OneStep in South Carolina. We expect to deploy OneStep in California, our largest market, in the first six months of 2004, and in other states thereafter.

BWProducers.com. To help improve the productivity and retention rates of our brokers and agents, we developed this website which provides our producers with complete access to all information about their Bristol West policyholders, including billing information, policy status, cancellations and installments. This access to timely and centralized information gives our producers the ability to better manage their business and increase their retention rates.

Loss and Loss Adjustment Expense Reserves

Automobile accidents generally result in insurance companies paying settlements resulting from physical damage to an automobile or other property and an injury to a person. Because our insureds typically notify us immediately after an accident has occurred, our ultimate liability on our policies becomes fairly apparent in a relatively short period of time. However, months and sometimes years may elapse between the occurrence of an accident, reporting of the accident to us and payment of the claim. We record a liability for estimates of losses and loss adjustment expenses that will be paid on accidents reported to us and we estimate and record a liability for accidents that have occurred but have not been reported to us, which we refer to as incurred but not reported loss and loss adjustment expense reserves.

Loss and loss adjustment expense reserves are estimated by our actuaries using statistical analyses and after careful consideration of trends in claim severity, claim frequency, inflation, historical claims, settlement patterns, legislative activity and other factors. Our actuaries rely heavily on historical loss experience when determining loss reserve levels on the assumption that past loss experience is a good indicator of future loss experience. When necessary, and as new experience develops or new information becomes known, our estimates are revised accordingly.

As of September 30, 2003, we had $199.1 million of gross loss and gross loss adjustment expense reserves and $94.4 million of loss and loss adjustment expense reserves net of reinsurance, which represented our best estimate of ultimate losses and loss adjustment expenses. Adjustments to our loss and loss adjustment expense reserves are reflected in our results of operations in the periods in which the estimates change.

Our management believes the provision for unpaid losses and loss adjustment expenses is adequate to cover the ultimate net cost of losses and loss adjustment expenses incurred to date.

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An analysis of our losses and loss adjustment expenses for the nine months ended September 30, 2003 and the years ended December 31, 2002, 2001 and 2000 is summarized in the following table:

	Nine Months Ended September 30, 2003	Year Ended December 31,		
		2002	2001	2000

	Year Ended December 31,			
	(in thousands)			
Balance as of beginning of year	$ 157,416	$ 105,993	$ 81,481	$ 65,001
Less: Reinsurance recoverable	75,136	66,904	30,132	20,827
Net balance as of beginning of year	82,280	39,089	51,349	44,174
Balance acquired as of March 31, 2001			6,093	
Incurred related to:				
Current period	146,057	172,311	111,574	160,874
Prior period	8,002	28,185	17,313	6,328
Total incurred	154,059	200,496	128,887	167,202
Paid related to:				
Current period	78,765	106,435	84,134	116,796
Prior period	63,141	50,870	63,106	43,231
Total paid	141,906	157,305	147,240	160,027
Net balance at end of period	94,433	82,280	39,089	51,349
Plus: Reinsurance recoverable	104,647	75,136	66,904	30,132
Balance at end of period	$ 199,080	$ 157,416	$ 105,993	$ 81,481

The following table presents the development of our gross loss and loss adjustment expense reserves, net of reinsurance, for the calendar years 1992 through 2002.

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
	(in thousands)										
As Originally Estimated:	$ 15,054	$ 21,735	$ 23,330	$ 26,902	$ 21,013	$ 26,593	$ 59,472	$ 44,174	$ 51,349	$ 39,089	$ 82,280
As Re-estimated as of December 31, 2002:	15,422	19,359	25,470	30,440	26,005	39,029	56,950	52,928	80,655	67,274	82,280
Liability Re-estimated as of:											
One Year Later	16,267	19,171	24,790	27,063	24,630	44,295	55,640	50,502	68,002	67,274	
Two Years Later	15,575	18,870	24,091	29,574	28,169	38,239	55,977	51,667	80,655		
Three Years Later	15,240	18,784	24,962	31,326	25,520	38,368	56,602	52,928			
Four Years Later	15,103	19,097	25,538	30,106	25,662	38,943	56,950				
Five Years Later	15,286	19,219	25,079	30,108	26,089	39,029					
Six Years Later	15,275	19,119	25,099	30,473	26,005						
Seven Years Later	15,224	19,089	25,382	30,440							
Eight Years Later	15,169	19,353	25,470								
Nine Years Later	15,428	19,359									
Ten Years Later	15,422										
Cumulative Deficiency (Redundancy)	368	(2,376)	2,140	3,538	4,992	12,436	(2,522)	8,754	29,306	28,185	
Cumulative Amounts Paid as of:											

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
One Year Later	9,413	12,476	16,649	19,823	18,069	27,371	51,201	42,410	61,891	50,870	
Two Years Later	13,232	16,587	21,589	26,741	23,520	36,674	56,448	50,016	75,642		
Three Years Later	14,571	18,182	23,767	28,904	25,189	38,320	57,101	51,839			
Four Years Later	14,980	18,829	24,553	29,834	25,653	38,808	57,046				
Five Years Later	15,241	19,021	25,049	30,130	25,850	38,945					
Six Years Later	15,234	19,153	25,165	30,351	25,872						
Seven Years Later	15,249	19,176	25,365	30,345							
Eight Years Later	15,257	19,351	25,342								
Nine Years Later	15,443	19,340									
Ten Years Later	15,433										

The following table presents the above table of our gross loss and loss adjustment expense reserves, net of reinsurance, for the calendar years 1992 through 2002, as a percentage of the initially estimated liability.

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Liability Re-estimated as of:											
One Year Later	108%	88%	106%	101%	117%	167%	94%	114%	132%	172%	
Two Years Later	103%	87%	103%	110%	134%	144%	94%	117%	157%		
Three Years Later	101%	86%	107%	116%	121%	144%	95%	120%			
Four Years Later	100%	88%	109%	112%	122%	146%	96%				
Five Years Later	102%	88%	107%	112%	124%	147%					
Six Years Later	101%	88%	108%	113%	124%						
Seven Years Later	101%	88%	109%	113%							
Eight Years Later	101%	89%	109%								
Nine Years Later	102%	89%									
Ten Years Later	102%										
Cumulative Deficiency (Redundancy)	2%	(11)%	9%	13%	24%	47%	(4)%	20%	57%	72%	
Net Loss and Loss Adjustment Cumulative Paid as a Percentage of Initially Estimated Liability											
Cumulative Amounts Paid as of:											
One Year Later	63%	57%	71%	74%	86%	103%	86%	96%	121%	130%	
Two Years Later	88%	76%	93%	99%	112%	138%	95%	113%	147%		
Three Years Later	97%	84%	102%	107%	120%	144%	96%	117%			
Four Years Later	100%	87%	105%	111%	122%	146%	96%				
Five Years Later	101%	88%	107%	112%	123%	146%					
Six Years Later	101%	88%	108%	113%	123%						
Seven Years Later	101%	88%	109%	113%							
Eight Years Later	101%	89%	109%								
Nine Years Later	103%	89%									
Ten Years Later	103%										

The unfavorable development in our reserves for losses and loss adjustment expenses is due to a number of factors. The reorganization of the claims department in 2000 resulted in an unanticipated increase in the average cost per closed claim and the number of claims primarily in California and Florida in 2000, 2001 and 2002. In addition, rate reductions in California between June 1998 and July 1999 and a poorly structured and priced product in Texas that we began offering in the first quarter of 1999 and discontinued in August 2002 also led to unfavorable development in reserves for unpaid losses and loss adjustment expenses.

In the second quarter of 2002, we hired a new chief actuary. Since that time, we believe that we have made significant improvements in our actuarial processes. We began analyzing loss and loss adjustment expense trends by reviewing statistics that grouped accidents by the quarter in which the accident occurred instead of the year in which it occurred. By analyzing accident statistics on a quarterly date of loss method, we believe that we are able to identify loss trends earlier and can react sooner by updating our estimate of losses and loss adjustment expenses much earlier than the previous method allowed. In addition, we moved from a manual spreadsheet environment to an automated approach in the fourth quarter of 2002, utilizing a data warehouse we developed. The systematized or automated creation of loss and loss adjustment expense statistics enables our actuaries to more finely segment their analysis than was previously possible under a manual spreadsheet approach. By reviewing our loss and loss adjustment expense reserves at such a detailed level, we have the ability to identify and measure variances in loss trends by state, product and line coverage that would not otherwise be identifiable in performing a review at an aggregate level.

In April 2003, we started tracking the emergence of all loss statistics by state, program, coverage and accident quarter on a daily basis. Our actuaries analyze these statistics using a web-based interface that compares the actual emergence of loss related statistics to amounts expected to emerge given the

assumptions made in the previous quarter's loss and loss adjustment expense reserve review. We use detailed mathematical models that are constantly being refined to reduce the variability of our estimates of loss and loss adjustment expense reserves. Additionally, in August 2003, we developed an Oracle-based data warehouse, which produces fully developed loss ratios by each premium rate variable used to determine the premium charged. In addition to the sophistication with which we price our products, this also improves the insight of our actuaries in analyzing loss emergence relative to their initial pricing and product design assumptions. Our actuarial department reviews the results of numerous different estimation methods, including paid loss data, incurred loss data, and frequency (number of losses per vehicle) and severity (dollars of loss per each claim), to determine the best estimate of incurred losses that includes loss and loss adjustment expense reserves. If there is a significant variation in the results generated by the different actuarial methodologies, our actuaries will further analyze the data using additional techniques, such as analyzing individual claims to determine which method has the greatest amount of credibility in their professional opinion in order to establish their best estimate.

Based on these actions, we believe that we have addressed the issues related to unfavorable development of our loss and loss adjustment expense reserves, and that the liabilities that we have recorded for losses and loss adjustment expenses are adequate to cover the ultimate net cost of losses and loss adjustment expenses incurred to date.

The following table is a reconciliation of our net liability to our gross liability for losses and loss adjustment expenses.

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
					(dollars in thousands)						
As originally estimated:											
Net liability shown above	$ 15,054	$ 21,735	$ 23,330	$ 26,902	$ 21,013	$ 26,593	$ 59,472	$ 44,174	$ 51,349	$ 39,089	$ 82,280
Add reinsurance recoverables	17,526	19,650	19,379	21,635	20,541	33,762	12,795	20,827	30,132	66,904	75,136
Gross liability	32,580	41,385	42,709	48,537	41,554	60,355	72,267	65,001	81,481	105,993	157,416
As re-estimated at December 31, 2002:											
Net liability shown above	15,422	19,359	25,470	30,440	26,005	39,029	56,950	52,928	80,655	67,275	
Add reinsurance recoverables	17,073	16,383	19,405	21,171	23,392	22,881	10,462	22,144	40,497	70,637	
Gross liability	32,495	35,472	44,875	51,611	49,397	61,910	67,412	75,072	121,152	137,912	
Gross cumulative deficiency/(redundancy)	(85)	(5,913)	2,166	3,074	7,843	1,555	(4,855)	10,071	39,671	31,919	
Gross cumulative deficiency/(redundancy) as a percent of originally estimated gross liability	0%	(14%)	5%	6%	19%	3%	(7%)	15%	49%	30%	

Investments

We had total cash, cash equivalents and invested assets of $171.9 million as of September 30, 2003. The following table summarizes our cash, cash equivalents and invested assets as of the dates indicated.

	Amortized Cost	Fair Value	% of Total at Fair Value

	Amortized Cost	Fair Value	% of Total at Fair Value
		(dollars in millions)	
September 30, 2003			
Debt securities, available for sale	$ 137.7	$ 142.0	82.6%
Equity securities, available for sale	1.6	1.6	0.9%
Cash and cash equivalents	28.3	28.3	16.5%
Total	$ 167.6	$ 171.9	100.0%

	Amortized Cost	Fair Value	% of Total at Fair Value
		(dollars in millions)	
December 31, 2002			
Debt securities, available for sale	$ 122.4	$ 127.1	$ 90.8%
Equity securities, available for sale	.4	.4	0.3%
Cash and cash equivalents	12.4	12.4	8.9%
Total	$ 135.2	$ 139.9	100.0%

Investment Strategy. We believe that our investment portfolio is highly liquid and consists of readily marketable, high quality investment-grade debt securities. We currently do not invest in common equity securities, other than our investment in OneShield, Inc. and we have no exposure to foreign currency risk. Our portfolio is managed by Hyperion Capital Management, Inc. for a fee of 12.5 basis points of assets under management, and includes all related accounting and statutory investment reporting. Our investment strategy recognizes our need to maintain capital adequate to support our insurance operations.

Pursuant to our investment guidelines, we have formalized with our outside managers parameters under which they can invest. Our guidelines, which have been in place for three years, have established the following maximum allowable allocation by sector:

U.S. Treasury Notes	100%
U.S. Government Agencies	50%
Mortgage Backed Securities	50%
Commercial Mortgage Backed Securities	10%
Corporate Bonds	60%
Canadian Provinces	10%
Yankee bonds (excluding Canada)	10%
Asset Backed Securities	25%

The allocation to tax-exempt securities will be based upon our tax position, which is communicated to our investment manager at least on an annual basis. The maximum allocation by issuer is based on the issuer's security's rating.

Investment Portfolio. Our investment portfolio consists primarily of debt securities, all of which are classified as available for sale, and are carried at fair value with unrealized gains and losses reported in our financial statements as a separate component of stockholders' equity on an after-tax basis. As of September 30, 2003, the fair value of our investment portfolio of $143.6 million included

$4.3 million in pre-tax net unrealized gains. As of December 31, 2002, the fair value of our investment portfolio of $127.5 million included $4.7 million in pre-tax net unrealized gains, as compared to $0.4 million in pre-tax net unrealized gains in 2001. The increase in net unrealized gains during 2002 was attributable to declining interest rates. We realized pre-tax net gains of $1.1 million through the nine months ended

September 30, 2003. In addition, we realized pre-tax net gains of $0.3 million in 2002. Net realized gains on securities available for sale were $1.0 million in 2001. The weighted average pre-tax equivalent book yield of the portfolio was 4.61% at September 30, 2003, compared to 5.45% and 6.05% at December 31, 2002 and 2001, respectively.

Our focus is to maximize liquidity, minimize credit risk and maximize book income, and thus our portfolio at September 30, 2003 had an average Standard & Poor's rating of "AA+" and a weighted average pre-tax equivalent book yield of 4.61%. The following table presents the composition of our investment portfolio by type of investment as of the dates indicated.

	At September 30, 2003		At December 31, 2002		At December 31, 2001		At December 31, 2000	
	(dollars in millions)							
Cash and Cash Equivalents	$ 28.3	16.5%	$ 12.4	8.9%	$ 15.3	13.4%	$ 17.4	14.0%
U.S. Government Securities	9.5	5.6%	9.3	6.7%	7.1	6.2%	0.1	0.0%
Mortgage Backed Bonds	5.3	3.1%	6.2	4.4%	4.2	3.7%	3.5	2.8%
Tax Exempt Bonds	29.6	17.2%	3.2	2.3%	2.4	2.1%	48.4	38.8%
Collateralized Mortgage Obligations	34.9	20.3%	43.7	31.2%	20.0	17.5%	21.4	17.2%
Corporate and Other	58.4	34.0%	60.0	42.8%	63.3	55.4%	33.0	26.5%
Preferred Stocks	.4	.2%	0.4	0.3%	0.9	0.8%	2.3	1.8%
Common Stocks	1.2	0.7%		0.0%		0.0%		0.0%
Net Unrealized Gains (Losses) on Fixed Maturities	4.3	2.4%	4.7	3.4%	1.0	0.9%	(1.4)	(1.1)%
Total Investments at Market Value	$ 171.9	100%	$ 139.9	100%	$ 114.2	100%	$ 124.7	100%

The following table presents the composition by type of security, including the amortized cost, gross unrealized gains, gross unrealized losses and fair value of debt securities available for sale in our investment portfolio as of the dates indicated.

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
September 30, 2003	(in millions)			
Fixed maturities:				
U.S. Government securities	$ 9.5	$ 0.2	$ 0.0	$ 9.7
Mortgage backed bonds	5.3	0.1	0.0	5.4
Tax exempt bonds	29.6	0.8	0.1	30.3
Collateralized mortgage obligations	34.9	1.1	0.1	35.9
Corporate and other	58.4	2.5	0.2	60.7
Total fixed maturities	137.7	4.7	0.4	142.0
Equity and preferred stock	1.6	0.0	0.0	1.6
Total	$ 139.3	$ 4.7	$ 0.4	$ 143.6

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	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
December 31, 2002	(in millions)			
Fixed maturities:				
U.S. Government securities	$ 9.3	$ 0.2	$ 0.0	$ 9.5
Mortgage backed bonds	6.2	0.2	0.0	6.4

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
Tax exempt bonds	3.2	0.2	0.0	3.4
Collateralized mortgage obligations	43.7	1.7	0.0	45.4
Corporate and other	60.0	2.9	0.4	62.5
Total fixed maturities	122.4	5.2	0.4	127.2
Equity and preferred stock	0.4	0.0	0.1	0.3
Total	$ 122.8	$ 5.2	$ 0.5	$ 127.5

The amortized cost and fair value of debt securities in our investment portfolio as of September 30, 2003, by contractual maturity, is shown below.

Years to maturity	Amortized Cost	Fair Value
	(in millions)	
One or less	$ 27.9	$ 28.4
After one through five	68.3	70.8
After five through ten	37.0	38.0
After ten	4.5	4.8
Total	$ 137.7	$ 142.0

The Securities Valuation Office of the National Association of Insurance Commissions, or NAIC, evaluates the bond investments of insurers for regulatory reporting purposes and assigns securities to one of six investment categories called "NAIC designations." The NAIC designations generally parallel the credit ratings of the nationally recognized statistical rating organizations for marketable bonds. NAIC designations 1 and 2 include bonds considered to be investment grade, which are those rated "BBB-" or higher by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. NAIC designations 3 through 6 include bonds considered to be below investment grade, rated "BB+" or lower by Standard & Poor's. With the exception of two immaterial preferred stock positions, which were sold for a small gain in October of 2003, all of the debt securities in our portfolio were rated investment grade by the NAIC and Standard & Poor's as of September 30, 2003. Investment grade securities generally bear lower yields and lower degrees of credit risk than those that are unrated or are rated non-investment grade. The quality distribution of our investment portfolio as of September 30, 2003 was as follows:

Standard & Poor's Rating	NAIC Rating	Amortized Cost	Fair Value	% of Total at Fair Value
		(dollars in millions)		
AAA	1	$ 78.8	$ 80.8	47.0%
AA	1	14.2	14.8	8.6%
A	1	24.5	25.6	14.9%
BBB	2	10.9	11.3	6.6%
BB and below	0	0.2	0.2	0.1%
U.S. Treasuries Agencies	1	9.5	9.7	5.6%
Not Rated	0	1.2	1.2	0.7%
Cash and Cash Equivalents	0	28.3	28.3	16.5%
		$ 167.6	$ 171.9	100.0%

We evaluate the risk against reward tradeoffs of investment opportunities, measuring their effects on the stability, diversity, overall quality and liquidity of our investment portfolio. The primary market risk exposure to our debt securities portfolio is interest rate risk, which we strive to limit by managing duration to a defined range of three to four years and laddering, or evenly distributing in the maturities of the securities we purchase to achieve our duration target. Interest rate risk includes the risk from movements in the underlying market rate and in the credit spread of the respective sectors of the debt securities held in our portfolio. The fair value of our fixed maturity portfolio is directly impacted by changes in market interest rates.

An additional exposure to our debt securities portfolio is credit risk. We attempt to manage our credit risk through issuer and industry diversification. We regularly monitor our overall investment results and review compliance with our investment objectives and guidelines. Our investment guidelines include limitations on the minimum rating of debt securities in our investment portfolio, as well as restrictions on investments in debt securities of a single issuer.

On a quarterly basis, we examine our investment portfolio for evidence of impairment. The assessment of whether impairment has occurred is based on our evaluation, on an individual security basis, of the underlying reasons for the decline in fair value, which are discussed with our investment advisor and evaluated to determine the extent to which such changes are attributable to interest rates, market-related factors other than interest rates, as well as financial condition, business prospects and other fundamental factors specific to the issuer. Declines attributable to issuer fundamentals are reviewed in further detail. When one of our securities has a decline in fair value that is determined to be other than temporary, we reduce the carrying value of the security to its current fair value as required by GAAP.

Based upon our analysis, we believe that we will recover all contractual principal and interest payments related to those securities that currently reflect unrealized losses and that we have the ability to hold these securities until they mature or recover in value. Should either of these beliefs change with regard to a particular security, a charge for impairment would likely be required. In the last three years, we have not needed to record any impairment charges. We believe that it is not likely that future impairment charges will have a significant effect on our liquidity.

As of September 30, 2003, investments carried at a fair value of $14.0 million and approximately $0.5 million of cash were on deposit with state insurance regulatory authorities.

Short-Term Investments. Our short-term investments primarily consist of investments in commercial paper and other interest-bearing time deposits with original maturities from three months to one year.

Competition

The non-standard automobile insurance industry is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. We compete with both large national insurance providers and smaller regional companies on the basis of price, coverages offered, claims handling, customer service, agent commission, geographic coverage and financial strength ratings. Some of our competitors have more capital, higher ratings and greater resources than we have, and may offer a broader range of products and lower prices and down payments than we offer. Some of our competitors that sell insurance policies directly to customers, rather than through agents or brokers as we do, may have certain competitive advantages, including increased name recognition among customers, direct relationships with policyholders and potentially lower cost structures. In addition, it is possible that new competitors will enter the non-standard automobile insurance market. Further, competition could result in lower premium rates and less favorable policy terms and conditions, which could reduce our underwriting margins.

Based upon data compiled from A.M. Best, we believe that, as of December 31, 2002, the top ten insurance groups accounted for approximately 66% of the approximately $33.3 billion non-standard

market segment. We believe that our primary insurance company competition comes not only from national companies or their subsidiaries, such as The Progressive Corporation, The Allstate Corporation, State Farm Mutual Automobile Insurance Company, GEICO and Farmers Insurance Group, but also from non-standard insurers such as Mercury General Corporation, Infinity Property & Casualty Corporation and Direct General Corporation and independent agents that operate in a specific region or single state in which we operate. Based upon our gross premiums written for 2002, we believe that, as of December 31, 2002, we would be ranked 15th nationally among insurers in the non-standard automobile industry, using the 2002 market data compiled from A.M. Best.

Reinsurance

We currently utilize the reinsurance markets primarily to increase our underwriting capacity and to reduce our exposure to losses. Reinsurance refers to an arrangement in which a reinsurer agrees in a contract to assume specified risks written by an insurance company (the "ceding company") by paying the insurance company all or a portion of the insurance company's losses arising under specified classes of insurance policies. We use reinsurance to limit our risk, to support our growth and to manage our capital more efficiently, among other reasons. We have historically relied on various quota share and excess of loss reinsurance agreements to maintain our exposure to loss at or below a level that is within the capacity of our capital resources. Pursuant to our quota share reinsurance arrangements, our reinsurers agree to assume a specified percentage of our losses and loss adjustment expenses in exchange for a corresponding percentage of our premiums written. In our excess of loss reinsurance arrangements, our reinsurers agree to assume all or a portion of our losses and allocated loss adjustment expenses in excess of a specified amount. In excess of loss reinsurance, the premium payable to our reinsurers is negotiated based on our assessment of the amount of risk being ceded to the reinsurers because the reinsurers do not share proportionately in our loss.

In order to mitigate the credit risks inherent in reinsurance, when selecting a reinsurer, we carefully review the financial condition of the reinsurer in an effort to minimize our exposure to significant losses from potential reinsurer insolvency. We consider the likelihood of a material reinsurance liability being reassumed to be remote.

A portion of our direct written premiums are currently ceded to reinsurers under quota share and excess of loss agreements.

Quota Share Agreements. We entered three-year Discretionary Quota Share Reinsurance Agreements, effective January 1, 2002. These agreements collectively allow us to cede between 25% and 60% of our premiums written for each year through December 31, 2004. These agreements cover all policies written by us, which include in-force, new and renewal business. Under these agreements, our reinsurers have agreed to assume a specified percentage of our losses and loss adjustment expenses in exchange for a corresponding percentage of our premiums written. We must notify our reinsurers of the quota share percentage thirty business days prior to the inception of a new year. We ceded 49.3% and 60% of our business for the years 2002 and 2003, respectively. We have elected to cede 50% of our business for 2004. We can elect to terminate coverage under these agreements at their expiration date of December 31, 2004 or any subsequent December 31. At termination, the reinsurer will pay us a profit commission equal to 97% of ceded premiums less ceding commissions, losses and loss adjustment expenses paid by the reinsurer, if positive. The agreements contain clauses that limit the reinsurers' collective exposure to a combined ratio of 167.0% for any covered year and 112.0% across all years. Prior to entering the agreement, and based upon our prior operating history, we concluded that the agreements met the risk transfer tests of FAS 113 as the reinsurers were exposed to a reasonable probability of loss. The reinsurance under these agreements is provided by National Union Fire Insurance Company of Pittsburgh, PA, which reinsures 50% of all premiums we cede, Alea London Ltd., which reinsures 40% of all premiums we cede, and Federal Insurance Company, which reinsures 10% of all premiums we cede. National Union, Alea and Federal Insurance are rated by Standard & Poor's as AAA, A , and AA, respectively. Premiums ceded under these agreements from

inception through December 31, 2002 and for the nine months ended September 30, 2003 were $146.5 million and $270.3 million, respectively. For the nine months ended September 30, 2003, our net cash outflows to each of National Union, Alea and Federal Insurance were $41.3 million, $33.0 million and $8.3 million, respectively. This net cash outflow represents the premiums ceded to each of our reinsurers less loss and loss adjustment expense recoveries and commissions paid by our reinsurers. See "Certain Arrangements and Relationships."

Aggregate Excess of Loss (Stop Loss) Agreement. Effective January 1, 2001, we entered into an Aggregate Excess of Loss (Stop Loss) Agreement. Under this contract, protection attaches at a minimum of 1.5 loss and allocated loss adjustment expense ratio points above our projected loss and allocated loss adjustment expense ratio, as determined by us in connection with our annual forecast of our capitalization requirements, with the final attachment point to be negotiated prior to an underwriting year commencing. The cover provides up to $12.2 million of annual protection above each attachment point and up to $24.4 million of protection over the term of the contract, subject to co-reinsurance provisions. At September 30, 2003, we had recorded total recoveries of $5.5 million under this contract, leaving an unused limit of $18.9 million in the aggregate that is available if needed for underwriting years 2001, 2002 and 2003. The contract is in effect for the three years from January 1, 2001 to December 31, 2003. We can elect to terminate coverage under the agreement with thirty days notice. At termination, the reinsurer will return any positive balance in the contract's experience account which as of September 30, 2003 has been recorded as a profit commission receivable in the amount of $6.1 million. The agreement has expired but has not been terminated and has not been replaced. The reinsurance is provided by Inter-Ocean Reinsurance (Ireland) Limited. Inter-Ocean is rated A by A.M. Best and the contract is guaranteed by American Re-Insurance Company, rated A by Standard & Poor's. For the nine months ended September 30, 2003, our net cash outflows to Inter-Ocean were $5.2 million.

Reliant. At the closing of our acquisition of Reliant, Reliant had approximately $6.1 million of loss and loss adjustment expense reserves and $17.0 million of unearned premium reserves, which were transferred to us as part of the acquisition. Reliance Insurance Company, now in liquidation, provided a loss and loss adjustment expense reserve guarantee, through an Aggregate Excess of Loss Reinsurance Agreement, which was approved by the Pennsylvania Insurance Commissioner, in its capacity as receiver for Reliance Insurance Company. The reinsurance contract provided a guarantee of 100% above the recorded or carried loss and loss adjustment expense reserves and 100% above the carried unearned premium reserves for losses and loss adjustment expenses emanating from the unearned premium reserves. We determined the level of loss and loss adjustment expense reserves recorded and thus transferred at closing according to conditions of closing as outlined in the Stock and Asset Purchase Agreement. We are currently holding $2.5 million in collateral from Reliance Insurance Company to support any potential adverse development in the loss and loss adjustment expense reserves transferred at closing. Our current analysis of loss and loss adjustment expense reserve run-off including those emanating from the transferred unearned premium reserves for this business indicates that the transferred loss and loss adjustment expense reserves will be sufficient to meet all claims on this business after taking into account the $2.5 million in collateral and we may have to release a portion of the $2.5 million in collateral at some point in the future when all transferred liabilities have been extinguished.

Ratings

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and are important to our ability to market and sell our products. Rating organizations continually review the financial positions of insurers, including us. A.M. Best has currently assigned our insurance subsidiaries a rating of "B" (Fair), which is the 7th highest of 15 rating levels. According to A.M. Best, "B" ratings are assigned to insurers that have a fair ability to meet their current obligations to policyholders, but are financially vulnerable to adverse changes in

underwriting and economic conditions. This rating reflects A.M. Best's opinion of our ability to pay claims and is not an evaluation directed to investors regarding an investment in our common stock. A.M. Best maintains a letter scale rating system ranging from "A++" (Superior) to "F" (in liquidation). This rating is subject to periodic review by, and may be revised downward or revoked at the sole discretion of, A.M. Best. There can be no assurance that we will maintain our current ratings. Future changes to our rating may adversely affect our competitive position.

Legal Proceedings

We recently entered into a settlement agreement regarding all aspects of two coordinated class actions in the Superior Court of the State of California for the County of Orange and the Superior Court of the State of California for the County of Alameda, alleging, among other things, that we improperly canceled our insureds' automobile insurance policies. A final order approving the settlement agreement was entered by the court on October 27, 2003. A related action, Higares v. Coast National Insurance Company, asserts claims for breach of contract and bad faith on behalf of more than 500 individuals who have opted out of the settlement. We are vigorously defending this action. These lawsuits are reflected at September 30, 2003 in our consolidated statement of operations in a charge in the amount of $14.4 million on a pre-tax basis, which reflected our estimate of expected class member payments, defense costs and other expenses associated with these lawsuits.

We recently settled another class action that alleged that we improperly classified our claims adjusters as exempt employees.

In addition to the lawsuits described above, from time to time, we are involved in legal proceedings arising in the ordinary course of business. We believe we have recorded adequate reserves for these liabilities and that there is no individual case pending that is likely to have a material adverse effect on our financial condition or results of operations.

Our Financial Sponsor

In July 1998, entities formed by KKR acquired certain assets and various legal entities from David Rosner and Richard Simon, the founders of the predecessor companies that today constitute the Bristol West Insurance Group. KKR is a leading investment firm with significant investment experience in the insurance industry. Over the past 27 years, KKR has completed approximately 110 transactions with a total transaction value in excess of $114 billion. We expect to continue to benefit from KKR's insurance industry expertise and broad based knowledge of successful business practices.

Properties

We lease an aggregate of approximately 306,000 square feet of office space in numerous cities throughout the United States. Our most significant leased office spaces are located in Davie, Florida with approximately 100,000 square feet, Cleveland, Ohio with approximately 31,000 square feet, Independence, Ohio with approximately 44,000 square feet and Anaheim, California with approximately 50,000 square feet.

Employees

As of January 15, 2004, we employed approximately 1,300 persons, none of whom are covered by collective bargaining arrangements.

REGULATORY MATTERS

We are subject to comprehensive regulation by government agencies in the states where our insurance subsidiaries are domiciled and where these subsidiaries issue policies and handle claims. State insurance laws and regulations are complex, and each jurisdiction's requirements are different. Certain states impose restrictions or require prior regulatory approval of certain corporate actions.

Required Licensing. We operate under licenses issued by various state insurance authorities. These licenses govern, among other things, the types of insurance coverage and agency and claim services that we may offer consumers in these states. Such licenses typically are issued only after we file an appropriate application and satisfy prescribed criteria. We must apply for and obtain the appropriate new licenses before we can implement any plan to expand into a new state or offer a new line of insurance or other new product that requires separate licensing.

Transactions Between Insurance Companies and Their Affiliates. We are a holding company and are subject to regulation in the jurisdictions in which our insurance subsidiaries conduct business. Our insurance subsidiaries are organized and domiciled or commercially domiciled under the insurance statutes of a number of states. The insurance laws in most of those states provide that all transactions among members of an insurance holding company system must be fair and reasonable. Transactions between our subsidiaries and their affiliates (including us) generally must be disclosed to the state regulators, and prior approval of the applicable regulator generally is required before any material or extraordinary transaction may be consummated or any services agreement or expense sharing arrangement is entered into. State regulators may refuse to approve or delay approval of such a transaction, which may impact our ability to innovate or operate efficiently.

Regulation of Insurance Rates and Approval of Policy Forms. The insurance laws of most states in which our insurance subsidiaries operate require insurance companies to file insurance rate schedules and insurance policy forms for review and approval. State insurance regulators have broad discretion in judging whether our rates are adequate, not excessive and not unfairly discriminatory and whether our policy forms comply with law. The speed at which we can change our rates depends, in part, on the method by which the applicable state's rating laws are administered. Generally, state insurance regulators have the authority to disapprove our rates or requested changes in our rates.

Investment Restrictions. We are subject to state laws and regulations that require diversification of our investment portfolios and that limit the amount of investments in certain categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture.

Restrictions on Cancellation, Non-Renewal or Withdrawal. Many states have laws and regulations that limit an insurer's ability to exit a market. For example, certain states limit an automobile insurer's ability to cancel or not renew policies. Some states prohibit an insurer from withdrawing from one or more lines of business in the state, except pursuant to a plan approved by the state insurance department. In some states, this applies to significant reductions in the amount of insurance written, not just to a complete withdrawal. The state insurance department may disapprove a plan that may lead to market disruption.

Capital Requirements. The laws of the states of domicile of our insurance subsidiaries impose risk-based capital standards and other minimum capital and surplus requirements. Moreover, in connection with the acquisition of our California insurance subsidiary in 1998, the California Department of Insurance requires us to maintain a net written premium to surplus ratio for that subsidiary of not greater than three to one. This requirement will remain in effect for so long as there

are borrowings outstanding under our credit facility. The risk-based capital standards, based upon the Risk-Based Capital Model Act, adopted by the NAIC, require our insurance subsidiaries to report their results of risk-based capital calculations to the state departments of insurance and the NAIC. Failure to meet applicable risk-based capital requirements or minimum statutory capital requirements could subject us to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or even liquidation. Any changes in existing risk-based capital requirements or minimum statutory capital requirements may require us to increase our statutory capital levels.

We must also comply with regulations involving, among other things, the following:

- the use of non-public consumer information and related privacy issues;
- the use of credit history in underwriting and rating;
- the payment of dividends;
- the acquisition or disposition of an insurance company or of any company controlling an insurance company;
- the approval or filing of policy forms;
- the involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges; and
- reporting with respect to financial condition.

In addition, from time to time, the United States Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary.

Regulation of Dividends. We are a holding company with no business operations of our own. Consequently, our ability to pay dividends to stockholders and meet our debt payment obligations is largely dependent on dividends or other distributions from our insurance subsidiaries and fees earned by non-insurance subsidiaries. State insurance laws restrict the ability of our insurance subsidiaries to pay stockholder dividends. These subsidiaries may not make an "extraordinary dividend" until thirty days after the applicable commissioner of insurance has received notice of the intended dividend and has not objected in such time or the commissioner has approved the payment of the extraordinary dividend within the 30 day period.

In California, Ohio and Pennsylvania, three of our domiciliary states, an extraordinary dividend is generally defined as any dividend or distribution that, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of 10% of the insurer's surplus as of the preceding December 31, or the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices. In addition, an insurer's remaining surplus after payment of a cash dividend or other distribution to stockholder affiliates must be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. Finally, dividends may only be paid out of statutory earned surplus.

Under Florida law, another of our domiciliary states, dividend payments to stockholders, without prior regulatory approval, may not exceed the larger of the following: (a) the lesser of 10% of surplus or net income, not including realized capital gains, plus a 2-year carryforward; (b) 10% of surplus, with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains; and (c) the lesser of 10% of surplus or net investment income plus a 3-year carryforward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains. Alternatively, an insurer may

pay a dividend or make a distribution without prior written regulatory approval when the following conditions are met: (i) the dividend is equal to or less than the greater of (x) 10% of the insurer's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains or (y) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year; (ii) the insurer will have surplus as to policyholders equal to or exceeding 115% of the minimum required statutory surplus as to policyholders after the dividend is made; and (iii) the insurer has filed a notice at least 10 business days prior to the dividend payment attesting that after payment of the dividend or distribution the insurer will have at least 115% of required statutory 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. Under applicable restrictions, no dividends may be paid during the remainder of 2003 from our insurance subsidiaries without seeking regulatory approval, as we have an accumulated deficit or negative retained earnings on a statutory accounting basis.

Acquisitions of Control. The acquisition of control of our insurance company subsidiaries requires the prior approval of the insurance regulator in the states where they are domiciled. Generally, any person who directly or indirectly through one or more affiliates acquires 10% or more of the outstanding securities of the insurer or its parent company (5% or more in Florida) is presumed to have acquired control of the domestic insurer.

Shared or Residual Markets. Like other insurers, we are required to participate in mandatory shared market mechanisms or state pooling arrangements as a condition for maintaining our automobile insurance licenses to do business in various states. The purpose of these state-mandated arrangements is to provide insurance coverage to individuals who, because of poor driving records or other underwriting reasons, are unable to purchase such coverage voluntarily provided by private insurers. These risks can be assigned to all insurers licensed in the state and the maximum volume of such risks that any one insurer may be assigned typically is based on that insurer's annual premium volume in that state. While this mandated business typically is not profitable for us, our underwriting results related to these states' organizations have not been material to our overall results of operations and financial condition.

Guaranty Funds. Under state insurance guaranty fund laws, insurers doing business in a state can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. Maximum contributions required by laws in any one year vary between 1% and 2% of annual written premiums in that state, but it is possible that caps on such contributions could be raised if there are numerous or large insolvencies. In most states, guaranty fund assessments are recoverable either through future policy surcharges or offsets to state premium tax liability.

Trade Practices. The manner in which we conduct the business of insurance is regulated by state statutes in an effort to prohibit practices that constitute unfair methods of competition or unfair or deceptive acts or practices. Prohibited practices include, but are not limited to:

- disseminating false information or advertising;
- defamation;
- boycotting, coercion and intimidation;
- false statements or entries;

- unfair discrimination;
- rebating;
- improper tie-ins with lenders and the extension of credit;
- failure to maintain proper records;
- failure to maintain proper complaint handling procedures; and
- making false statements in connection with insurance applications for the purpose of obtaining a fee, commission or other benefit.

We set business conduct policies for our employees and we require them to conduct their activities in compliance with these statutes.

Unfair Claims Practices. Generally, insurance companies, adjusting companies and individual claims adjusters are prohibited by state statutes from engaging in unfair claims practices on a flagrant basis or with such frequency to indicate a general business practice. Unfair claims practices include:

- misrepresenting pertinent facts or insurance policy provisions relating to coverages at issue;
- failing to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies;
- failing to adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies;
- failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed;
- attempting to settle a claim for less than the amount to which a reasonable person would have believed such person was entitled;
- attempting to settle claims on the basis of an application that was altered without notice to or knowledge or consent of the insured;
- compelling insureds to institute suits to recover amounts due under policies by offering substantially less than the amounts ultimately recovered in suits brought by them;
- refusing to pay claims without conducting a reasonable investigation;
- making claim payments to an insured without indicating the coverage under which each payment is being made;
- delaying the investigation or payment of claims by requiring an insured, claimant or the physician of either to submit a preliminary claim report and then requiring the subsequent submission of formal proof of loss forms, both of which submissions contains substantially the same information;
- failing, in the case of claim denials or offers of compromise or settlement, to promptly provide a reasonable and accurate explanation of the basis for such actions; and
- not attempting in good faith to effectuate prompt, fair and equitable settlements of claims in which liability has become reasonably clear.

We set business conduct policies and conduct training to make our employee-adjusters and other claims personnel aware of these prohibitions and we require them to conduct their activities in compliance with these statutes.

Periodic Financial and Market Conduct Examinations. The state insurance departments that have jurisdiction over our insurance subsidiaries may conduct on-site visits and examinations of the insurers' affairs, especially as to their financial condition, ability to fulfill their obligations to policyholders, market conduct, claims practices and compliance with other laws and applicable regulations. Typically, these examinations are conducted every three to five years. In addition, if circumstances dictate, regulators are authorized to conduct special or target examinations of insurers to address particular concerns or issues. The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action on the part of the company that is the subject of the examination or assessing fines or other penalties against that company. Currently, two such examinations are underway and we are in the process of answering various inquiries by the regulators as a result of these examinations. We believe we are in compliance with the applicable regulations surrounding these inquiries and we do not believe these examinations will have a material impact on our business or financial condition.

Recent Regulatory Developments. The California Department of Insurance prohibited insurance policies issued in California to contain discounts for drivers based on their having had prior insurance. Subsequently enacted legislation overruled the action of the insurance department, reinstating the discount. Several consumer groups challenged the law and, on January 15, 2004, the Superior Court of the State of California, County of Los Angeles ruled the legislation invalid. We anticipate that this ruling will be appealed. We currently offer a discount for prior insurance, as do most of our competitors. We are waiting for the guidance from the California Department of Insurance as to whether or when it will disallow the discount. We do not expect the impact of any removal of the discount to be material to our business or results of operations.

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MANAGEMENT

Directors and Executive Officers

Set forth below are the names, ages as of January 15, 2004 and current positions of our executive officers and directors.

Name	Age	Position
James R. Fisher	48	Chief Executive Officer and Chairman of the Board
Jeffrey J. Dailey	46	President and Chief Operating Officer
Anne M. Bandi	46	Senior Vice President Operations
George N. Christensen	57	Senior Vice President Business Integration
Brian J. Dwyer	47	Senior Vice President Product Research and Development
Craig E. Eisenacher	56	Senior Vice President Corporate Finance
Nila J. Harrison	40	Senior Vice President Human Resources
Simon J. Noonan	39	Senior Vice President Actuarial/Product
John L. Ondeck	43	Senior Vice President Chief Information Officer
Alexis S. Oster	34	Senior Vice President General Counsel
Robert D. Sadler	40	Senior Vice President Marketing
James J. Sclafani, Jr.	43	Senior Vice President Claims
Donald M. Simon	41	Senior Vice President Legal
Randy D. Sutton	42	Senior Vice President Chief Financial Officer
Perry Golkin	50	Director
Todd A. Fisher	38	Director
Scott C. Nuttall	31	Director

James R. Fisher. Mr. Fisher has been our Chief Executive Officer and Chairman of our board of directors since September 2000 and has been a director of our company since July 1998. Mr. Fisher has been the Managing Member and majority owner of Fisher Capital Corp. L.L.C. since March 1997. From 1986 through March 1997, Mr. Fisher was a senior executive at American Re Corporation and served most recently as Senior Vice President and Chief Financial Officer of American Re-insurance Company and American Re Corporation, President of American Re Financial Products and President and Chief Executive Officer of American Re Asset Management. Before joining American Re, Mr. Fisher was a Senior Accountant at Peat, Marwick, Mitchell & Co., Chief Financial Officer of The Lawrence Corporation and Senior Manager/Director of Insurance Industry Services at Price Waterhouse. Mr. Fisher is also a member of the board of directors of Willis Group Holdings Limited, a member of the board of directors of Alea Holdings US Company and a member of the board of directors of Alea Group Holdings (Bermuda) Ltd.

Jeffrey J. Dailey. Mr. Dailey has been our President since December 2003 and our Chief Operating Officer since April 2001. Mr. Dailey has 24 years of experience in the insurance industry. Prior to joining our company in 2001, Mr. Dailey was the Chief Executive Officer of Reliant Insurance. Prior to joining Reliant in 1996, Mr. Dailey spent 14 years with The Progressive Corporation, holding numerous executive positions culminating as President of Progressive's Northeast Division.

Anne M. Bandi. Ms. Bandi has been our Senior Vice President Operations since April 2001. Ms. Bandi has 24 years of insurance operations experience. Prior to joining our company, Ms. Bandi had been the Senior Vice President of Operations at Reliant Insurance since February 1996. Prior to joining Reliant, Ms. Bandi spent 16 years with The Progressive Corporation in a variety of operations management positions.

George N. Christensen. Mr. Christensen has been our Senior Vice President Business Integration since April 2001. Mr. Christensen joined our company in 1978 and has served in various roles since that time, including serving as our Chief Information Officer.

Brian J. Dwyer. Mr. Dwyer has been our Senior Vice President Product Research and Development since August of 2003. Mr. Dwyer has 14 years of insurance industry experience. Prior to joining our company, Mr. Dwyer served in various management roles for The Progressive Corporation from 1989 through 2002, including Regional Marketing Manager and General Manager positions. Prior to joining The Progressive Corporation, Mr. Dwyer served as a senior manager with Ernst & Whinney.

Craig E. Eisenacher. Mr. Eisenacher has been our Senior Vice President Corporate Finance since December 2003. Prior to joining our company, Mr. Eisenacher was a Managing Director with Century Capital Management, Inc., an investment management firm engaged in private equity investing with a focus on companies engaged in insurance and financial services. From 1996 through 1999, Mr. Eisenacher was Vice President of General Reinsurance Corp. Prior to 1996, Mr. Eisenacher held several senior management posts at insurance and reinsurance companies, including Treasurer and Controller of the CIGNA Property and Casualty Group, Vice President Finance of American Re-Insurance Company and Senior Vice President and Chief Financial Officer of Prudential Reinsurance Company.

Nila J. Harrison. Ms. Harrison has been our Senior Vice President Human Resources since April 2001. Ms. Harrison has 19 years of human resources experience. Prior to joining our company, Ms. Harrison was the Senior Vice President, Human Resources for Reliant. Prior to joining Reliant in April 1996, Ms. Harrison was in the retail industry, where she spent 12 years in human resources management positions with Fabri-Centers of America Inc. and Limited Brands Inc.

Simon J. Noonan. Mr. Noonan has been our Senior Vice President Actuarial/Product since April 2002. Prior to joining our company in 2002, Mr. Noonan was the Chief Executive Officer of Metis Financial LLC, a consulting firm specializing in the property casualty insurance market, since November of 1997. Prior to joining Metis, Mr. Noonan served as a Senior Manager and Director in the insurance practice of KPMG from 1991 through 1997.

John L. Ondeck. Mr. Ondeck has been our Senior Vice President Chief Information Officer since May 2002. Mr. Ondeck has over 12 years of information technology experience. Prior to joining our company in 2002, Mr. Ondeck was President of Armstrong and Lures, Inc., a software consulting firm from 2001 to 2002 and 1998 to 2000. Mr. Ondeck was a Vice President of Sales and Operations for Digital Day, a software development firm from 2000 to 2001. From 1990 through 1997, Mr. Ondeck held management positions at Oracle Corporation and Kraft General Foods.

Alexis S. Oster. Ms. Oster has been our Senior Vice President General Counsel since April 2001. Ms. Oster has 11 years of experience in the insurance industry. Prior to joining our company in 2001, Ms. Oster served as General Counsel for Reliant. Prior to joining Reliant in 1996, Ms. Oster was corporate counsel of USF&G Insurance, with a primary focus on regulatory matters, company licensing and general corporate legal matters.

Robert D. Sadler. Mr. Sadler has been our Senior Vice President Marketing since April 2001. Prior to joining our company in 2001, Mr. Sadler was the Chief Financial Officer for Reliant Insurance. Mr. Sadler was with Reliant Insurance from May 1996 through March 2001. Prior to joining Reliant, Mr. Sadler served as the Chief Financial Officer of Agency Insurance Company and as a manager for Ernst & Young in their insurance practice.

James J. Sclafani, Jr. Mr. Sclafani has been our Senior Vice President Claims since January 2003. Prior to joining our company, Mr. Sclafani was Vice President and world wide manager of liability claims for Enterprise Rent-A-Car. Prior to joining Enterprise in 1994, Mr. Sclafani was with the Progressive Corporation for 10 years holding various claim management positions.

Donald M. Simon. Mr. Simon has been our Senior Vice President Legal since April 2001. Mr. Simon joined our company in 1988, and prior to his current position, served in various roles, including director, Senior Vice President of Marketing, corporate in-house attorney and as our President. Mr. Simon is a member of the Florida Bar Association.

Randy D. Sutton. Mr. Sutton has been our Senior Vice President Chief Financial Officer since 1995 and has 18 years of insurance industry experience. Prior to joining our company, Mr. Sutton's primary experience was with Ernst & Young in their audit practice and their national insurance group.

Perry Golkin. Mr. Golkin has been a director of our company since our acquisition by KKR in 1998. Mr. Golkin has been a member of KKR & Co. L.L.C. since January 1, 1996. Mr. Golkin was a general partner of KKR from 1995 to January 1996. Prior to 1995, he was an executive of KKR. He is also a member of the board of directors of Alea Group Holdings (Bermuda) Ltd., PRIMEDIA, Inc., Rockwood Specialties, Inc., Walter Industries, Inc. and Willis Group Holdings Limited.

Todd A. Fisher. Mr. Fisher has been a director of our company since our acquisition by KKR in 1998. Mr. Fisher has been a member of KKR & Co. L.L.C. since January 1, 2001. Mr. Fisher was an executive of KKR from June 1993 to December 31, 2000. Mr. Fisher was an associate at Goldman Sachs & Co. from July 1992 to June 1993. He is also a member of the board of directors of Accuride Corporation, Alea Group Holdings (Bermuda) Ltd., Rockwood Specialties, Inc. and Willis Group Holdings Limited.

Scott C. Nuttall. Mr. Nuttall has been a director of our company since August 2000. Mr. Nuttall has been an executive of KKR since November 1996. Mr. Nuttall was an executive at The Blackstone Group from January 1995 to November 1996. He is also a member of the board of directors of Alea Group Holdings (Bermuda) Ltd., Amphenol Corporation, KinderCare Learning Centers, Walter Industries, Inc. and Willis Group Holdings Limited.

Board of Directors

Our board of directors currently consists of four directors. We are currently in the process of selecting independent directors, and we expect to add three independent members to our board of directors shortly after consummation of this offering. We expect to have a majority of independent directors within one year of the offering.

Committees of the Board of Directors

Audit Committee. Upon the closing of this offering, we will establish an Audit Committee. The Audit Committee will be responsible for the oversight of our accounting, reporting and financial control practices. The Audit Committee will review the qualifications of the independent auditors, select and engage the independent auditors and inform our board of directors as to their selection and engagement, and review the plan, fees and results of their audit, review our internal controls, and consider and approve any non-audit services proposed to be performed by the auditors.

We plan to nominate three independent members to our audit committee shortly after consummation of this offering so that all of our audit committee members will be independent, as such term is defined in Rule 10A-3(b)(i) under the Securities Exchange Act of 1934, as amended. In addition, one of them will be determined to be an "audit committee financial expert" as such term is defined in Item 401(h) of Regulation S-K.

Compensation Committee. Upon the closing of this offering, we will establish a Compensation Committee. The Compensation Committee will be responsible for the oversight of our compensation and benefit policies and programs, including administration of our annual bonus awards and incentive plans and the evaluation of our board of directors and management.

Nominating and Corporate Governance Committee. Upon the closing of this offering, we will establish a Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will be responsible for the oversight of and assist our board of directors in developing and recommending corporate governance practices and selecting the director nominees to stand for election at annual meetings of our stockholders.

Compensation Committee Interlocks and Insider Participation. The compensation levels of our executive officers are currently determined by our Chief Executive Officer, our President and/or our board of directors. After completion of this offering, our board of directors will form a compensation committee as described above. None of our executive officers has served as a director or member of the compensation committee, or other committee serving an equivalent function, of any entity of which an executive officer is expected to serve as a member of our compensation committee.

Director Compensation

We do not currently pay any compensation to our employee directors. Non-employee directors each receive an annual retainer of $25,000 per year.

It is anticipated that, after this offering, each director who is also our employee will not receive any compensation for serving as a director, and each director who is not our employee will receive an annual retainer of $40,000 per year, and the chairman of the audit committee will receive an additional $40,000 annual retainer and members of the audit committee will receive an additional $7,500 annual retainer. We also expect to reimburse each non-employee director for reasonable travel expenses incurred in connection with their services as directors.

Executive Compensation

The following table sets forth information with respect to compensation earned by our chief executive officer and our four most highly compensated executive officers for the fiscal years ended December 31, 2003 and December 31, 2002.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**All Other Annual Compen-sation ($)**	**Securities Underlying Options (#)**
James R. Fisher(1)	2003			$ 25,000(1)	
Chairman, Chief Executive Officer and Director	2002			$ 25,000(1)	
Jeffrey J. Dailey	2003	$ 385,385	(2)		(2)
President and Chief Operating Officer	2002	375,000			
			$ 187,500		19,557
James J. Sclafani, Jr.(3)	2003	266,538	$ 205,603(2)	32,966(4)	(2)
Senior Vice President Claims					
Simon J. Noonan	2003	260,096	(2)	30,192(4)	(2)
Senior Vice President	2002	163,461		34,284(4)	
Actuarial/Product			145,000		92,570
Donald M. Simon	2003	255,000	(2)		(2)
Senior Vice President Legal	2002	254,469			
			200,000		7,823

(1)

For the years ended December 31, 2003 and December 31, 2002, James R. Fisher was not a direct employee of our company. All compensation due to Mr. Fisher, in his role as our Chief Executive Officer, was paid to Fisher Capital Corp. LLC. Mr. Fisher is the managing member and majority owner of Fisher Capital, and receives 86.5% of all compensation we pay to Fisher Capital for his services as our Chief Executive Officer and the additional services Fisher Capital provides. For the years ended December 31, 2003 and December 31, 2002, the fee paid to Fisher Capital as compensation for Mr. Fisher's serving as our Chief Executive Officer was $700,000. In addition, for the years ended December 31, 2003 and December 31, 2002, Fisher Capital was granted 221,646 options and 130,380 options, respectively, at an exercise price of $3.83 per option share, which options Mr. Fisher may be deemed to beneficially own. Mr. Fisher also received, directly, a $25,000 annual fee for serving on our board of directors. Effective January 1, 2004, Mr. Fisher entered into an employment agreement with us. This employment agreement made him a direct employee of our company and his compensation will be paid directly to him. Mr. Fisher is no longer eligible to receive the $25,000 annual fee for serving on our board of directors.

(2)

Messrs. Dailey, Sclafani, Noonan and Simon are eligible to earn an annual bonus. Members of our management team receive 25% of their annual bonus award in grants of options to purchase shares of our common stock. Annual bonuses are generally based upon the achievement of annual net income targets established by our board of directors and the accomplishment of strategic goals. The annual bonuses earned during the 2003 year have not yet been determined. We expect these bonuses to be presented to our board of directors no later than March 15, 2004 and paid no later than April 15, 2004. In addition to the annual bonus for 2003, Mr. Sclafani received a sign-on bonus of $205,603 in 2003.

(3)

Mr. Sclafani began his employment with our company on January 2, 2003.

(4)

Consists of relocation expenses.

Option Grants

The following table sets forth the options to purchase shares of our common stock granted to each of our executive officers listed on the Summary Compensation Table during the year ended December 31, 2003.

	Individual Grants				
Name	**Number of Securities Underlying Options Granted (#)**	**Percent of Total Options Granted To Employees In Fiscal Year**	**Exercise of Base Price ($/per share)**	**Expiration Date**	**Grant Date Present Value ($)[2]**
James R. Fisher[1]					
Jeffrey J. Dailey	8,149	3.1%	$ 7.67	May 1, 2013	$ 3,613
James J. Sclafani, Jr.	84,747	32.3	3.83	January 1, 2013	40,786
Simon J. Noonan	3,260	1.2	7.67	May 1, 2013	1,445
Donald M. Simon					

(1)

For the year ended December 31, 2003, James R. Fisher was not a direct employee of our company. However, Mr. Fisher is the managing member and majority owner of Fisher Capital, and receives 86.5% of all compensation we pay to Fisher Capital for his services as our Chief Executive Officer and the additional services Fisher Capital provides. For the year ended December 31, 2003, Fisher Capital was granted 221,646 options at an exercise price of $3.83 per option share. Fisher Capital's options granted in the year ended December 31, 2003 are not included for purposes of the calculation of the percent of total options granted to our employees, although Mr. Fisher may be deemed to beneficially own those option shares. Effective January 1, 2004, Mr. Fisher entered into an employment agreement with us. This employment agreement made him a direct employee of our company and his options will be granted directly to him.

(2)

These values were determined based on the Black-Scholes option pricing model. Calculation of the Grant Date Present Value was based on the following assumptions: price volatility of 30%; a dividend yield of 0%; a risk-free rate of return of 5.02%; and exercise of the options ten years after their grant.

Effective January 1, 2002, members of our management team and other managers receive 25% of their annual bonus award in grants of options to purchase shares of our common stock under our 1998 Stock Option Plan for Management and Key Employees of Bristol West Holdings, Inc. and Subsidiaries. In the future, these grants will be under our 2004 Stock Incentive Plan for Bristol West Holdings, Inc. and Subsidiaries. The exercise price of the most recently granted options is $15.34 per option share. See " 1998 Stock Option Plan" and " 2004 Stock Incentive Plan."

The following table sets forth the number and value of securities underlying unexercised options held by each of our executive officers listed on the Summary Compensation Table as of December 31, 2003. None of our executive officers exercised any options in fiscal year 2003.

Name	Shares Acquired On Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-The-Money Options At Fiscal Year-End[2] ($)	
			Exercisable	**Unexercisable**	**Exercisable**	**Unexercisable**
James R. Fisher[1]						
Jeffrey J. Dailey			114,083	174,383	$ 1,844,150	$ 2,787,665
James J. Sclafani, Jr.				84,747		1,369,940
Simon J. Noonan			46,285	49,544	748,198	788,388
Donald M. Simon			851,381	3,911	13,762,622	63,222

(1)

For the year ended December 31, 2003, James R. Fisher was not a direct employee of our company. However, Mr. Fisher is the managing member and majority owner of Fisher Capital, and receives 86.5% of all compensation we pay to Fisher Capital for his services as our Chief Executive Officer and the additional services Fisher Capital provides. As of D