BRISTOL WEST HOLDINGS INC
Form S-1
December 17, 2003

QuickLinks -- Click here to rapidly navigate through this document

As filed with the Securities and Exchange Commission on December 17, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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	**6331**	**13-3994449**
(Jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(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(1)	Amount of Registration Fee
Common Stock, par value $0.01 per share(2)			$300,000,000	$24,270

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(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

Shares

Bristol West Holdings, Inc.

Common Stock

We are selling shares of common stock and the selling stockholders are selling 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 $ and $ 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 additional shares 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 .

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.

The date of this prospectus is .

TABLE OF CONTENTS

PROSPECTUS SUMMARY	1
RISK FACTORS	7
CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS	18
USE OF PROCEEDS	19
DIVIDEND POLICY	19
CAPITALIZATION	20
DILUTION	21
SELECTED HISTORICAL FINANCIAL AND OPERATING DATA	22
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	23
BUSINESS	34
REGULATORY MATTERS	54
MANAGEMENT	59
PRINCIPAL AND SELLING STOCKHOLDERS	67
CERTAIN ARRANGEMENTS AND RELATIONSHIPS	69
DESCRIPTION OF CAPITAL STOCK	72
COMMON STOCK ELIGIBLE FOR FUTURE SALE	74
CERTAIN U.S. TAX CONSEQUENCES TO NON-U.S. HOLDERS	75
UNDERWRITING	77
NOTICE TO CANADIAN RESIDENTS	80
LEGAL MATTERS	81
EXPERTS	81
WHERE YOU CAN FIND MORE INFORMATION	81
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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.; and

- the information assumes that the underwriters have not exercised their over-allotment option.

PROSPECTUS SUMMARY

This summary highlights information about Bristol West Holdings, Inc. and the offering contained elsewhere in this prospectus. It 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 leading 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, representing a compound annual growth rate of approximately 30%. During that period, our annual policy service fee revenues grew from $25.8 million to $47.3 million, representing a compound annual growth rate of approximately 22%. 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 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 leading 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. 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. 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. 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 increase premiums written and improve productivity and policyholder retention.

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 recent strong results are due largely to the 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 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.

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:	shares
Common stock offered by the selling stockholders:	shares
Total common stock outstanding after this offering:	shares
Use of proceeds:	We intend to contribute $ million of the proceeds that we receive from this offering to our insurance subsidiaries, which will allow us to reduce our reinsurance purchases and to retain more gross premiums written over time. We intend to use any remaining net proceeds that we receive for general corporate purposes.
	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 $ 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 September 30, 2003. This number excludes:

shares of our common stock at an exercise price of $ per share, issuable upon exercise of outstanding stock options; and

shares of our common stock reserved for future issuances under our existing employee and director compensation plans.

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:					
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 per share	$ 118.3	$ 88.5	$ 63.0	$ 38.6	$ (116.9)
Book value per share	688.4	579.0	562.8	484.4	435.3

	As of or for the nine months ended September 30,		As of or for the year ended December 31,		
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 settlement 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. 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 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 or commercially domiciled, and where these subsidiaries issue policies and handle claims. 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, 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. 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. 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. 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. 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 and forms 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 in response to competition or to increasing costs 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. 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. In addition, in some states, there has been some pressure in past years to reduce rates for automobile and other personal insurance or to limit how often an insurer may request increases for such rates. In states where such pressure is applied, our ability to respond to market developments or increased costs in that state can be adversely affected.

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. To date, none of these restrictions has had an impact on our operations or strategic planning in the states in which we operate. However, these laws and regulations that limit cancellations and non-renewals and that subject business withdrawals to prior approval restrictions could limit our ability to exit or reduce our writings in unprofitable markets or discontinue unprofitable products in the future.

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. The risk-based capital standards, based upon the Risk-Based Capital Model Act, adopted by the National Association of Insurance Commissioners, or 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, which we may be unable to do. As of September 30, 2003, each of our insurance subsidiaries maintained a risk-based capital level that is in excess of an amount that would require any corrective actions on our part.

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 involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges;
- reporting with respect to financial condition.

In addition, state insurance department examiners perform periodic financial and market conduct examinations of insurance companies. Such regulation is generally intended for the protection of policyholders rather than securityholders.

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. 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.

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. See "Regulatory Matters."

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. 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. See "Regulatory Matters."

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. See "Business Ratings."

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. See "Business Technology."

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 the implied covenant of fair dealing on behalf of more than 600 individuals over whom there is a dispute as to whether or not they 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 to 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. See "Business Legal Proceedings."

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. 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. See "Business Reinsurance." 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 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. See "Underwriting."

After this offering, we will have approximately million shares of common stock outstanding. If the underwriters exercise their over-allotment option, shares will be outstanding. Of those shares, the million shares we are offering will be freely tradeable. The approximately million shares that were outstanding immediately prior to this offering 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 may be resold under Rule 144(k) without regard to volume limitations and approximately million shares may be sold subject to the volume, manner of sale and other conditions of Rule 144. KKR, which owns million shares of our common stock, will have the ability to cause us to register the resale of its shares.

In addition, approximately million shares are issuable upon the exercise of presently outstanding stock options under our 1998 Stock Option Plan for Management and Key Employees of Bristol West Holdings, Inc. and Subsidiaries and approximately million shares have been reserved for future issuance under that stock option plan. These shares will be eligible for resale from time to time, subject to contractual restrictions and restrictions under the Securities Act.

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. See "Certain Arrangements and Relationships Registration Rights Agreement" and "Shares Eligible for Future Sale" for further information regarding circumstances under which additional common stock may be sold.

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 million shares of common stock at an assumed initial public offering price of $ per share (the midpoint of the price range set forth on the cover page of this prospectus), you will incur immediate dilution of approximately $ 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. See "Dilution."

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

After the offering, KKR will own % of our common stock, or % 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 and determine our corporate and management policies, including potential mergers or acquisitions, asset sales and other significant corporate transactions. We cannot assure you that the interests of KKR will coincide with the interests of other holders of our common stock.

Applicable insurance laws and Delaware corporate law may make it difficult to effect a change of control of our company.

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. Prior to granting approval of an application to acquire control of an insurer, the state insurance commissioner will consider such factors as the financial strength of the applicant, the integrity of the applicant's board of directors and executive officers, the acquiror's plans for the management of the applicant's board of directors and executive officers, the acquiror's plans for the future operations of the insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Generally, state insurance statutes provide that control over an insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the insurer. In Florida, the state of domicile of one of our insurance subsidiaries, approval is required before any person acquires 5% or more of the voting securities.

In addition, certain anti-takeover provisions of the Delaware General Corporation Law could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders.

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.

The market price of our common stock may be volatile, which could cause the value of your investment to decline.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our common stock could decrease significantly. You may be unable to resell your shares of our common stock at or above the initial public offering price.

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 will receive net proceeds from this offering of approximately $ million, assuming an initial public offering price of $, after deducting the underwriting discounts and commissions and our estimated offering expenses. We intend to contribute $ million of the proceeds from this offering that we receive to our insurance subsidiaries, which will allow us to reduce our reinsurance purchases and to retain more gross premiums written over time. We intend to use any remaining net proceeds that we receive for general corporate purposes.

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 $ 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, 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 the sale of shares of common stock offered by us in this offering at an assumed initial public offering price of $ 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. 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)	

	(Unaudited)	
Debt:		
Long-term debt	$ 81.5	
Total Debt	81.5	
Stockholders' Equity:		
Common stock, par value $0.01 per share (shares authorized, issued and outstanding) (shares as adjusted) and additional paid-in capital	96.3	
Treasury stock, at cost (shares)	(2.6)	
Stock subscription receivable	(0.6)	
Retained earnings	30.8	
Accumulated other comprehensive income	2.0	
Total Stockholders' Equity	125.9	
Total Capitalization	$ 207.4	

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 the sale of shares of common stock in this offering at an assumed initial public offering price of $ 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, our adjusted net tangible book value as of September 30, 2003 would have been $, or $ per share of common stock. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution in net tangible book value of $ per share to new investors.

The following table illustrates this per share dilution:

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

The following table summarizes, on an adjusted basis as of September 30, 2003, 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		%	$	%	$
New investors					

	Shares Purchased		Total Consideration	
Total		100.00%	$	100.00%

The tables and calculations above assume no exercise of outstanding options. As of September 30, 2003, there were shares of our common stock reserved for issuance upon exercise of outstanding options at a weighted average exercise price of $ 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."

21

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.

	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, through December 31, 1998	Predecessor Company As of July 9, 1998 or for the period from January 1, through July 9, 1998
	2003	2002	2002	2001	2000	1999		
	(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

								Predecessor Company
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 per share	$ 118.3	$ 88.5	$ 63.0	$ 38.6	$ (116.9)	$ 24.0	$ 35.1	
Book value per share	688.4	579.0	562.8	484.4	435.3	535.5	535.5	
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 settlement 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 leading 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 Reserves for Loss and Loss Adjustment Expense. Our insurance subsidiaries' loss and loss adjustment expense reserves are reviewed quarterly by our actuarial staff. 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. Our loss and loss adjustment expense reserves are periodically adjusted for changes in product mix, underwriting standards and rules, loss cost trends, as well as 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 analysis. 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. We believe the reserves for loss and loss adjustment expense 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 Prima 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 in the loss and loss adjustment expense reserves for prior years in the nine months ended September 30, 2003, compared to 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