

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

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

Registration No. 333-111259

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**Amendment No. 6**

to

**Form S-1**

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

**BRISTOL WEST HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(Jurisdiction of incorporation or organization)

**6331**

(Primary Standard Industrial  
Classification Code Number)

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

**13-3994449**

(I.R.S. Employer Identification Number)

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

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**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)

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**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 55<sup>th</sup> Street  
New York, New York 10019  
(212) 424-8000**

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

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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.

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.

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.

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.

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

**CALCULATION OF REGISTRATION FEE**

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

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

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

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

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

SUBJECT TO COMPLETION, DATED FEBRUARY 10, 2004

15,000,000 Shares

## Bristol West Holdings, Inc.

### Common Stock

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

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

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

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

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Bristol West Holdings, Inc.	Proceeds to Selling Stockholders
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$
Delivery of the shares of common stock will be made on or about _____, 2004.				

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

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

**JPMorgan UBS Investment Bank**

**Dowling & Partners Securities, LLC Keefe, Bruyette & Woods**

**Cochran, Caronia & Co.**

The date of this prospectus is \_\_\_\_\_, 2004.

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### Dealer Prospectus Delivery Obligation

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

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

references to "Bristol West," "the company," "we," "us" and "our" are to Bristol West Holdings, Inc. and its combined operations;

references to "our insurance subsidiaries" are to Coast National Insurance Company, Security National Insurance Company, Bristol West Casualty Insurance Company and Bristol West Insurance Company, collectively;

references to "our non-insurance subsidiaries" are to Coast National Holding Company, Coast National General Agency, Inc., Bristol West Insurance Services of California, Inc., Bristol West Insurance Services, Inc. of Florida, Apex Adjustment Bureau, Inc., GP, LLC, Insurance Data Systems, G.P., Bayview Adjustment Bureau, Inc., Bristol West Insurance Services of Georgia, Inc., Bristol West Insurance Services of Pennsylvania, Inc., BWIS of Nevada, Inc., and Bristol West Insurance Services of Texas, Inc., collectively;

insurance industry data and our market share or ranking in the industry were derived from data compiled by A.M. Best Company Inc.;

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

all share and per share data have been adjusted to reflect the 130.38-for-one stock split of our common stock.

### PROSPECTUS SUMMARY

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

**Bristol West Holdings, Inc.**

## What We Do

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

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

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

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

## Our Competitive Strengths

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

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

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

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

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

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

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

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

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

## Our Strategies

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

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

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

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

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

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

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

**Our Challenges**

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

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

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

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

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

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

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

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**Recent Developments***Results for the Year ended December 31, 2003*

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

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

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

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

#### *Refinancing Activities*

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

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

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#### **The Offering**

Common stock offered by us:	6,250,000 shares
Common stock offered by the selling stockholders:	8,750,000 shares
<b>Total common stock outstanding after this offering:</b>	<b>30,624,993 shares</b>

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



including increased liquidity, interest and principal payments on our debt or payment of stockholder dividends.

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

Dividend policy:

We currently expect to pay quarterly dividends of \$0.05 per share. See "Dividend Policy."

Proposed New York Stock Exchange symbol:

BRW

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

4,167,161 shares of our common stock with a weighted average exercise price of \$4.05 per share, issuable upon exercise of outstanding stock options and warrants; and

3,106,504 shares of our common stock reserved for future issuances under our existing employee and director compensation plans.

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### Summary Historical Financial and Operating Data

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

	As of or for the nine months ended September 30,		As of or for the year ended December 31,		
	2003	2002	2002	2001	2000

(dollars in millions, except per share data)

#### Statement of Operations Data:

##### Revenues:

Net premiums earned	\$ 210.1	\$ 175.5	\$ 241.0	\$ 158.6	\$ 185.7
Net investment income	5.1	4.7	6.4	6.4	7.9
Realized gain (loss) on investments	1.1	0.2	0.3	1.0	(0.2)
Policy service fee revenues	52.4	32.3	47.3	36.1	32.8
Outsourcing servicing fees <sup>(a)</sup>	0.0	0.0	0.9	18.6	0.0
Other income	1.2	1.6	2.0	1.4	0.6
<b>Total revenues</b>	<b>\$ 269.9</b>	<b>\$ 214.3</b>	<b>\$ 297.9</b>	<b>\$ 222.1</b>	<b>\$ 226.8</b>

##### Costs and Expenses:

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	As of or for the nine months ended September 30,		As of or for the year ended December 31,		
Losses and loss adjustment expenses	\$ 154.1	\$ 146.9	\$ 200.5	\$ 128.9	\$ 167.2
Commissions and other underwriting expenses	39.9	25.3	42.1	50.3	64.3
Other operating and general expenses	18.8	14.7	19.3	19.9	13.8
Litigation expense <sup>(b)</sup>	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
<b>Total costs and expenses</b>	<b>\$ 233.2</b>	<b>\$ 190.5</b>	<b>\$ 281.1</b>	<b>\$ 211.3</b>	<b>\$ 258.9</b>
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)
<b>Net income (loss)</b>	<b>\$ 22.8</b>	<b>\$ 16.2</b>	<b>\$ 11.5</b>	<b>\$ 7.0</b>	<b>\$ (21.4)</b>
<b>Balance Sheet Data:</b>					
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
<b>Operating Data:</b>					
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
<b>Per Share Data:</b>					
Earnings (loss) per share	.91	.68	.48	.30	(.90)
Book value per share	5.28	4.44	4.32	3.72	3.34
<b>Ratios:</b>					
Loss ratio <sup>(c)</sup>	58.4%	70.2%	68.9%	60.0%	76.3%
Expense ratio <sup>(d)</sup>	22.3%	19.1%	21.1%	32.7%	35.6%
<b>Combined ratio<sup>(e)</sup></b>	<b>80.7%</b>	<b>89.3%</b>	<b>90.0%</b>	<b>92.7%</b>	<b>111.9%</b>

- (a) Outsourcing servicing fees represent fees earned under a contract with Reliance Insurance Company for servicing policies and claims on the run-off of their non-standard automobile insurance business. We entered into this contract in connection with our acquisition in April 2001 of Reliant, the non-standard automobile operations of Reliance Group Holdings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Reliant Acquisition." These outsourcing fees resulted from a one-time transaction and we do not expect to be earning such fees in the future.
- (b) Litigation expense represents expense associated with the settlements of certain class action lawsuits. See "Business - Legal Proceedings."
- (c) Loss ratio is the ratio, expressed as a percentage, of (i) losses and loss adjustment expenses incurred, divided by (ii) the sum of (A) net premiums earned, (B) policy service fee revenues, (C) outsourcing servicing fees and (D) other income.
- (d) Expense ratio is the ratio, expressed as a percentage, of (i) the sum of (A) commissions and other underwriting expenses and (B) other operating and general expenses divided by (ii) the sum of (A) net premiums earned, (B) policy service fee revenues, (C) outsourcing servicing fees and (D) other income.
- (e) Combined ratio is the sum of the loss ratio and the expense ratio. This ratio is used by our management to evaluate our operating profitability.

## RISK FACTORS

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

### Risks Relating to Our Company

#### **We face intense competition from other automobile insurance providers.**

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

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

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

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

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

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

availability of sufficient reliable data;

incorrect or incomplete analysis of available data;

uncertainties inherent in estimates and assumptions, generally;

selection and application of appropriate rating formulas or other pricing methodologies;

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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 our capital would decrease. In the past, we have found it necessary to make several adjustments to our loss and loss adjustment expense reserves. There can be no assurance that actual claims and loss adjustment expenses that we pay will not deviate from the loss and loss adjustment expense reserve estimates reflected in our financial statements.

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

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

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

*Transactions Between Insurance Companies and Their Affiliates.* Transactions between our subsidiaries and their affiliates (including us) generally must be disclosed to the state regulators, and prior approval of the applicable regulator generally is required before any material or extraordinary

transaction may be consummated. State regulators may refuse to approve or delay approval of such a transaction, which may impact our ability to innovate or operate efficiently.

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

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

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

the use of non-public consumer information and related privacy issues;

investment restrictions;

the use of credit history in underwriting and rating;

the payment of dividends;

the acquisition or disposition of an insurance company or of any company controlling an insurance company;

the involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges;

reporting with respect to financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 performan