Eaton Vance Tax-Managed Buy-Write Income Fund
Form N-CSRS
August 26, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act File Number: 811-21676

Eaton Vance Tax-Managed Buy-Write Income Fund

(Exact Name of Registrant as Specified in Charter)

Two International Place, Boston, Massachusetts 02110

(Address of Principal Executive Offices)

Maureen A. Gemma

Two International Place, Boston, Massachusetts 02110

(Name and Address of Agent for Services)

(617) 482-8260

(Registrant s Telephone Number)

December 31

Date of Fiscal Year End

June 30, 2015

Date of Reporting Period

Item 1. Reports to Stockholders

Eaton Vance

Tax-Managed Buy-Write Income Fund (ETB)

Semiannual Report

June 30, 2015

Commodity Futures Trading Commission Registration. Effective December 31, 2012, the Commodity Futures Trading Commission (CFTC) adopted certain regulatory changes that subject registered investment companies and advisers to regulation by the CFTC if a fund invests more than a prescribed level of its assets in certain CFTC-regulated instruments (including futures, certain options and swap agreements) or markets itself as providing investment exposure to such instruments. The Fund has claimed an exclusion from the definition of the term commodity pool operator under the Commodity Exchange Act. Accordingly, neither the Fund nor the adviser with respect to the operation of the Fund is subject to CFTC regulation. Because of its management of other strategies, the Fund s adviser is registered with the CFTC as a commodity pool operator and a commodity trading advisor.

Managed Distribution Plan. Pursuant to an exemptive order issued by the Securities and Exchange Commission (Order), the Fund is authorized to distribute long-term capital gains to shareholders more frequently than once per year. Pursuant to the Order, the Fund s Board of Trustees approved a Managed Distribution Plan (MDP) pursuant to which the Fund makes monthly cash distributions to common shareholders, stated in terms of a fixed amount per common share.

The Fund currently distributes monthly cash distributions equal to $0.1080 per share in accordance with the MDP. You should not draw any conclusions about the Fund s investment performance from the amount of these distributions or from the terms of the MDP. The MDP will be subject to regular periodic review by the Fund s Board of Trustees and the Board may amend or terminate the MDP at any time without prior notice to Fund shareholders. However, at this time there are no reasonably foreseeable circumstances that might cause the termination of the MDP.

The Fund may distribute more than its net investment income and net realized capital gains and, therefore, a distribution may include a return of capital. A return of capital distribution does not necessarily reflect the Fund s investment performance and should not be confused with yield or income. With each distribution, the Fund will issue a notice to shareholders and a press release containing information about the amount and sources of the distribution and other related information. The amounts and sources of distributions contained in the notice and press release are only estimates and are not provided for tax purposes. The amounts and sources of the Fund s distributions for tax purposes will be reported to shareholders on Form 1099-DIV for each calendar year.

Fund shares are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. Shares are subject to investment risks, including possible loss of principal invested.

Semiannual Report June 30, 2015

Eaton Vance

Tax-Managed Buy-Write Income Fund

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Tax-Managed Buy-Write Income Fund

June 30, 2015

Performance[1]

Portfolio Managers Michael A. Allison, CFA and Thomas C. Seto

% Average Annual Total Returns	Inception Date	Six Months	One Year	Five Years	Ten Years
Fund at NAV	04/29/2005	2.94%	6.17%	13.44%	8.39%
Fund at Market Price		1.40	5.14	10.03	7.76
S&P 500 Index		1.23%	7.42%	17.33%	7.89%
CBOE S&P 500 BuyWrite Index		3.67	3.64	9.98	5.06

% Premium/Discount to NAV[2]	
	3.97%

Distributions[3]	
Total Distributions per share for the period	$ 0.648
Distribution Rate at NAV	8.04%
Distribution Rate at Market Price	8.37%

Fund Profile

Sector Allocation (% of total investments)[4]

Top 10 Holdings (% of total investments)[4]

Apple, Inc.	4.8%
Microsoft Corp.	2.2
Wells Fargo & Co.	2.1
Walt Disney Co. (The)	1.8
JPMorgan Chase & Co.	1.7
Exxon Mobil Corp.	1.6

Home Depot, Inc. (The)	1.6
Merck & Co., Inc.	1.5
Chevron Corp.	1.5
Comcast Corp., Class A	1.5
Total	20.3%

See Endnotes and Additional Disclosures in this report.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value (NAV) or market price (as applicable) with all distributions reinvested and includes management fees and other expenses. Fund performance at market price will differ from its results at NAV due to factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for Fund shares, or changes in Fund distributions. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance less than one year is cumulative. Performance is for the stated time period only; due to market volatility, current Fund performance may be lower or higher than the quoted return. For performance as of the most recent month-end, please refer to eatonvance.com.

Eaton Vance

Tax-Managed Buy-Write Income Fund

June 30, 2015

Fund Snapshot

Objective	The primary investment objective is to provide current income and gains, with a secondary objective of capital appreciation.
Strategy	The Fund invests in a diversified portfolio of common stocks and writes call options on one or more U.S. indices on a substantial portion of the value of its common stock portfolio to generate current earnings from the option premium. The Fund evaluates returns on an after tax basis and seeks to minimize and defer federal income taxes incurred by shareholders in connection with their investment in the Fund.

Options Strategy	Write Index Covered Calls
Equity Benchmark[1]	S&P 500 Index
Morningstar Category	Large Blend
Distribution Frequency	Monthly
Common Stock Portfolio	
Positions Held	194
% US / Non-US	99.7/0.3
Average Market Cap	$145.5 Billion
Call Options Written	
% of Stock Portfolio	94%
Average Days to Expiration	13 days
% Out of the Money	3.3%

The following terms as used in the Fund snapshot:

Average Market Cap: An indicator of the size of the companies in which the Fund invests and is the sum of each security s weight in the portfolio multiplied by its market cap. Market Cap is determined by multiplying the price of a share of a company s common stock by the number of shares outstanding.

Call Option: For an index call option, the buyer has the right to receive from the seller (or writer) a cash payment at the option expiration date equal to any positive difference between the value of the index at contract expiration and the exercise price. The buyer of a call option makes a cash payment (premium) to the seller (writer) of the option upon entering into the option contract.

Covered Call Strategy: A strategy of owning a portfolio of common stocks and writing call options on all or a portion of such stocks to generate current earnings from option premium.

Out of the Money: For a call option on an index, the extent to which the exercise price of the option exceeds the current price of the value of the index.

See Endnotes and Additional Disclosures in this report.

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Endnotes and Additional Disclosures

[1] S&P 500 Index is an unmanaged index of large-cap stocks commonly used as a measure of U.S. stock market performance. CBOE S&P 500 BuyWrite Index measures the performance of a hypothetical buy-write strategy on the S&P 500 Index. Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index. Performance since inception for an index, if presented, is the performance since the Fund s or oldest share class inception, as applicable.

[2] The shares of the Fund often trade at a discount or premium from their net asset value. The discount or premium of the Fund may vary over time and may be higher or lower than what is quoted in this report. For up-to-date premium/discount information, please refer to http://eatonvance.com/closedend.

[3] The Distribution Rate is based on the Fund s last regular distribution per share in the period (annualized) divided by the Fund s NAV or market price at the end of the period. The Fund s distributions may be comprised of amounts characterized for federal income tax purposes as qualified and non-qualified ordinary dividends, capital gains and nondividend distributions, also known as return of capital. For additional information about nondividend distributions, please refer to Eaton Vance Closed-End Fund Distribution Notices (19a) posted on our website, eatonvance.com. The Fund will determine the federal income tax character of distributions paid to a shareholder after the end of the calendar year. This is reported on the IRS form 1099-DIV and provided to the shareholder shortly after each year-end. For information about the tax character of distributions made in prior calendar years, please refer to Performance-Tax Character of Distributions on the Fund s webpage available at eatonvance.com. In recent years, a significant portion of the Fund s distributions has been characterized as a return of capital. The Fund s distributions are determined by the investment adviser based on its current assessment of the Fund s long-term return potential. As portfolio and market conditions change, the rate of distributions paid by the Fund could change.

[4] Depictions do not reflect the Fund s option positions. Excludes cash and cash equivalents.

Fund snapshot and profile subject to change due to active management.

Important Notice to Shareholders

Effective June 30, 2015, the Fund is managed by Michael A. Allison, CFA and Thomas C. Seto.

Eaton Vance

Tax-Managed Buy-Write Income Fund

June 30, 2015

Portfolio of Investments (Unaudited)

Common Stocks 99.7%

Security	Shares	Value
Aerospace & Defense 3.9%		
Boeing Co. (The)	24,383	$ 3,382,410
Honeywell International, Inc.	43,114	4,396,334
Northrop Grumman Corp.	21,600	3,426,408
Textron, Inc.	11,648	519,850
United Technologies Corp.	33,819	3,751,542
		$ 15,476,544
Air Freight & Logistics 0.4%		
C.H. Robinson Worldwide, Inc.	7,252	$ 452,452
United Parcel Service, Inc., Class B	10,003	969,391
		$ 1,421,843
Airlines 0.4%		
American Airlines Group, Inc.	5,546	$ 221,480
Southwest Airlines Co.	36,616	1,211,623
		$ 1,433,103
Auto Components 0.9%		
Dana Holding Corp.	31,658	$ 651,522
Goodyear Tire & Rubber Co. (The)	3,713	111,947
Johnson Controls, Inc.	36,367	1,801,257
Lear Corp.	7,250	813,885
		$ 3,378,611
Automobiles 0.2%		
Ford Motor Co.	56,137	$ 842,616
		$ 842,616
Banks 7.2%		

Bank of America Corp.	131,359	$ 2,235,730
BankUnited, Inc.	10,483	376,654
Citigroup, Inc.	104,586	5,777,331
Fifth Third Bancorp	57,446	1,196,026
JPMorgan Chase & Co.	97,731	6,622,253
KeyCorp	85,122	1,278,532
M&T Bank Corp.	5,096	636,643
PNC Financial Services Group, Inc. (The)	18,419	1,761,777
SunTrust Banks, Inc.	5,538	238,245
Wells Fargo & Co.	149,399	8,402,200
		$ 28,525,391

Security	**Shares**	**Value**
Beverages 2.5%		
Coca-Cola Co. (The)	138,646	$ 5,439,083
PepsiCo, Inc.	47,142	4,400,234
		$ 9,839,317
Biotechnology 3.4%		
Amgen, Inc.	18,988	$ 2,915,038
Celgene Corp.(1)	40,861	4,729,048
Gilead Sciences, Inc.	44,082	5,161,120
Regeneron Pharmaceuticals, Inc.(1)	205	104,577
Vertex Pharmaceuticals, Inc.(1)	3,386	418,103
		$ 13,327,886
Capital Markets 1.3%		
Invesco, Ltd.	38,480	$ 1,442,615
Lazard, Ltd., Class A	21,525	1,210,566
Legg Mason, Inc.	7,629	393,123
State Street Corp.	27,413	2,110,801
		$ 5,157,105
Chemicals 2.3%		
CF Industries Holdings, Inc.	17,295	$ 1,111,723
Dow Chemical Co. (The)	45,132	2,309,404
E.I. du Pont de Nemours & Co.	46,387	2,966,449
Eastman Chemical Co.	3,608	295,206
Sherwin-Williams Co. (The)	9,183	2,525,509
		$ 9,208,291
Commercial Services & Supplies 0.1%		
Waste Management, Inc.	4,649	$ 215,481
		$ 215,481
Communications Equipment 2.1%		
Brocade Communications Systems, Inc.	42,403	$ 503,747
Cisco Systems, Inc.	134,376	3,689,965
QUALCOMM, Inc.	67,609	4,234,352
		$ 8,428,064

Construction & Engineering 0.3%		
Fluor Corp.	25,575	$ 1,355,731
		$ 1,355,731
Consumer Finance 1.1%		
American Express Co.	27,933	$ 2,170,953

See Notes to Financial Statements.

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Portfolio of Investments (Unaudited) continued

Security	Shares	Value
Consumer Finance (continued)		
Discover Financial Services	40,754	$ 2,348,245
		$ 4,519,198
Containers & Packaging 0.5%		
Avery Dennison Corp.	15,307	$ 932,808
MeadWestvaco Corp.	21,446	1,012,037
		$ 1,944,845
Distributors 0.6%		
Genuine Parts Co.	27,494	$ 2,461,538
		$ 2,461,538
Diversified Financial Services 1.8%		
Berkshire Hathaway, Inc., Class B(1)	26,717	$ 3,636,451
McGraw Hill Financial, Inc.	34,144	3,429,765
		$ 7,066,216
Diversified Telecommunication Services 1.9%		
AT&T, Inc.	132,177	$ 4,694,927
Frontier Communications Corp.	89,555	443,297
Level 3 Communications, Inc.(1)	1,187	62,520
Verizon Communications, Inc.	52,772	2,459,703
		$ 7,660,447
Electric Utilities 0.9%		
Duke Energy Corp.	23,843	$ 1,683,793
Edison International	21,133	1,174,572
Pinnacle West Capital Corp.	7,168	407,787
Xcel Energy, Inc.	12,009	386,450
		$ 3,652,602

Electrical Equipment 0.6%		
Emerson Electric Co.	44,837	$ 2,485,315
		$ 2,485,315
Energy Equipment & Services 1.6%		
Halliburton Co.	53,378	$ 2,298,990
Schlumberger, Ltd.	47,378	4,083,510
		$ 6,382,500
Food & Staples Retailing 2.0%		
CVS Health Corp.	54,186	$ 5,683,028
Wal-Mart Stores, Inc.	33,228	2,356,862

Security	**Shares**	**Value**
Food & Staples Retailing (continued)		
Walgreens Boots Alliance, Inc.	671	$ 56,659
		$ 8,096,549
Food Products 1.5%		
Kellogg Co.	14,423	$ 904,322
Keurig Green Mountain, Inc.	15,366	1,177,497
Kraft Foods Group, Inc.	8,326	708,876
Mondelez International, Inc., Class A	46,954	1,931,687
Tyson Foods, Inc., Class A	28,696	1,223,310
		$ 5,945,692
Health Care Equipment & Supplies 2.8%		
Abbott Laboratories	73,588	$ 3,611,699
Baxter International, Inc.	37,878	2,648,809
Halyard Health, Inc.(1)	2,481	100,480
Medtronic PLC	23,178	1,717,490
Stryker Corp.	26,801	2,561,372
Zimmer Biomet Holdings, Inc.	3,848	420,317
		$ 11,060,167
Health Care Providers & Services 1.7%		
DaVita HealthCare Partners, Inc.(1)	2,916	$ 231,735
UnitedHealth Group, Inc.	46,878	5,719,116
VCA, Inc.(1)	11,050	601,175
		$ 6,552,026
Hotels, Restaurants & Leisure 1.3%		
Marriott International, Inc., Class A	14,651	$ 1,089,888
Marriott Vacations Worldwide Corp.	2,064	189,372
McDonald s Corp.	27,950	2,657,206
Starbucks Corp.	5,088	272,793
Wyndham Worldwide Corp.	11,235	920,259
		$ 5,129,518

Household Durables 1.2%			
Leggett & Platt, Inc.	11,383	$	554,124
Lennar Corp., Class A	18,642		951,488
Newell Rubbermaid, Inc.	76,798		3,157,166
		$	**4,662,778**
Household Products 1.5%			
Clorox Co. (The)	6,843	$	711,809
Kimberly-Clark Corp.	19,850		2,103,505

See Notes to Financial Statements.

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Portfolio of Investments (Unaudited) continued

Security	Shares	Value
Household Product (continued)		
Procter & Gamble Co. (The)	41,964	$ 3,283,263
		$ 6,098,577
Independent Power and Renewable Electricity Producers 0.0%[2]		
NRG Energy, Inc.	5,536	$ 126,664
		$ 126,664
Industrial Conglomerates 1.8%		
3M Co.	21,663	$ 3,342,601
General Electric Co.	147,129	3,909,217
		$ 7,251,818
Insurance 4.2%		
ACE, Ltd.	12,980	$ 1,319,806
Allstate Corp. (The)	47,607	3,088,266
AmTrust Financial Services, Inc.	3,045	199,478
Cincinnati Financial Corp.	18,908	948,803
Lincoln National Corp.	47,210	2,795,776
Marsh & McLennan Cos., Inc.	50,188	2,845,660
MetLife, Inc.	14,938	836,379
Principal Financial Group, Inc.	29,001	1,487,461
Prudential Financial, Inc.	21,629	1,892,970
Travelers Companies, Inc. (The)	13,969	1,350,244
		$ 16,764,843
Internet & Catalog Retail 1.3%		
Amazon.com, Inc.[1]	2,750	$ 1,193,747
Netflix, Inc.[1]	785	515,698
Priceline Group, Inc. (The)[1]	1,797	2,069,012
Shutterfly, Inc.[1]	28,875	1,380,514
		$ 5,158,971

Internet Software & Services 3.4%		
Facebook, Inc., Class A[1]	20,591	$ 1,765,987
Google, Inc., Class A[1]	8,610	4,649,744
Google, Inc., Class C[1]	8,633	4,493,563
VeriSign, Inc.[1]	41,883	2,585,019
		$ 13,494,313
IT Services 3.1%		
Fidelity National Information Services, Inc.	26,132	$ 1,614,958
International Business Machines Corp.	31,001	5,042,623
MasterCard, Inc., Class A	51,803	4,842,544
Visa, Inc., Class A	9,876	663,173
Security	**Shares**	**Value**
IT Services (continued)		
Xerox Corp.	7,778	$ 82,758
		$ 12,246,056
Leisure Products 0.0%[2]		
Mattel, Inc.	5,179	$ 133,049
		$ 133,049
Life Sciences Tools & Services 0.9%		
Thermo Fisher Scientific, Inc.	27,884	$ 3,618,228
		$ 3,618,228
Machinery 1.0%		
Caterpillar, Inc.	22,774	$ 1,931,691
Snap-on, Inc.	6,380	1,016,015
Stanley Black & Decker, Inc.	8,690	914,535
		$ 3,862,241
Media 5.1%		
CBS Corp., Class B	41,650	$ 2,311,575
Comcast Corp., Class A	97,683	5,874,656
Omnicom Group, Inc.	35,123	2,440,697
Time Warner, Inc.	28,358	2,478,773
Walt Disney Co. (The)	62,258	7,106,128
		$ 20,211,829
Metals & Mining 0.3%		
Nucor Corp.	31,251	$ 1,377,232
		$ 1,377,232
Multi-Utilities 1.9%		
Centerpoint Energy, Inc.	14,223	$ 270,664
CMS Energy Corp.	77,060	2,453,590
Dominion Resources, Inc.	1,997	133,539
DTE Energy Co.	10,342	771,927
NiSource, Inc.	49,999	2,279,455

Public Service Enterprise Group, Inc.	37,896	1,488,555
		$ 7,397,730
Multiline Retail 1.0%		
Macy s, Inc.	48,228	$ 3,253,943
Nordstrom, Inc.	12,248	912,476
		$ 4,166,419

See Notes to Financial Statements.

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Tax-Managed Buy-Write Income Fund

June 30, 2015

Portfolio of Investments (Unaudited) continued

Security	Shares		Value
Oil, Gas & Consumable Fuels		6.5%	
Apache Corp.	8,485	$	488,990
Chevron Corp.	62,708		6,049,441
ConocoPhillips	22,653		

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

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

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

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

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

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

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

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

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

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

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

Revenues

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

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

Net Premiums Earned. Net premiums earned for the year ended December 31, 2002 were $241.0 million, compared to $158.6 million for the year ended December 31, 2001, an increase of 52.0%.

The increase in net premiums earned was primarily attributable to the growth in gross premiums written noted above.

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

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

Costs and Expenses

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

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

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

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

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

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

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

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

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

Revenues

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

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

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

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

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

Costs and Expenses

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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

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

Contractual Obligations and Commitments

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

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

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

Credit Risk

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

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

Effects of Inflation

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

BUSINESS

Overview

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

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

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

Our Competitive Strengths

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

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

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

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

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

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

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

Disciplined Claims Handling Practices. We quickly investigate and fairly resolve all valid claims, and we vigorously defend frivolous and fraudulent claims. Our claims department includes approximately 480 claims adjusters and managers. We maintain effective internal controls on our claims settlement processes, and we continuously monitor the timeliness of our response to and resolution of each reported claim. By quickly and fairly settling claims, we improve customer satisfaction while lowering our costs, such as vehicle storage and rental charges. In addition, we employ 20 in-house attorneys to defend against frivolous claims. To reduce our losses related to fraud, we maintain a special investigation unit that investigates suspicious or complex cases.

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

Our Strategies

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

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

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

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

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

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

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

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

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

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

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

The Non-Standard Automobile Insurance Industry

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

The personal auto insurance industry is cyclical, characterized by periods of price competition and excess capacity followed by periods of high premium rates and shortages of underwriting capacity. In the late 1990s, many automobile insurers attempted to capture more business by reducing rates. We believe that these industry-wide rate reductions, combined with increased severity trends, during the period contributed to the deterioration of industry loss ratios in the years 1999 through 2001. Since that time, most of the industry, including others in the industry and us, has begun to raise rates and tighten underwriting standards. Some insurance companies have recently withdrawn from the market because of their inability to compete successfully, their impaired capital positions or because of a decrease in the availability of reinsurance.

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Our Products and Services

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

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

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

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

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

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

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

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

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

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

Distribution and Marketing

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

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

Geographic Distribution

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

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

	September 30, 2003	December 31, 2002	2001	2000
California	63.9%	64.8%	69.5%	68.9%
Florida	11.3	13.5	13.5	12.6
Michigan	7.0	7.4	6.2	0.0
Georgia	3.4	2.3	1.6	0.0
Pennsylvania	2.2	1.8	2.3	0.0
South Carolina	2.0	1.2	0.3	0.0
Texas	1.7	2.7	2.9	5.1

		December 31,		
Maine	1.7	1.0	0.3	0.0
Indiana	1.4	1.4	1.3	0.0
Virginia	1.1	0.7	0.3	0.0
All other states	4.3	3.2	1.8	13.4
	100.0%	100.0%	100.0%	100.0%

Major Producers

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

Relationships with Agents and Brokers

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

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

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

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

We also offer easy-to-use proprietary software to agents and brokers that provides timely and centralized information about their customers, enhancing their ability to retain existing policyholders and providing them with more time to generate new business. We are continuously improving existing systems and developing new tools for our agents and brokers. This includes our newly developed

OneStep application system, which we believe will lead to an increase in gross premiums written and improve productivity and policyholder retention.

Producer Management Process

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

loss experience on their business with us;

violations of our underwriting guidelines;

frequency of uprates: we monitor how often the producer erroneously grants discounts or does not disclose critical underwriting information, such as an accident or traffic violation, causing the rate quoted to the customer upon application to increase upon discovery of those facts;

consistently submitting manual applications and failing to utilize our online underwriting software, which is not cost efficient for us;

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

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

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

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Producer Compensation

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

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

for the periods ended September 30, 2003, December 31, 2002 and December 31, 2001, respectively.

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

Underwriting and Pricing

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

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

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

Claims Handling

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

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

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

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

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

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

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

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

Technology

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

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

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

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

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

Loss and Loss Adjustment Expense Reserves

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

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

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

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

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

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

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

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

	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
						(in thousands)					
As Originally Estimated:	$ 15,054	$ 21,735	$ 23,330	$ 26,902	$ 21,013	$ 26,593	$ 59,472	$ 44,174	$ 51,349	$ 39,089	$ 82,280
As Re-estimated as of December 31, 2002:	15,422	19,359	25,470	30,440	26,005	39,029	56,950	52,928	80,655	67,274	82,280
Liability Re-estimated as of:											
One Year Later	16,267	19,171	24,790	27,063	24,630	44,295	55,640	50,502	68,002	67,274	
Two Years Later	15,575	18,870	24,091	29,574	28,169	38,239	55,977	51,667	80,655		
Three Years Later	15,240	18,784	24,962	31,326	25,520	38,368	56,602	52,928			
Four Years Later	15,103	19,097	25,538	30,106	25,662	38,943	56,950				
Five Years Later	15,286	19,219	25,079	30,108	26,089	39,029					

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Six Years Later	15,275	19,119	25,099	30,473	26,005						
Seven Years Later	15,224	19,089	25,382	30,440							
Eight Years Later	15,169	19,353	25,470								
Nine Years Later	15,428	19,359									
Ten Years Later	15,422										
Cumulative Deficiency (Redundancy)	368	(2,376)	2,140	3,538	4,992	12,436	(2,522)	8,754	29,306	28,185	
Cumulative Amounts Paid as of:											
One Year Later	9,413	12,476	16,649	19,823	18,069	27,371	51,201	42,410	61,891	50,870	
Two Years Later	13,232	16,587	21,589	26,741	23,520	36,674	56,448	50,016	75,642		
Three Years Later	14,571	18,182	23,767	28,904	25,189	38,320	57,101	51,839			
Four Years Later	14,980	18,829	24,553	29,834	25,653	38,808	57,046				
Five Years Later	15,241	19,021	25,049	30,130	25,850	38,945					
Six Years Later	15,234	19,153	25,165	30,351	25,872						
Seven Years Later	15,249	19,176	25,365	30,345							
Eight Years Later	15,257	19,351	25,342								
Nine Years Later	15,443	19,340									
Ten Years Later	15,433										

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

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

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Estimated Liability											
Cumulative Amounts Paid as of:											
One Year Later	63%	57%	71%	74%	86%	103%	86%	96%	121%	130%	
Two Years Later	88%	76%	93%	99%	112%	138%	95%	113%	147%		
Three Years Later	97%	84%	102%	107%	120%	144%	96%	117%			
Four Years Later	100%	87%	105%	111%	122%	146%	96%				
Five Years Later	101%	88%	107%	112%	123%	146%					
Six Years Later	101%	88%	108%	113%	123%						
Seven Years Later	101%	88%	109%	113%							
Eight Years Later	101%	89%	109%								
Nine Years Later	103%	89%									
Ten Years Later	103%										

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

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

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

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

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

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

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

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Investments

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

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

	Amortized Cost	Fair Value	% of Total at Fair Value
	(dollars in millions)		

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

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

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

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

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

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

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$4.3 million in pre-tax net unrealized gains. As of December 31, 2002, the fair value of our investment portfolio of $127.5 million included $4.7 million in pre-tax net unrealized gains, as compared to $0.4 million in pre-tax net unrealized gains in 2001. The increase in net unrealized gains during 2002 was attributable to declining interest rates. We realized pre-tax net gains of $1.1 million through the nine months ended September 30, 2003. In addition, we realized pre-tax net gains of $0.3 million in 2002. Net realized gains on securities available for sale were $1.0 million in 2001. The weighted average pre-tax equivalent book yield of the portfolio was 4.61% at September 30, 2003, compared to 5.45% and 6.05% at December 31, 2002 and 2001, respectively.

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

At December 31,

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

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Market Value
September 30, 2003		(in millions)		
Fixed maturities:				
U.S. Government securities	$ 9.5	$ 0.2	$ 0.0	$ 9.7
Mortgage backed bonds	5.3	0.1	0.0	5.4
Tax exempt bonds	29.6	0.8	0.1	30.3
Collateralized mortgage obligations	34.9	1.1		