

BRISTOL WEST HOLDINGS INC
Form 10-K
March 16, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2006

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-31984

BRISTOL WEST HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

13-3994449

(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$0.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

☐ ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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YesNo

☐ ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YesNo

☒ ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

☐

Accelerated filer

☒

Non-accelerated filer

☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YesNo

☐ ☒

The aggregate market value of the registrant's voting common stock held by non-affiliates, based on the closing market price, as reported on the New York Stock Exchange, on the last business day of the second quarter of 2006 was \$317,522,288. As of February 28, 2007, the total number of shares outstanding of registrant's common stock was 29,478,865.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement issued in connection with the 2007 annual meeting of stockholders filed with the Securities and Exchange Commission within 120 days after December 31, 2006 (Part III).

BRISTOL WEST HOLDINGS, INC. 2006 ANNUAL REPORT

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BRISTOL WEST HOLDINGS, INC. 2006 ANNUAL REPORT

PART I

Item 1. Business

Overview

Bristol West Holdings, Inc. (the *Company*), a Delaware corporation, is a provider of private passenger automobile insurance. When this report uses the words *we*, *us*, and *our*, these words refer to Bristol West Holdings, Inc. and its subsidiaries, unless the context otherwise requires. The Company was organized under the laws of the State of Delaware on February 17, 1998.

Most of the business we write is non-standard automobile insurance. Given the homogeneity of our product, the regulatory environments in which we operate, the type of customer we serve and our method of distribution, we report our operations as one segment. Non-standard automobile insurance provides coverage to drivers who find it difficult to purchase automobile insurance from standard carriers as a result of a number of factors, including their vehicle type, age, claims history, limited financial resources or driving record. Typically, these drivers purchase minimal levels of insurance coverage in order to comply with state-mandated financial responsibility laws. As of December 31, 2006, 82% of our policyholders had purchased minimum limits of liability coverage as required by the states in which they reside, although 71% of our policyholders had clean motor vehicle driving records. For comparable coverage, premiums for non-standard automobile insurance policies generally are higher than for standard or preferred automobile insurance policies.

The operating results of property and casualty insurance companies are subject to fluctuations from quarter-to-quarter and year-to-year due to a number of factors, including, but not limited to, general economic conditions, the regulatory climate in states where an insurer operates, state regulation of premium rates, changes in pricing and underwriting practices of the insurer and its competitors, the frequency and severity of losses, natural disasters and other factors. (See *Item 1A. Risk Factors* below.) Historically, results of property and casualty insurance companies have been cyclical, with periods of high premium rates and strong profitability followed by periods of price competition, falling premium rates and reduced profitability.

We offer insurance coverage exclusively through independent agents and brokers, which totaled 9,141 as of December 31, 2006. Because some of our agents and brokers operate from multiple locations, our products were offered at 12,391 locations. We are licensed to provide insurance in 38 states and the District of Columbia, although we focus our operations in 22 states that we believe provide significant opportunity for profitable growth over time. Our markets include California, Florida and Texas - the three largest non-standard automobile insurance markets in the United States. These states were our first, second, and fourth largest states by premium volume and accounted for approximately 64% of our gross written premium for the year ended December 31, 2006. We charge fees for policy issuance, installment payment processing and other items that, in total, are equivalent to approximately 9% of gross earned premium.

On March 1, 2007, we entered into a merger agreement (the *Merger Agreement*) with Farmers Group, Inc. (*Farmers*) pursuant to which BWH Acquisition Company, a wholly-owned subsidiary of Farmers (*Merger Sub*), will be merged with and into the Company, with the Company continuing as the surviving corporation and becoming a wholly-owned subsidiary of Farmers (the *Merger*). Pursuant to the Merger Agreement, at the effective time and as a result of the Merger, each then outstanding share (each a *Share*) of common stock of the Company, par value \$0.01 per share (*Common Stock*), including restricted stock (which vests upon a change in control), will be cancelled and converted into the right to receive \$22.50 in cash per Share, without interest (the *Merger Consideration*). Each share of Common Stock that is subject to a then outstanding option and warrant that is vested or vests upon a change in control will be converted into the right to receive the Merger Consideration less the exercise price per Share for the Option. Each hypothetical share of Common Stock then included in a non-employee director's deferred compensation account (each a *Phantom Share*) under our Non-Employee Directors' Deferred Compensation and Stock Award Plan (the *Non-Employee Directors' Plan*) also will be converted into the right to receive the Merger Consideration. Consummation of the Merger is subject to various customary closing conditions, including, but not limited to, (1) the expiration or termination of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (2) all insurance antitrust approvals and regulatory approvals from certain insurance departments, (3) absence of certain orders preventing the Merger, and (4) the approval of the Merger Agreement by the Company's stockholders. Further, both the Company and Farmers may terminate the Merger Agreement if the Merger is not consummated by December 1, 2007. We currently expect the Merger to close before the end of 2007.

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 legal 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, and also provides insureds with a legal defense if they are sued by others for covered damages.

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

In addition to the coverages described above, our policies may include, at the option of the policyholder:

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

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; and

medical payments coverage, which pays for an insured's medical or funeral expenses related to an automobile accident.

We offer insurance products and payment plans that we have tailored to the non-standard marketplace. For customers whose selection of an insurance policy is driven by their desire to minimize their initial cash outlay, we offer low down payments and monthly billing plans. Our experience has shown us that total policy cost, although a variable in the purchasing decision, is not as important to this segment of applicants as is an installment plan with a low down payment. Accordingly, we designed our payment plans to be attractive to these customers by minimizing the up-front cash outlay through low down payments and monthly billing. Our billing and collection processes facilitate these payment plans while preventing significant exposure to credit losses.

There is another large segment of drivers who do not qualify for standard products due to a driving record transgression, their age, or recent financial instability, but for whom total policy cost is the most important consideration. We also structured our products to appeal to these potential customers. We offer various discounts for better risks, including in some states where allowed, discounts for having maintained automobile insurance within a prescribed prior time period and/or for maintaining homeowners insurance. Conversely, we add surcharges for traffic violations and accidents.

In addition to the premiums we collect for the insurance coverage we provide, we collect policy origination fees and installment fees. We may also charge additional fees for late payment, policy cancellation, policy rewrite and reinstatement and for other reasons. These fees represented revenues equivalent to approximately 9% of gross earned premium.

Distribution and Marketing

We distributed our products through 9,141 independent producers as of December 31, 2006. Because some producers operate from multiple locations, our products were offered through 12,391 locations. Since we sell our products only through the independent producer channel, 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 by providing our agents and brokers with high-quality service, a stable presence in their markets and competitive compensation programs. We provide our producers with easy-to-use underwriting and policy administration software. We offer competitively priced products, convenient installment billing plans and superior service to our producers and insureds. We do not provide contingent commissions or incentives to our agents and brokers.

Geographic Distribution. We have licenses to write insurance in 38 states and the District of Columbia, but we focus on 22 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.

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For the year ended December 31, 2006, our top three states represented 70.2% of our gross written premium. The following table sets forth the distribution of our gross written premium by state, excluding the change in the provision for expected cancellations, as a percent of total gross written premium for the years ended December 31, 2006, 2005 and 2004:

	Years Ended December 31,		
	2006	2005	2004
California	40.4%	46.3%	56.1%
Florida	17.9	15.2	14.3
Michigan	11.9	13.9	10.2
Texas	5.2	3.8	2.4
South Carolina	4.9	3.4	2.5
Pennsylvania	4.0	3.0	2.2
New Hampshire	2.3	2.6	1.8
Colorado	2.0	1.2	0.7
Maine	2.0	2.4	1.9
Virginia	1.8	1.5	1.6
All other states	7.7	6.7	6.3
	100.0%	100.0%	100.0%

Major Producers. Our top 10 producers, as measured by premium volume, accounted for 20.1%, 22.4%, and 25.5% of our gross written premium for the years ended December 31, 2006, 2005 and 2004, respectively. In 2006, no single producer accounted for 10% or more of our gross written premium. The concentration of our business with our top producers has declined as we have increased our producer base, entered new markets, and encountered increased competition in California, resulting in a decline in production from both large and small producers. We do not have any long-term producer contracts. Eight of our 10 largest producers produce the majority of their business in California.

Relationships with Agents and Brokers. We offer our policies through 9,141 agents and brokers with 12,391 locations as of December 31, 2006. We devote considerable time and resources to developing and maintaining relationships with these producers, and we endeavor to provide them with responsive service, a stable presence, and competitive compensation programs.

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 information on industry trends.

We provide proprietary software to agents and brokers that permits them to access centralized information about their customers. In addition, we have deployed point-of-sale underwriting and policy issuance software at most of our producers' locations. Point-of-sale underwriting technology uses Internet connectivity to obtain and verify an applicant's underwriting and rating information as part of the application process. The producer enters the applicant's underwriting data into a Company-provided software application, OneStep® or OneStep Raptor®. Concurrently, these software applications automatically and electronically obtain key underwriting and rating information, such as driving record and claim history, and reconcile it to the application information. In this manner, the producer can provide a final price quote to the applicant at the point of sale. If the applicant chooses to purchase the policy, producers can complete the transaction immediately. The producer can collect the payment and provide the insured with their policy and insurance identification card, and in some cases, with their policy declaration page and a copy of their first invoice.

We employ daily, weekly, monthly and quarterly data analysis 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;

violations of our underwriting guidelines;

claim timing: we terminate relationships with producers we find backdating policies to make them effective prior to the occurrence of a loss; and

business activity: we measure our producers' business activity to identify and actively manage our relationship with producers that are not consistently selling our products.

Producer Compensation. We have designed our producer compensation programs to be competitive in each market in which we operate. At policy inception or renewal, we pay commissions at a percentage of the full term policy premium. Our producers highly value receiving the full term commission up front. If a policy cancels before its expiration date, the producer is bound contractually to return the unearned commission to us.

For 2006 and 2005, the only forms of compensation we paid to our producers were new and renewal commissions. In previous years and on a case-by-case basis, we had negotiated profit sharing agreements with some of our larger producers. Such agreements awarded additional compensation to producers which maintained or outperformed specified loss ratio targets and maintained an agreed amount of in-force business. Effective January 1, 2005, we discontinued these profit sharing arrangements and implemented various fixed commission tiers into which producers are placed depending upon our assessment of economies of scale, the producer's level of expertise in placing automobile insurance and the geographic scope of the producer's operations. Within each state, we revised the commission structure to produce a commission ratio consistent with the previous structure.

The ratio of commission expense to gross earned premium, including all profit sharing compensation, of which there was none in 2006 and 2005, was 14.8%, 14.7%, and 15.3% for the years ended December 31, 2006, 2005 and 2004, respectively. The ratio of profit sharing commission expense to gross earned premium was 0.0%, 0.0%, and 0.6% for the years ended December 31, 2006, 2005 and 2004, respectively.

Point-of-Sale Underwriting and Policy Issuance. We have made significant strides in point-of-sale underwriting. In the aggregate, we utilized point-of-sale underwriting to process over 99% of our new business applications in 2006. We have fully deployed OneStep, our browser-based point-of-sale underwriting system, in 12 states.

By utilizing point-of-sale underwriting, policy issuance is now immediate in the states in which we have deployed it compared to an average of five days prior to our implementation of point-of-sale underwriting. In addition to reducing uprates (increases in premiums after issuance), the efficiency gains have helped us to improve policyholder service.

Underwriting and Pricing

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, financial responsibility, prior insurance coverage and policy limits. We continuously evaluate and modify our rates in order to maintain an acceptable level of underwriting profitability.

We have product managers for each state in which we operate or that we are considering entering. Each product manager is responsible for monitoring our competitive position and profitability. They work closely with our pricing actuaries, marketing department and senior staff to develop or alter our product and pricing strategies.

Claims Handling

Our Claims Department currently has over 500 claims employees and managers located in 14 offices around the country. Each claims office has an assigned geographic service area, but has the flexibility to handle claims from other areas as necessitated by workloads and available staff.

We respond quickly to reported claims. A toll-free access number allows policyholders to report claims 24 hours a day, seven days a week. Claims representatives endeavor to contact all parties involved in an accident within 24 hours of receipt of loss notification and inspect any damaged property within 72 hours of contact with the owner. Claims managers review all new claims within 24 hours of receipt of notification to provide input and direction, and maintain involvement throughout the life of the claim.

We focus on prompt, accurate claims handling. Our claims staff investigates all claims and handles most vehicle damage appraisals, with a small percentage of inspection appraisals completed by independent appraisers when warranted by the location or when our appraisers are not available. Twenty-two in-house attorneys in seven offices defend most of the lawsuits brought against our insureds. We maintain a Special Investigation Unit with 37 employees deployed nationwide who control costs through fraud mitigation, form effective relationships with law enforcement agencies and ensure our compliance with applicable anti-fraud regulations. The Special Investigation Unit uses anti-fraud databases and real time intelligence from law enforcement agencies to identify suspicious losses. We have a Claim Quality and Employee Development (QED) group responsible for auditing and training. The Audit Department conducts comprehensive internal audits of claim handling, focusing on procedures, financial controls, data integrity and regulatory compliance. The Training Department provides both new hire training and advanced training to experienced claims representatives.

Technology

We have substantially upgraded our information technology capabilities in recent years, including the following:

Data Warehouse. We maintain an extensive proprietary database, which contains statistical records with respect to our insureds, including, among other data, the insured's rating classification, motor vehicle records, years licensed, and loss experience by each rating variable. Analysis of this data enables us to identify trends emerging in our business and to respond with changes to prices, product or underwriting guidelines.

Claims Administration. Our in-house claims administration 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. It provides a financial control and automatically generates and maintains loss and loss adjustment expense reserves. The system interfaces with a standardized estimating service and retains pictures of each appraised vehicle.

Point-of-Sale Underwriting. We have online point-of-sale application systems, OneStep and OneStep Raptor; and as of December 31, 2006, we were producing more than 99% of our business through these systems. We have an exclusive license to use OneStep in the non-standard automobile insurance industry through December 2009. OneStep and OneStep Raptor use technology to provide fast and accurate quotes by accessing third-party information at the point of sale, including an applicant's driving record, accident history and, where permitted by law, credit reports. This process reduces the frequency of uprates, which may occur when an application is incomplete or inaccurate. Our point-of-sale application systems permit the producer to print the policy, the identification cards and the policy declaration page as soon as the verifications are complete, usually within minutes.

BWProducers.com. This website 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. The system allows online payments from our producers.

Policyholder Tools. We provide automated phone and web payment functionality for our policyholders that is available 24 hours per day, seven days per week.

Loss and Loss Adjustment Expense Reserve Development

Automobile accidents generally result in insurance companies paying settlements resulting from physical damage to one or more automobiles or other property and injuries to one or more persons. Because our insureds typically notify us immediately after an accident has occurred, our ultimate liability on our policies generally 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 (LAE) that we expect to pay 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 LAE reserves. For a discussion of our methodologies for establishing loss and LAE reserves as well as our estimates of loss and LAE reserves as of December 31, 2006, 2005 and 2004, see *Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Estimation of Unpaid Losses and Loss Adjustment Expenses*.

Quarterly, for each financial reporting date, we record our best estimate, which is a point estimate, of our overall loss and LAE reserves for both current and prior accident years. As our experience develops and we learn new information, our quarterly reserving process may produce revisions to our previously reported loss and LAE reserves. We refer to such revisions as development and such development may be material. We recognize favorable development when we decrease our previously reported loss and LAE reserves, which results in an increase to net income in the period recognized. We recognize adverse development when we increase our previously reported loss and LAE reserves, which results in a decrease to net income in the period recognized.

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The following table presents the development of our loss and LAE reserves, net of reinsurance, for the calendar years 1996 through 2006 (in thousands of dollars).

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
As Originally Estimated:	21,013	26,593	59,472	44,174	51,349	39,089	82,280	89,010	105,420	197,403	204,654
As Re-estimated as of December 31, 2006:	25,946	39,237	57,656	54,484	84,810	79,942	107,492	105,695	113,121	202,696	
Liability Re-estimated as of:											
One Year Later	24,630	44,295	55,640	50,502	68,002	67,274	91,594	91,523	105,429	202,696	
Two Years Later	28,169	38,239	55,977	51,667	80,655	75,203	102,382	101,373	113,121		
Three Years Later	25,520	38,368	56,602	52,928	83,277	78,113	106,627	105,695			
Four Years Later	25,662	38,943	56,950	53,805	84,260	79,863	107,492				
Five Years Later	26,089	39,029	57,161	54,438	84,934	79,942					
Six Years Later	26,005	39,051	57,634	54,622	84,810						
Seven Years Later	25,923	39,183	57,753	54,484							
Eight Years Later	25,971	39,290	57,656								
Nine Years Later	25,983	39,237									
Corporate and other	157,545	356	2,470	155,431							
Total fixed maturities	458,175	1,103	6,406	452,872							
Preferred stock	2,000			2,000							
Total	\$ 460,175	\$ 1,103	\$ 6,406	\$ 454,872							

Gross realized gains of \$26 and gross realized losses of \$132 for the year ended December 31, 2005 were included in net realized loss on investments.

As of December 31, 2005, the Company owned securities having an aggregate fair value of \$365,695 where the market value of the security was less than its amortized cost. The following table displays the extent and duration of the declines in market value relative to cost for the Company's securities portfolio.

Description of Securities	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturities:						
U.S. Government securities	\$	\$	\$ 3,304	\$ 28	\$ 3,304	\$ 28
Mortgage backed bonds	31,862	553	25,206	795	57,068	1,348
Tax-exempt bonds	120,824	1,345	40,786	999	161,610	2,344
Collateralized mortgage obligations	9,868	216			9,868	216
Corporate and other	90,940	1,317	42,905	1,153	133,845	2,470

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Total	\$ 253,494	\$ 3,431	\$ 112,201	\$ 2,975	\$ 365,695	\$ 6,406
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As of December 31, 2005, the Company did not believe it owned any securities that had suffered a decline in market value that was other-than-temporary. Therefore, it had not recorded a realized loss for any of the securities in its portfolio at that time.

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BRISTOL WEST HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(dollars in thousands, except per share data)

The amortized cost and estimated market value of fixed maturity securities classified as available-for-sale as of December 31, 2006, by contractual maturity, are shown below. Actual repayments will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

Maturity	Cost	Fair Value
Due in one year or less	\$ 32,944	\$ 32,586
Due after one year through five years	155,808	153,862
Due after five years through ten years	120,571	120,101
Due after ten years	54,969	55,059
Mortgage backed bonds	120,432	120,248
Collateralized mortgage obligations	12,089	11,871
Total	\$ 496,813	\$ 493,727

The components of net investment income were as follows:

	Years Ended December 31,		
	2006	2005	2004
Investment income:			
Interest income	\$ 22,173	\$ 17,903	\$ 9,441
Dividend income			12
Investment income	22,173	17,903	9,453
Investment expenses	(709)	(715)	(435)
Net investment income	\$ 21,464	\$ 17,188	\$ 9,018

As required by regulation, securities of Security National Insurance Company, Coast National Insurance Company, Bristol West Insurance Company, Bristol West Casualty Insurance Company, and Bristol West Preferred Insurance Company with carrying values of \$12,320 and \$11,869 were on deposit with state regulatory authorities as of December 31, 2006 and 2005, respectively.

3. Debt

The Company entered into a secured credit facility (Bank Agreement) in February 2004, consisting of: (1) a \$50,000 Secured Revolving Credit Facility, which included up to \$15,000 of letters of credit maturing in 2009, (2) a \$35,000 Term A Loan, maturing in 2010 and (3) a \$40,000 Term B Loan, maturing in 2011. The Company's interest rate on borrowings under this bank agreement (Bank Agreement) was London Interbank Offered Rate (LIBOR) plus a margin (1% to 2.25%), based on the Company's consolidated total debt to consolidated total capitalization ratio as defined in the Bank Agreement. The Company also paid certain commitment fees. The Bank Agreement was secured by a pledge of stock of certain of the Company's subsidiaries.

On July 31, 2006, the Company completed a refinancing of the credit facility represented by the Bank Agreement and increased the amount of the term loan facility. The new secured credit facility (Credit Facility) consists of: (1) a \$100,000 term loan and (2) a \$25,000 revolving credit facility, which includes up to \$15,000 of letters of credit. The Credit Facility may be prepaid at any time and is scheduled to expire on July 31, 2011. Borrowings under the Credit Facility bear interest based either upon (1) LIBOR plus an applicable margin ranging from 0.750% to 1.750% based on the then existing ratio of the Company's consolidated total debt to its consolidated total capitalization, as defined in the Credit Facility, or (2) the greater of (a) the applicable prime rate and (b) the Federal funds rate for Federal Reserve System overnight borrowing transactions plus 0.5%, plus an applicable margin ranging from 0.000% to 0.50% based on the then existing ratio of the Company's consolidated total debt to its consolidated total capitalization. The Company also pays a commitment fee on the unused portion of the revolving credit facility. The Credit Facility is secured by guarantees by, and a pledge of stock of, certain of the Company's subsidiaries.

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The Credit Facility requires compliance with certain financial loan covenants. As of, and for the twelve-month period ended December 31, 2006, the Company was in compliance with all such covenants.

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BRISTOL WEST HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(dollars in thousands, except per share data)

The amount of debt outstanding at December 31, 2006 and December 31, 2005 was \$100,000 and \$69,925, respectively. The Company had no borrowings on the revolving credit line at December 31, 2006 and December 31, 2005.

On July 31, 2006, contemporaneously with the execution and delivery of the Credit Facility, the Company terminated the Bank Agreement and paid the principal and all accrued interest and fees. The Company incurred no early termination penalties in connection with the termination of the Bank Agreement. In connection with the prepayment of the refinanced debt, the Company incurred a non-recurring non-cash pre-tax charge of \$1,311 during the year ended December 31, 2006 related to the write-off of the unamortized portion of the deferred financing costs.

4. Profit Sharing Retirement Plan

The Bristol West Retirement Plan (the 401(k) Plan) is a defined contribution plan for employees of the Company. The 401(k) Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974.

To be eligible, employees of the Company must have at least 30 days of service and be at least 18 years old. Participants may contribute from 1% to 20% of their earnings, subject to certain limitations in the Internal Revenue Code of 1986, as amended. Participants are permitted to make cash rollover contributions or direct transfers to the 401(k) Plan from other qualified plans in which they participated. Employees who have at least one year of service in which they are credited with 1,000 or more hours of service will be eligible for the Company matching contribution. The Company match on contributions is 60% of the employees' before-tax contributions to a maximum of 5% of pay. Company contributions of \$1,107, \$1,037, and \$882 were made during the years ended December 31, 2006, 2005 and 2004, respectively. In addition, the Company may make a profit sharing contribution each year, at its discretion, to participants. The Company did not make profit sharing contributions during the years ended December 31, 2006, 2005 and 2004.

5. Unpaid Loss and Loss Adjustment Expense Reserves

An analysis of the Company's net loss and loss adjustment expense (LAE) reserves is summarized in the following table:

	Years Ended December 31,		
	2006	2005	2004
Balance as of beginning of year	\$ 221,445	\$ 222,326	\$ 202,296
Less: Reinsurance recoverable on unpaid losses and LAE	24,042	116,906	113,286
Net balance as of beginning of year	197,403	105,420	89,010
Incurred related to:			
Current period	388,781	394,597	216,845
Prior periods	5,293	9	2,513
Total incurred	394,074	394,606	219,358
Paid related to:			
Current period	247,744	259,887	135,508
Prior periods	139,079	42,736	67,440
Total paid	386,823	302,623	202,948
Net balance as of December 31	204,654	197,403	105,420
Plus: Reinsurance recoverable on unpaid losses and LAE	34,523	24,042	116,906
Balance as of December 31	\$ 239,177	\$ 221,445	\$ 222,326

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Loss and LAE reserve estimates are based on forecasts of the ultimate settlement of claims and are subject to uncertainty with respect to future events. Reserve amounts are based on management's informed estimates and judgments, using data currently available. Reserve amounts and the underlying actuarial factors and assumptions are regularly analyzed and adjusted to reflect new information. Such reevaluation is a normal, recurring activity that is inherent in the process of loss and LAE reserve estimation and therefore, no assurances can be given that loss and LAE reserve development will not occur in the future. The Company's loss and LAE reserving methodology is periodically adjusted for changes caused by growth, impacts from expansion into new states, changes in product mix, underwriting standards and rules, loss costs trends, as well as other factors. In addition, the Company continues to enhance its systems and refine its reserving methodology. As a result of changes in estimates of insured events from prior years, the provision for losses and LAE was increased by \$5,293, \$9, and \$2,513 in 2006, 2005, and 2004, respectively.

In calendar years 2006, 2005, and 2004, the Company experienced adverse development on loss and LAE reserves for years prior to each of those calendar years. During the year ended December 31, 2006, the increase for prior accident years was driven by a variety of factors, including higher than expected claim severity (dollars of loss per claim) in Michigan Personal Injury Protection claims, greater than expected litigation costs in Florida, and higher than expected claim severity in California, which includes a California extra-contractual claim verdict of \$430.

6. Reinsurance

In the normal course of business, the Company's insurance subsidiaries have entered into reinsurance agreements with other companies to limit losses, generally through excess-of-loss and quota-share reinsurance agreements. Reinsurance does not discharge the primary liability of the original insurer.

During 2002, the insurance subsidiaries of the Company entered into a quota share reinsurance agreement (2002-2004 Quota Share) led by National Union Fire Insurance Company of Pittsburgh, PA (National Union), a subsidiary of American International Group, Inc. (AIG), with a 50% participation, followed by Alea London Limited (Alea) and Federal Insurance Company with 40% and 10% participations, respectively. The transaction with Alea was a related party transaction (see Note 8). Effective January 1, 2005, the Company terminated and commuted this quota share reinsurance agreement. This termination and commutation released the reinsurers from all future liability and resulted in settlement of the contract's experience account balance of \$196,648, which the Company received on January 21, 2005. The termination and commutation had no impact upon reported net income in 2005 as the experience account balance was equal to the liability released. The termination and commutation resulted in significant increases (decreases) in certain balance sheet accounts in 2005, as follows:

Cash	\$ 196,648
Reinsurance recoverable on paid and unpaid losses and LAE	(147,683)
Prepaid reinsurance	(106,310)
Ceding commission receivable	(138,197)
Reinsurance payables	(164,824)
Deferred policy acquisition costs	30,609

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The Company entered into a quota share reinsurance agreement effective January 1, 2005 with National Union. The Company elected a 10% cession for 2005. For the year ended December 31, 2005, the Company ceded \$42,506 of its earned premium to National Union with a net pre-tax cost, excluding lost investment income, to the Company of \$1,275. Effective January 1, 2006, the Company terminated and commuted this quota share reinsurance agreement on a cut-off basis. The termination and commutation of this quota share reinsurance agreement had no impact upon reported net income. The termination and commutation resulted in the reinsurer's release from all future liability in return for settlement of all balances due the Company, including commission and profit commission receivable, ceded loss reserves, ceded unearned premiums less any payables due the reinsurer. The Company received the net amount due from the reinsurer of \$11.0 million on January 31, 2006. The termination and commutation resulted in the following increases/(decreases) in certain balance sheet accounts in 2006, as follows:

Cash	\$ 11,004
Reinsurance recoverable on paid and unpaid losses and LAE	(16,429)
Prepaid reinsurance	(18,287)
Ceding commission receivable	(8,928)
Reinsurance payables	(28,067)
Deferred policy acquisition costs	4,573

Effective March 18, 2004, the Company elected to terminate and commute its aggregate excess of loss reinsurance agreement covering the 2001 through 2003 underwriting years. This resulted in the reinsurer being released from all future liability in return for settlement of the contract's experience account balance of \$10.6 million, which was received on March 18, 2004. The termination and commutation had no impact upon reported net income in 2004, as the experience account balance was equal to the liability released. Inter-Ocean Reinsurance (Ireland) Limited provided the reinsurance under this agreement, and they collateralized their obligations to the Company with a letter of credit. American Re-Insurance Company was the retrocessionaire.

In addition, the Company ceded premium to the Michigan Catastrophic Claims Association (MCCA), a mandatory facility in that state. Earned premium ceded to the MCCA was \$9,635, \$9,366, and \$6,197 for the years ended December 31, 2006, 2005, and 2004, respectively.

As of December 31, 2006, 2005, and 2004, recoverables for reinsurance ceded to the Company's reinsurers were an aggregate of \$37,911, \$31,517, and \$155,326, respectively.

The table below illustrates the effect of reinsurance on premiums written and premiums earned for the years ended December 31:

	2006		2005		2004	
	Written	Earned	Written	Earned	Written	Earned
Direct	\$ 563,967	\$ 564,639	\$ 595,455	\$ 625,444	\$ 734,909	\$ 681,554
Assumed	30,997	26,080	22,418	21,500	17,950	14,051
Gross	594,964	590,719	617,873	646,944	752,859	695,605
Ceded	9,082	(9,657)	35,258	(51,872)	(383,848)	(370,284)
Net	\$ 604,046	\$ 581,062	\$ 653,131	\$ 595,072	\$ 369,011	\$ 325,321

Incurred losses and LAE recovered from reinsurers totaled \$26,295, \$37,185, and \$243,249 for the years ended December 31, 2006, 2005 and 2004, respectively.

The value of assets pledged as collateral under assumed reinsurance agreements was \$9,155 and \$8,794 at December 31, 2006 and 2005, respectively.

All of the material reinsurance agreements to which the Company has been a party have been terminated and commuted, and the reinsurers have been released from all future liabilities under the agreements.

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7. Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return.

The components of the provision for income taxes on income for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
	<u> </u>	<u> </u>	<u> </u>
Taxes on income before income taxes:			
Current	\$ 20,177	\$ 29,403	\$ 30,105
Deferred	1,919	272	4,657
	<u> </u>	<u> </u>	<u> </u>
	\$ 22,096	\$ 29,675	\$ 34,762
	<u> </u>	<u> </u>	<u> </u>

As of December 31, 2006, the Company had \$2,662 in net operating loss (NOL) carryforwards that are subject to Internal Revenue Code Section 382 and, therefore, are limited on an annual basis. These NOLs expire in 2019. A valuation allowance has been established for the NOLs that reduces the deferred tax asset to an amount that management expects will, more likely than not, be realized based on the Company's current and expected future taxable income and available tax-planning strategies.

The tax effects of the temporary differences comprising the Company's net deferred income taxes for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
	<u> </u>	<u> </u>	<u> </u>
Deferred tax assets:			
Loss reserve discounting	\$ 2,596	\$ 3,187	\$ 1,513
Unearned premium reserves	16,544	14,725	9,907
Net operating loss carryforward	932	997	1,063
Accrued expense			154
Accrued compensation	1,040	1,087	1,549
Stock based compensation	3,044	2,225	1,488
Unrealized loss	1,079	1,907	
Other	498	354	645
	<u> </u>	<u> </u>	<u> </u>
Deferred tax assets before valuation allowance	25,733	24,482	16,319
Less valuation allowance	(932)	(997)	(1,063)
	<u> </u>	<u> </u>	<u> </u>
Deferred tax asset after valuation allowance	24,801	23,485	15,256
	<u> </u>	<u> </u>	<u> </u>
Deferred tax liabilities:			
Deferred policy acquisition costs	16,535	16,199	10,860
Amortization of intangibles	8,096	6,966	6,529
Unrealized income			350
Depreciation	3,322	1,888	2,795
Deferred policy fees and other underwriting expenses	5,961	5,010	4,001
Prepaid Expenses	790	641	
	<u> </u>	<u> </u>	<u> </u>
Deferred tax liabilities	34,704	30,704	24,535
	<u> </u>	<u> </u>	<u> </u>
Net deferred income taxes	\$ (9,903)	\$ (7,219)	\$ (9,279)
	<u> </u>	<u> </u>	<u> </u>

The change in the Company's valuation allowance from 2004 to 2005, and from 2005 to 2006, was due to the utilization of the NOLs. The tax benefit associated with the utilization of the NOLs was recorded as a reduction in goodwill.

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A reconciliation of expected income taxes at regular corporate rates to actual rates is shown below:

	Years Ended December 31,		
	2006	2005	2004
Expected income tax expense	\$ 22,481	\$ 29,532	\$ 33,565
Dividends received deduction			(3)
Tax-exempt interest	(2,164)	(1,882)	(914)
State taxes	1,413	1,369	2,190
Other	366	656	(76)
Actual income tax expense	\$ 22,096	\$ 29,675	\$ 34,762

8. Related Party Transactions

Kohlberg Kravis Roberts & Co. L.P.

Kohlberg Kravis Roberts & Co. L.P. (KKR) performs consulting and certain other services for the Company pursuant to an agreement to provide management, consulting and certain other services (the KKR Contract). Pursuant to the KKR Contract, the Company agreed to pay KKR \$500 per year, plus reasonable expenses incurred to provide the services. The KKR Contract continues in effect from year to year unless KKR agrees with the Company to amend or terminate the contract. Partnerships affiliated with KKR owned 42.2%, 40.5%, and 38.5% of the Company's Common Stock as of December 31, 2006, 2005 and 2004, respectively. Pursuant to the KKR Contract, the Company incurred fees of \$500 related to services provided by KKR during each of the years ended December 31, 2006, 2005, and 2004. The Company also reimbursed KKR for expenses incurred on the Company's behalf in the amounts of approximately \$7, \$18 and \$26 during the years ended December 31, 2006, 2005, and 2004, respectively. The Company owed KKR fees of \$125 as of December 31, 2006, 2005 and 2004, respectively.

Fisher Capital Corporation, LLC

Fisher Capital Corp. LLC (Fisher Capital) performs consulting and certain other services for the Company pursuant to an agreement to provide management, consulting and certain other services (the Fisher Capital Contract). Pursuant to the Fisher Capital Contract, the Company agreed to pay Fisher Capital, during the years ended December 31, 2006, 2005, and 2004, \$95 per year plus reasonable expenses incurred to provide the services. James R. Fisher, the Company's Executive Chairman of the Board, is the managing member of Fisher Capital. Pursuant to the Fisher Capital Contract, the Company incurred fees of \$95 related to services provided by Fisher Capital during each of the years ended December 31, 2006, 2005, and 2004. The Company also reimbursed Fisher Capital for expenses incurred on the Company's behalf in the amounts of approximately \$32, \$47 and \$53 during the years ended December 31, 2006, 2005, and 2004, respectively. Mr. Fisher did not receive any portion of the fees paid to Fisher Capital in 2006, 2005 or 2004. The Company owed no fees to Fisher Capital as of December 31, 2006, 2005 and 2004. The Company and Fisher Capital agreed to terminate the Fisher Capital Contract effective December 31, 2006.

At December 31, 2006 and 2005, Fisher Capital held options to purchase 873,546 shares of the Company's Common Stock. These options have an exercise price of \$3.83 per share and expire beginning on July 9, 2013 through October 1, 2018. All these options were issued prior to 2004 and are fully vested.

Investigation Expenses

In 2006 and 2005, each of KKR; Gary Colton, a member of Fisher Capital; and James R. Fisher, the Company's Executive Chairman, incurred separate expenses in connection with governmental investigations by the SEC and the United States Attorney for the Southern District of New York relating to the Company's reinsurance agreements. (See Note 9.) In 2006 and 2005, the Company incurred legal fees and related expenses associated with these investigations on behalf of KKR of approximately \$6 and \$467, respectively. In 2006 and 2005, the Company incurred legal fees and related expenses associated with these investigations on behalf of Mr. Colton of approximately \$0 and \$89, respectively. In 2006 and 2005, the Company incurred legal fees and related expenses associated with these investigations on behalf of James R. Fisher of approximately \$22 and \$213, respectively.

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Firemark Services Agreement and OneShield

Firemark Partners LLC (Firemark) is a service company created by Inder-Jeet Gujral. Mr. Gujral is one of the founders of OneShield Inc. (OneShield), the developer of the Company's OneStep® software. Mr. Gujral is also Chairman of the Board of Directors of OneShield and a controlling partner of Firemark. Mr. Gujral was a director of the Company from March 24, 2004 through May 19, 2006. As of December 31, 2006 and 2005, Mr. Gujral owned 0.15% and 0.57% of OneShield's shares on a fully diluted basis. Certain members and employees of KKR, Fisher Capital and James R. Fisher, the Company's Executive Chairman, have interests in OneShield through Aurora Investments LLC (Aurora). As of December 31, 2006 and 2005, Aurora's interest in OneShield was 7.1% and 13.1% on a fully diluted basis.

Firemark Services Agreement. The Company entered into a services agreement with Firemark, dated July 24, 2002, as corrected and amended on November 8, 2005 and amended as of October 1, 2006 (the Firemark Agreement). The Company paid Firemark and OneShield, collectively, \$2,680, \$3,411, and \$1,612 for services and license fees under the Firemark Agreement in 2006, 2005 and 2004, respectively. The payment of \$2,680 in 2006 includes the prepayment of all remaining license fees under the Firemark Agreement in the amount of \$818 which constituted prepayment of \$900 in license fees remaining due under the Firemark Services Agreement, at the present value of the remaining monthly payments discounted by 15% at the time of prepayment.

Firemark Options. Pursuant to the Firemark Agreement, in exchange for providing development and implementation assistance to the Company with respect to OneStep, the Company granted Firemark options to purchase 521,520 shares of the Company's common stock at a price of \$3.83 per share. Twenty-five percent of these options vested in the first year of the services agreement, while vesting of the remaining 75% of these options is based upon delivery of the OneStep system and future specified improvements in the Company's underwriting expense ratio, as measured against the underwriting expense ratio for the four quarters prior to the effective date of the services agreement. As of December 31, 2006, these vesting requirements had not been satisfied.

On November 21, 2005, Firemark assigned 78,228 of its options to purchase 521,520 shares of the Company's Common Stock to OneShield, representing OneShield's 15% ownership interest in Firemark. Also on November 21, 2005, OneShield exercised options to purchase 19,557 shares, representing the 25% vested portion of the options assigned by Firemark. OneShield settled the exercise price of \$75 for these options by foregoing 3,863 of the Company's shares, at a per share closing market price of \$19.39 per share. As of December 31, 2006 and 2005, OneShield held options to purchase 58,671 shares.

On March 24, 2006, Firemark exercised options to purchase 110,823 shares of the Company's Common Stock. Firemark used 22,662 of the option shares to settle the exercise price of \$424 for these options. The number of option shares used to settle the exercise price was calculated using the per share closing market price of the Company's Common Stock on the date of exercise of \$18.73. As of December 31, 2006 and December 31, 2005, Firemark held options to purchase 332,469 and 443,292 shares, respectively.

Company Investments in and Loans to OneShield. As consideration for OneShield being chosen as the subcontractor in this services agreement, OneShield granted the Company warrants to purchase OneShield common stock equal to 2% of the then fully diluted capital stock of OneShield. In addition, the Company purchased 8.0 million shares of Series D preferred stock of OneShield. Jeffrey J. Dailey, the Company's President and Chief Executive Officer, became a director of OneShield on November 25, 2003, pursuant to an investor rights agreement entered into in connection with the Company's investment in OneShield.

Effective March 30, 2006, OneShield completed a recapitalization and an equity financing with the consent of its stockholders, including the Company. Pursuant to the recapitalization, the Company's 8.0 million shares of OneShield Series D preferred stock were converted into 1.6 million units consisting of 1.6 million shares of OneShield Series E-2 preferred stock and 1.6 million shares of OneShield Series C-2 common stock. The Company's warrants to purchase OneShield common stock also were converted into warrants to purchase OneShield Series C-3 common stock. Pursuant to the recapitalization and the financing, OneShield authorized and issued Series E-1 preferred stock with liquidation preferences equal to three times the investment amount that are senior to the Series E-2 preferred stock.

The Company's total ownership of OneShield stock (including the warrants but excluding debt conversion rights) represented 6.5% and 6.2% of the fully diluted capital stock of OneShield as of December 31, 2006 and 2005, respectively. As of December 31, 2006 and 2005, the Company owned \$2,000 of OneShield Series E-2 preferred stock and Series D preferred stock, respectively, and had loans receivable, including accrued interest receivable, from OneShield of \$313 and \$290, respectively. (See Note 15.)

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Alea Discretionary Quota Share Reinsurance Agreement

At December 31, 2004, affiliates of KKR owned approximately 40.6% of Alea. James R. Fisher, the Company's Executive Chairman is on the board of directors of Alea. The Company entered into a three-year Discretionary Quota Share Reinsurance Agreement with Alea, effective January 1, 2002, which was terminated and commuted effective January 1, 2005. Pursuant to this quota share reinsurance agreement, direct written premium of \$164,607 and loss and LAE of \$96,399 were ceded to Alea for the year ended December 31, 2004. The Company's net ceding commissions earned from Alea were \$24,758 for the year ended December 31, 2004.

9. Commitments and Contingencies

Operating Leases - The Company leases office space and has several operating leases for office equipment. Total expense for these leases was \$8,813, \$9,186, and \$8,661 for the years ended December 31, 2006, 2005 and 2004, respectively.

The following is a schedule of future minimum lease payments for operating leases as of December 31, 2006:

2007	\$ 7,197
2008	6,235
2009	5,235
2010	3,788
2011	3,557
Thereafter	9,804
Total minimum lease payments	\$ 35,816

Litigation - On April 21, 2005, the Company received a subpoena from the Florida Office of Insurance Regulation (FOIR) requesting documents related to all reinsurance agreements to which the Company has been a party since January 1, 1998. On May 2, 2005, the Company received a subpoena from the SEC seeking documents relating to certain loss mitigation insurance products. On June 14, 2005, the Company received a grand jury subpoena from the United States Attorney for the Southern District of New York (USAO) seeking information related to the Company's finite reinsurance activities. The Company has been informed that other insurance industry participants have received similar subpoenas.

The Company has cooperated with the FOIR, the SEC and the USAO. All of the material reinsurance agreements to which the Company has been a party have been terminated and settled, and the reinsurers have been released from all future liabilities under the agreements. Inasmuch as the governmental investigations are ongoing and the various regulatory authorities could reach conclusions different from the Company's conclusions concerning the treatment of these transactions that are reflected in the Company's financial statements, it would be premature to reach any conclusions as to the likely outcome of these matters or their potential impact upon the Company.

The Company is named as a defendant in a number of class action and individual lawsuits arising in the ordinary course of business, the outcomes of which are uncertain at this time. These cases include those plaintiffs who challenge various aspects of the Company's claims and marketing practices and business operations and seek restitution, damages and other remedies. The Company plans to contest the outstanding lawsuits vigorously.

The Company accounts for such activity through the establishment of appropriate reserves. The Company believes the current assumptions and other considerations the Company uses to estimate its potential liability for such litigation are appropriate. While it is not possible to know with certainty the ultimate outcome of such lawsuits, based on the facts currently available to it, the Company believes it has adequately reserved for its existing known litigation and that such litigation will not have a material adverse effect on the Company's future results of operations, financial condition or cash flows. In view of the uncertainties regarding the outcome of these lawsuits, as well as the tax-deductibility of any related payments, it is possible that the ultimate cost to the Company of these lawsuits could exceed the reserves established by amounts that would have a material adverse effect on the Company's future results of operations, financial condition and cash flows in a particular quarter or year.

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10. Stock Ownership

(Number of shares, options, warrants, and share prices expressed in whole numbers)

Employee Stock Options

The Company has issued stock options to its employees under two plans: the 1998 Stock Option Plan for Management and Key Employees (the 1998 Plan) of Bristol West Holdings, Inc. and its subsidiaries and the 2004 Stock Incentive Plan (the 2004 Plan) of Bristol West Holdings, Inc. and its subsidiaries. The options issued under these plans vest ratably over periods of two or five years, or earlier if there is an acceleration event, such as a change in control. Options expire on and are no longer exercisable after the tenth anniversary of the grant date. The original amount of shares authorized for grant under the 1998 Plan and the 2004 Plan were 2,607,600 and 3,000,000, respectively. In the aggregate, there were 1,224,589 and 1,062,858 options exercisable under these plans at December 31, 2006 and December 31, 2005, respectively. The weighted average remaining contractual life of options outstanding under these plans was 2.07 years as of December 31, 2006.

There were no employee option grants made during the years ended December 31, 2006 and 2005. Employee stock option activity under both the 1998 Plan and the 2004 Plan for the year ended December 31, 2006 is detailed below:

Option shares	Number of Shares	Weighted Average Exercise Price
Outstanding December 31, 2003	2,503,378	\$ 4.20
Exercised during 2004	(1,098,319)	3.83
Expired during 2004	(17,676)	5.15
Granted during 2004	25,166	20.91
Outstanding December 31, 2004	1,412,549	4.76
Exercised during 2005	(41,771)	4.09
Expired during 2005	(17,960)	5.91
Outstanding December 31, 2005	1,352,818	4.77
Exercised during 2006	(27,027)	3.90
Expired during 2006	(30,663)	15.25
Outstanding December 31, 2006	1,295,128	\$ 4.54

Options Outstanding				Options Exercisable	
Exercise Price	Shares	Weighted Average Price	Remaining Term (in years)	Shares	Weighted Average Price
\$3.83	1,170,338	\$ 3.83	1.70	1,119,097	\$ 3.83
\$7.67 - \$20.91	124,790	11.16	5.59	105,492	11.80
	1,295,128	\$ 4.54	2.07	1,224,589	\$ 4.52

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Non-Employee Options and Warrants

On July 24, 2002, the Company granted options to purchase 521,520 shares of the Company's Common Stock with an exercise price of \$3.83 per share to Firemark in exchange for providing development and implementation assistance to the Company with respect to the Company's OneStep software. These options expire on July 24, 2012. The Company capitalized \$256 of costs related to options to purchase 130,380 of these shares. The Company calculated the grant date fair value of the options utilizing the Black-Scholes option pricing model and the following assumptions: dividend yield of 0%, expected volatility of 30%, risk-free interest rate of 4.65% and an average expected life of 10 years. The vesting of the remaining options to purchase 391,140 shares is subject to the satisfaction of certain performance criteria. As of December 31, 2006, these vesting requirements had not been satisfied. (See Note 8.)

On November 21, 2005, Firemark assigned 78,228 of these options (representing 15% of the total 521,520 option shares) to OneShield, the developer of the Company's OneStep software and owner of 15% of the equity interest of Firemark. Also on November 21, 2005, OneShield exercised options to purchase 19,557 shares, representing the 25% vested portion of the options assigned by Firemark. OneShield settled the exercise price of \$75 for these options by foregoing 3,863 of the Company's shares, at a per share closing market price of \$19.39 per share. As of December 31, 2006 and December 31, 2005, OneShield held options to purchase 58,671 shares.

On March 24, 2006, Firemark exercised options to purchase 110,823 shares of the Company's Common Stock. Firemark used 22,662 of the option shares to settle the exercise price of \$424 for these options. The number of option shares used to settle the exercise price was calculated using the per share closing market price of the Company's common stock on the date of exercise of \$18.73. As of December 31, 2006 and December 31, 2005, Firemark held options to purchase 332,469 and 443,292 shares, respectively.

In addition, Inter-Ocean Reinsurance (Ireland) Limited held warrants to purchase 432,613 shares of the Company's Common Stock at December 31, 2006 and December 31, 2005. These warrants have an exercise price of \$3.83 per share and expire on July 1, 2016. These options were issued in 2001 and are fully vested, subject to a cap on the maximum fair market value of exercised warrants which, if applicable, would result in the issuance of fewer shares of the Company's Common Stock upon exercise.

At December 31, 2006 and 2005, other non-employees held options to purchase an aggregate of 893,103 shares of the Company's Common Stock. These options have an exercise price of \$3.83 per share and expire beginning on April 1, 2008 through October 1, 2018. All of these options were issued prior to 2004 and are fully vested.

Restricted Shares

The Company began issuing restricted stock awards to employees and directors in 2004 pursuant to the 2004 Plan. The outstanding restricted stock awards were issued as time-based awards, which vest upon the lapse of a period of time, provided that the holder continues to be an employee or director, as appropriate, on the vesting date. These awards typically vest in two or five years, or earlier if there is an acceleration event. The restricted stock awards are expensed pro rata over the vesting period based on the grant date fair value of the awards under SFAS No. 123R.

A summary of all employee and director restricted stock activity for the years ended December 31, 2006, 2005 and 2004 follows:

Shares outstanding, January 1, 2004	
Shares granted	312,157
Shares forfeited	(18,098)
Shares outstanding, December 31, 2004	294,059
Shares granted	186,109
Shares forfeited	(4,927)
Shares outstanding, December 31, 2005	475,241
Shares granted	299,119
Shares forfeited	(76,166)

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Shares vested	(30,081)
Shares outstanding, December 31, 2006	668,113

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Recent Accounting Pronouncements

The Company adopted SFAS No. 123R on January 1, 2006 using the modified prospective method. This transition method applies to new awards and awards modified, repurchased, or cancelled after the effective date of this statement. The Company recognized compensation costs of \$10 after taxes during the year ended December 31, 2006, based on the grant date fair value of its unvested awards and the remaining requisite service period. Results for prior periods have not been restated as provided for under the modified prospective approach. For equity awards granted after the date of adoption, the Company amortizes share-based compensation expense on a straight-line basis over the vesting term.

The Company receives a tax deduction for certain stock option exercises when the options are exercised, generally for the excess of the stock price at the time of exercise over the exercise price of the options. Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash inflows in the Consolidated Statements of Cash Flows. SFAS No. 123R requires the benefits of tax deductions in excess of the grant-date fair value for those options to be classified as financing cash inflows rather than operating cash inflows, on a prospective basis. Accordingly, the Company recognized tax benefits on the exercise of stock options within the Consolidated Statements of Cash Flows as a financing cash inflow of \$740 for the year ended December 31, 2006 and as an operating cash inflow of \$304 for the year ended December 31, 2005.

The following table shows the effect on net income and earnings per share for the years ended December 31, 2005 and 2004 had compensation expense been recognized based upon the estimated grant date fair value of the awards, in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*:

	Years Ended December 31,	
	2005	2004
Net income, as reported	\$ 54,702	\$ 61,137
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(209)	(271)
Pro forma net income	\$ 54,493	\$ 60,866
Net income per share		
Basic As reported	\$ 1.78	\$ 1.99
Basic Pro forma	\$ 1.78	\$ 1.98
Diluted As reported	\$ 1.70	\$ 1.89
Diluted Pro forma	\$ 1.70	\$ 1.88

There were no employee option grants made during the years ended December 31, 2006 and 2005. For grants made in 2004, the estimated fair value was determined using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 1.0%, expected volatility of 25.9%, risk-free interest rate of 2.1% and an average expected life of 5 years.

BRISTOL WEST HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(dollars in thousands, except per share data)

11. Property, Software and Equipment

Property, software and equipment consists of the following at December 31:

	2006	2005
Furniture and fixtures	\$ 4,902	\$ 6,160
Office and computer equipment	15,547	17,289
Leasehold improvements	1,672	1,786
Vehicles	18	121
Computer software	22,751	20,353
	44,890	45,709
Less accumulated depreciation	(24,854)	(26,564)
Property, software and equipment - net	\$ 20,036	\$ 19,145

The Company recorded \$5,136, \$5,267, and \$3,966 for depreciation expense for the years ended December 31, 2006, 2005 and 2004, respectively. The Company recorded \$2,102, \$1,332, and \$2,071 of amortization expense related to internal use software costs for the years ended December 31, 2006, 2005 and 2004, respectively.

12. Regulatory Matters

The Company's insurance subsidiaries are subject to comprehensive regulation by government agencies in the states in which the subsidiaries are domiciled and licensed to transact business. State insurance laws restrict the ability of the Company's insurance subsidiaries to make dividend payments and enter into intercompany transactions. As of December 31, 2006, the Company's insurance subsidiaries could pay dividends of \$32,869 without seeking regulatory approval. Such dividends, if paid, would be subject to regulatory dividend reporting requirements. No such dividends were paid or declared during the years ended December 31, 2006, 2005, and 2004, respectively. Statutory surplus of the Company's insurance subsidiaries, determined in accordance with prescribed statutory accounting practices, was \$354,742 and \$304,160 at December 31, 2006 and 2005, respectively. Statutory net income was \$24,577, \$35,676, and \$25,669 during the years ended December 31, 2006, 2005 and 2004, respectively.

The insurance subsidiaries of the Company prepare their statutory financial statements in accordance with accounting practices prescribed by the applicable state insurance departments. Prescribed statutory accounting practices include publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules.

The state insurance departments that have jurisdiction over the Company's insurance subsidiaries may conduct on-site visits and examinations of the Company's insurers' affairs, including their financial condition, ability to fulfill their obligations to policyholders, market conduct, claims practices and compliance with other laws and applicable regulations. Typically, these examinations are conducted every three to five years. In addition, if circumstances dictate, regulators are authorized to conduct special or target examinations of insurers to address particular concerns or issues. The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action on the part of the company that is the subject of the examination or assessing fines or other penalties against that company. Currently, there are four such examinations and related proceedings in progress involving the Company's insurance subsidiaries. The outcomes of these examinations and related proceedings are uncertain and, at the present time, the Company cannot determine their impact on the Company. While it is not possible to know with certainty the ultimate outcome of such examinations, based on the facts currently available to it, the Company believes that such examinations will not have a material adverse effect on the Company's future results of operations, financial condition, or cash flows. In view of the uncertainties regarding the outcome of these examinations, as well as the tax deductibility of any related payments, it is possible that the ultimate cost to the Company of these examinations could have a material adverse effect on the Company's future results of operations, financial condition, and cash flows in a particular quarter or year.

BRISTOL WEST HOLDINGS, INC.
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13. Accumulated Other Comprehensive Income

The accumulated balances of other comprehensive income (loss) are comprised of the following:

	Unrealized Gain (Loss) on Securities	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2004	\$ 2,132	\$ 2,132
2004 change, net of tax of \$839	(1,492)	(1,492)
Balance at December 31, 2004	640	640
2005 change, net of tax of \$2,267	(4,030)	(4,030)
Balance at December 31, 2005	(3,390)	(3,390)
2006 change, net of tax of \$797	1,417	1,417
Balance at December 31, 2006	\$ (1,973)	\$ (1,973)

14. Net Income per Share

Basic net income per share is computed based on the weighted average number of shares outstanding during the year. Diluted net income per share includes the dilutive effect of outstanding options and warrants, using the treasury stock method. Under the treasury stock method, exercise of options is assumed with the proceeds used to purchase Common Stock at the average price for the period. The difference between the number of shares assumed issued and number of shares purchased represents the dilutive shares.

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended December 31,		
	2006	2005	2004
Net Income applicable to common stockholders	\$ 42,136	\$ 54,702	\$ 61,137
Weighted average common shares - basic	29,191,766	30,648,419	30,680,692
Effect of dilutive securities:			
Options	1,082,497	1,178,701	1,369,162
Restricted stock	195,455	97,951	14,354
Warrants	214,478	220,564	239,914
Weighted average common shares - dilutive	30,684,196	32,145,635	32,304,122
Basic Earnings Per Share	\$ 1.44	\$ 1.78	\$ 1.99
Diluted Earnings Per Share	\$ 1.37	\$ 1.70	\$ 1.89

BRISTOL WEST HOLDINGS, INC.
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15. Subsequent Events

Merger of Bristol West and a Subsidiary of Farmers Group, Inc.

On March 1, 2007, the Company entered into a merger agreement (the *Merger Agreement*) with Farmers Group, Inc. (*Farmers*) pursuant to which BWH Acquisition Company, a wholly owned subsidiary of Farmers (*Merger Sub*) will be merged with and into the Company, with the Company continuing as the surviving corporation and becoming a wholly-owned subsidiary of Farmers (the *Merger*). Pursuant to the *Merger Agreement*, at the effective time and as a result of the *Merger*, each then outstanding share (each a *Share*) of Common Stock, including restricted stock (which vests upon a change in control), will be cancelled and converted into the right to receive \$22.50 in cash per Share, without interest (the *Merger Consideration*). Each share of Common Stock that is subject to a then outstanding option and warrant that is vested or vests upon a change in control will be converted into the right to receive the *Merger Consideration* less the exercise price per Share for the option and warrant. Each hypothetical share of Common Stock then included in a non employee director's deferred compensation account (each a *Phantom Share*) under the Company's Non-Employee Directors' Deferred Compensation and Stock Award Plan also will be converted into the right to receive the *Merger Consideration*. The *Merger* is subject to approval by the Company's stockholders and regulatory authorities, and other customary closing conditions. Further, both the Company and Farmers may terminate the *Merger Agreement* if the *Merger* is not consummated by December 1, 2007. The Company currently expects the *Merger* to close before the end of 2007. However, it is possible that factors outside of the Company's control could require the parties to complete the *Merger* at a later time or not to complete it at all.

The *Merger Agreement* contains a *go shop* provision pursuant to which the Company has the right to solicit and engage in discussions and negotiations with respect to competing proposals through March 31, 2007 (the *go shop period end date*). After the *go shop period end date*, the Company may continue discussions with certain persons who have made proposals before 11:59 pm (ET) on the *go-shop period end date* and, subject to certain conditions, respond to unsolicited inquiries by other persons interested in acquiring the Company. After the *go shop period end date*, the Company is not permitted to solicit other proposals and may not share information or have discussions regarding alternative proposals, except in certain circumstances.

The *Merger Agreement* contains certain termination rights for the Company and Farmers. The Company may terminate the *Merger Agreement* under certain circumstances before approval of the *Merger Agreement* by its stockholders if its board of directors determines in good faith that the Company has received and the board accepts a Superior Proposal (as defined in the *Merger Agreement*) and the Company otherwise complies with certain terms of the *Merger Agreement*. In connection with such a termination, the Company must pay a fee of \$21 million to Farmers, unless concurrently with the termination the Company enters into a definitive agreement with respect to a Superior Proposal submitted by certain persons who made proposals through the *go shop period end date*, in which case the termination fee will be \$14 million. The *Merger Agreement* provides that in certain other circumstances where either the Company or Farmers unilaterally terminates the *Merger Agreement*, the Company will pay Farmers a termination fee of \$21 million. In certain circumstances where the Company is not obligated to pay such a termination fee, the *Merger Agreement* provides that the Company must pay certain expenses incurred by Farmers and *Merger Sub* in connection with the *Merger* up to \$4 million.

The *Merger Agreement* contains customary covenants by the Company, including, without limitation, (1) to conduct its business in the ordinary and usual course during the interim period between the execution of the *Merger Agreement* and consummation of the *Merger*, (2) not to engage in certain kinds of transactions during that period, (3) that, subject to certain exceptions, the Company's Board of Directors will recommend approval of the *Merger* by its stockholders, and (4) unless the *Merger Agreement* is terminated, to convene and hold a meeting of the Company's stockholders to consider and vote upon the approval of the *Merger*.

The terms of certain of the Company's agreements including contracts, employee benefit arrangements and debt instruments have provisions which could result in changes to the terms or settlement amounts of these agreements upon a change in control of the Company.

BRISTOL WEST HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Additional Investment in OneShield

On February 15, 2007, the Company invested \$500 in exchange for 400,000 units, each consisting of one share of OneShield Series E-1 preferred stock and one share of OneShield Series C-1 common stock, on substantially the same terms as OneShield's March 30, 2006 equity financing. The Series E-1 preferred stock has senior liquidation preferences equal to three times the initial investment amount. (See Note 8.) As of February 28, 2007, the Company's total ownership of OneShield stock (including the warrants but excluding debt conversion rights) represented 7.2% of the fully diluted capital stock of OneShield.

16. Quarterly Results for 2006 and 2005 (unaudited)

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2006				
Revenues	\$ 163,883	\$ 164,547	\$ 164,646	\$ 168,003
Cost and Expenses	146,773	148,878	149,719	151,477
Net income	11,190	10,346	9,807	10,793
Basic earnings per share	0.38	0.35	0.34	0.37
Diluted earnings per share	0.36	0.34	0.32	0.36
2005				
Revenues	\$ 185,605	\$ 175,103	\$ 162,576	\$ 154,265
Cost and Expenses	159,219	154,521	142,052	137,380
Net income	16,821	13,121	13,084	11,676
Basic earnings per share	0.53	0.42	0.43	0.39
Diluted earnings per share	0.51	0.41	0.41	0.37

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BRISTOL WEST HOLDINGS, INC.
SCHEDULE I
SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN AFFILIATES
(in thousands)

Type of Investment	As of December 31, 2006		
	Cost	Fair Value	Amount at which shown on Balance Sheet
Fixed Maturities			
U.S. Government securities	\$ 2,761	\$ 2,761	\$ 2,761
Mortgage backed bonds	120,432	120,248	120,248
Tax exempt bonds	222,236	220,617	220,617
Collateralized mortgage obligations	12,089	11,871	11,871
Corporate and other	139,295	138,230	138,230
Total fixed maturities	\$ 496,813	\$ 493,727	\$ 493,727
Equity Securities			
Preferred stock	\$ 2,000	\$ 2,000	\$ 2,000
Total equity securities	\$ 2,000	\$ 2,000	\$ 2,000
Total investments	\$ 498,813	\$ 495,727	\$ 495,727

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BRISTOL WEST HOLDINGS, INC.
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS
(in thousands)

	December 31,	
	2006	2005
Assets:		
Cash and cash equivalents	\$ 9,795	\$ 20,372
Equity securities	2,000	2,000
Investment in subsidiaries	283,461	235,609
Due from affiliates	816	557
Deferred financing fees	647	1,540
Income taxes receivable	55,942	44,412
Goodwill	101,481	101,546
Other assets	3,809	2,986
Total assets	\$ 457,951	\$ 409,022
Liabilities and Capital:		
Accounts payable, accrued expenses, and other liabilities	\$ 1,200	\$ 2,142
Long-term debt, including current portion	100,000	69,925
Total liabilities	101,200	72,067
Stockholders' Equity		
Preferred stock, \$0.01 par value		
Common stock, \$0.01 par value	332	328
Additional paid-in capital	235,086	235,308
Treasury stock	(54,937)	(34,078)
Stock subscriptions receivable	(27)	(59)
Retained earnings	178,270	144,609
Deferred compensation on restricted stock		(5,763)
Accumulated other comprehensive income	(1,973)	(3,390)
Total stockholders' equity	356,751	336,955
Total liabilities and stockholders' equity	\$ 457,951	\$ 409,022

BRISTOL WEST HOLDINGS, INC.
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME
(in thousands)

	Years ended December 31,		
	2006	2005	2004
Income:			
Other income	\$ 241	\$ 256	\$ 31
Total income	241	256	31
Cost and Expenses:			
Interest expense	4,130	3,816	2,597
Amortization expense	1,599	413	371
Extinguishment of debt	1,311		1,613
Other expenses	8,457	7,850	3,016
Total expenses	15,497	12,079	7,597
Loss before federal income taxes and equity in net earnings of subsidiaries	(15,256)	(11,823)	(7,566)
Income taxes	(5,299)	(1,408)	(2,698)
Loss before equity in net earnings of subsidiaries	(9,957)	(10,415)	(4,868)
Equity in net earnings of subsidiaries	52,093	65,117	66,005
Net earnings	\$ 42,136	\$ 54,702	\$ 61,137

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BRISTOL WEST HOLDINGS, INC.
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOW
(in thousands)

	Years ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net earnings	\$ 42,136	\$ 54,702	\$ 61,137
Undistributed earnings of subsidiaries	(52,093)	(65,117)	(66,005)
Extinguishment of debt	1,311		1,613
Change in working capital	20,339	65,392	627
Tax benefit on exercise of stock options		304	8,147
Net cash provided by operating activities	11,693	55,281	5,519
Cash flows from investing activities:			
Capital contributions to subsidiaries	(25,000)		(110,000)
Purchase of equity securities			(400)
Net cash used in investing activities	(25,000)		(110,400)
Cash flows from financing activities:			
Proceeds from initial public offering			113,405
Proceeds from exercise of stock options	105	171	5,548
Tax benefit on exercise of stock options	740		
Principal repayment at time of debt extinguishment	(67,975)		(71,500)
Principal payments on long-term debt	(1,950)	(3,463)	(1,612)
Issuance of long-term debt	100,000		75,000
Payment of fees and expenses related to acquisition of long-term debt	(706)		(2,325)
Payment of dividends to stockholders	(8,468)	(7,975)	(4,714)
Payments on stock subscription receivable	32	61	274
Acquisition of treasury stock	(19,048)	(30,951)	(69)
Net cash provided by (used in) financing activities	2,730	(42,157)	114,007
Net (decrease) increase in cash	(10,577)	13,124	9,126
Cash, beginning of period	20,372	7,248	(1,878)
Cash, end of period	\$ 9,795	\$ 20,372	\$ 7,248

BRISTOL WEST HOLDINGS, INC.
SCHEDULE III
SUPPLEMENTARY INSURANCE INFORMATION
For the years ended December 31, 2006, 2005, and 2004
(in thousands)

	Deferred Policy Acquisition Costs	Reserves for Unpaid Losses and Loss Adjustment Expenses	Unearned Premiums	Earned Premiums	Fee Income and Other	Net Investment Income	Losses and Loss Adjustment Expenses Incurred	Amortization of Deferred Policy Acquisition Costs	Other Expenses	Net Written Premium
2006										
Property and Casualty	\$ 47,243	\$ 239,177	\$ 189,605	\$ 581,062	\$ 58,480	\$ 21,464	\$ 394,074	\$ 961	\$ 49,948	\$ 604,046
Consolidated	\$ 47,243	\$ 239,177	\$ 189,605	\$ 581,062	\$ 58,480	\$ 21,464	\$ 394,074	\$ 961	\$ 49,948	\$ 604,046
2005										
Property and Casualty	\$ 46,283	\$ 221,445	\$ 185,360	\$ 595,072	\$ 65,395	\$ 17,188	\$ 394,606	\$ 15,255	\$ 44,526	\$ 653,131
Consolidated	\$ 46,283	\$ 221,445	\$ 185,360	\$ 595,072	\$ 65,395	\$ 17,188	\$ 394,606	\$ 15,255	\$ 44,526	\$ 653,131
2004										
Property and Casualty	\$ 31,028	\$ 222,326	\$ 214,431	\$ 325,321	\$ 76,562	\$ 9,018	\$ 219,358	\$ 58,428	\$ 37,216	\$ 369,011
Consolidated	\$ 31,028	\$ 222,326	\$ 214,431	\$ 325,321	\$ 76,562	\$ 9,018	\$ 219,358	\$ 58,428	\$ 37,216	\$ 369,011

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BRISTOL WEST HOLDINGS, INC.
SCHEDULE IV
REINSURANCE
(in thousands)

	<u>Gross Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amount</u>	<u>Percentage of Amount Assumed to Net</u>
For the year ended December 31, 2006					
Property and casualty insurance premiums	\$ 564,639	\$ 9,657	\$ 26,080	\$ 581,062	4%
Total premiums	\$ 564,639	\$ 9,657	\$ 26,080	\$ 581,062	4%
For the year ended December 31, 2005					
Property and casualty insurance premiums	\$ 625,444	\$ 51,872	\$ 21,500	\$ 595,072	4%
Total premiums	\$ 625,444	\$ 51,872	\$ 21,500	\$ 595,072	4%
For the year ended December 31, 2004					
Property and casualty insurance premiums	\$ 681,554	\$ 370,284	\$ 14,051	\$ 325,321	4%
Total premiums	\$ 681,554	\$ 370,284	\$ 14,051	\$ 325,321	4%

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BRISTOL WEST HOLDINGS, INC.
SCHEDULE V
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	<u>Balance January 1,</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts - Earned Premium</u>	<u>Write-offs/ Payments/ Other</u>	<u>Balance December 31,</u>
2006					
Allowance for doubtful accounts	\$ 6,758	\$	\$ 6,974	\$ (7,636)	\$ 6,096
Accumulated depreciation of property, software, and equipment	26,564	7,238		(8,948)	24,854
Valuation allowance for deferred taxes	997			(65)	932
2005					
Allowance for doubtful accounts	\$ 15,845	\$ 1,161	\$ 6,604	\$ (16,852)	\$ 6,758
Accumulated depreciation of property, software, and equipment	19,965	6,599			26,564
Valuation allowance for deferred taxes	1,063			(66)	997
2004					
Allowance for doubtful accounts	\$ 16,812	\$ 50	\$ 10,912	\$ (11,929)	\$ 15,845
Accumulated depreciation of property, software, and equipment	14,346	6,037		(418)	19,965
Valuation allowance for deferred taxes	1,128			(65)	1,063

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BRISTOL WEST HOLDINGS, INC.
SCHEDULE VI
SUPPLEMENTARY INFORMATION CONCERNING PROPERTY
AND CASUALTY INSURANCE OPERATIONS
(in thousands)

	Losses and Loss Adjustment Expenses Incurred Related to:		Paid Losses and Loss Adjustment Expenses
	Current Year	Prior Years	
<u>Years ended December 31,</u>			
2006	\$ 388,781	\$ 5,293	\$ 386,823
2005	\$ 394,597	\$ 9	\$ 302,623
2004	\$ 216,845	\$ 2,513	\$ 202,948

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