21ST CENTURY INSURANCE GROUP
Form 10-K
February 11, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

Commission File Number 0-6964

21ST CENTURY INSURANCE GROUP
(Exact name of registrant as specified in its charter)

DELAWARE	95-1935264
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6301 OWENSMOUTH AVENUE WOODLAND HILLS, CALIFORNIA	91367
(Address of principal executive offices)	(Zip Code)
(818) 704-3700	WWW.21ST.COM
(Registrant's telephone number, including area code)	(Registrant's web site)

SECURITIES REGISTERED PURSUANT TO SECTION 12 (B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, Par Value $0.001	New York Stock Exchange

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. Yes [X] No [ ]

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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

The aggregate market value of the voting stock held by non-affiliates of 21st Century Insurance Group, based on the average high and low prices for shares of the registrant's Common Stock on June 30, 2003, as reported by the New York Stock Exchange, was approximately $350,000,000.

There were 85,435,505 shares of common stock outstanding on January 30, 2004.

DOCUMENT INCORPORATED BY REFERENCE:
Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for the Annual Meeting of

Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the year ended December 31, 2003.

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4.1	Indenture, dated December 9, 2003, between 21st Century Insurance Group and The Bank of New York, as trustee.
4.2	Exchange and Registration Rights Agreement, dated December 9, 2003.
10(i)	2003 Short Term Incentive Plan.
10(l)	Lease Agreements for Registrant's Principal Offices substantially in the form of this Exhibit.
10(m)	Forms of Amended and Restated Stock Option Agreements.
10(n)	Form of Restricted Shares Agreement.
10(o)	Retention Agreements substantially in the form of this Exhibit for executives Richard A. Andre, Michael J. Cassanego, G. Edward Combs, Carmelo Spinella and Dean E. Stark.
10(p)	Sale and Leaseback Agreement between 21st Century Insurance Company and General Electric Capital Corporation, for itself, and as agent for Certain Participants, as amended, dated December 31, 2002.
14	Code of Ethics.
21	Subsidiaries of Registrant.
23	Consent of Independent Auditors.
31.1	Certification of President and Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a).
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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PART I

ITEM 1. BUSINESS

GENERAL

21st Century Insurance Group (together with its subsidiaries, referred to hereinafter as the "Company", "we", "us" or "our") is an insurance holding company registered on the New York Stock Exchange (NYSE: TW).

We primarily market and underwrite personal automobile, motorcycle, and umbrella insurance in California. We also provide personal automobile insurance in four other western states (Arizona, Nevada, Oregon and Washington) and three midwestern states (Illinois, Indiana and Ohio). We began offering personal auto insurance in Illinois, Indiana and Ohio on January 28, 2004(1). Twenty-four hours per day, 365 days a year, customers have the option to purchase insurance, service their policy or report a claim over the phone directly through our centralized licensed insurance agents at 1-800-211-SAVE or through our full service Internet site at www.21st.com. We believe that we have a reputation for high quality customer service and for being among the most efficient and lowest cost providers of personal auto insurance in the markets we serve.

The Company was founded in 1958, and until recently was incorporated in California. Effective December 4, 2003, we were reincorporated under the laws of the State of Delaware. Several subsidiaries of American International Group, Inc. (hereinafter referred to as "AIG") together currently own approximately 63% of our outstanding common stock.

Copies of our filings with the Securities and Exchange Commission on Form 10-K, Form 10-Q, Form 8-K and proxy statements are available along with copies of earnings releases on the Company's web site at www.21st.com. Copies may also be obtained free of charge directly from the Company's Investor Relations

Department (6301 Owensmouth Avenue, Woodland Hills, California 91367, phone 818-701-3595).

GEOGRAPHIC CONCENTRATION OF BUSINESS

We write private passenger automobile insurance primarily in California (97% of policyholders Our remaining business is written in Arizona, Nevada, Oregon and Washington.

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1 Results from these markets are not expected to be material in 2004.

The following table presents a geographical summary of our direct premiums written for the past five years (in millions):

	Direct Premiums Written				
Years Ended December 31,	2003	2002	2001	2000	1999
Personal auto lines(1)					
California	$1,189.5	$967.3	$879.4	$861.6	$848.9
Arizona(2)	21.2	13.0	-	-	-
Nevada	6.7	8.1	8.9	7.7	2.7
Oregon	1.4	1.6	2.0	2.2	0.8
Washington	4.6	5.8	8.5	9.7	3.4
Total personal auto lines	1,223.4	995.8	898.8	881.2	855.8
Lines in runoff					
Homeowner(3) and Earthquake(4)	0.1	2.4	30.5	29.5	24.7
Total	$1,223.5	$998.2	$929.3	$910.7	$880.5

The table below summarizes the concentrations of our California vehicles in force for the voluntary personal auto lines excluding personal umbrella and motorcycle coverages as of the end of each of the past five years. Our California market share reflects a weighted distribution that tracks the concentration of households and population. At the end of 2003, 32% of the vehicles insured by us were garaged in Los Angeles County. In comparison, data from the California Department of Motor Vehicles indicates that 27% of its registrations were for vehicles in Los Angeles County.

Voluntary Personal Auto Lines	Concentration of California Vehicles in Force				
December 31,	2003	2002	2001	2000	1999

Los Angeles County	32.3%	37.2%	42.0%	43.6%	45.2%
San Diego County	13.5	13.4	13.4	12.6	12.3
Southern California excluding Los Angeles and San Diego Counties(5)	21.4	23.5	25.9	26.5	26.8
Central and Northern California(6)	32.8	25.9	18.7	17.3	15.7
	100.0%	100.0%	100.0%	100.0%	100.0%

TYPES AND LIMITS OF INSURANCE COVERAGE
Our private passenger auto insurance contract generally covers: bodily injury liability; property damage; medical payments; uninsured and underinsured motorist; rental reimbursement; uninsured motorist property damage and collision deductible waiver; towing; comprehensive; and collision. All of our policies are written for a six-month term except for policies sold to the involuntary market, which are for twelve months.

Minimum levels of bodily injury and property damage are required by state law and typically cover the other party's claims when our policyholder causes an accident. Uninsured and underinsured motorist are optional coverages and cover our policyholder when the other party is at fault and has no or insufficient liability insurance to cover the insured's injuries and loss of income. Comprehensive and collision

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1 Includes motorcycle and personal umbrella coverages, which are immaterial for all periods presented.
2 Excludes amounts not consolidated prior to our acquisition of a majority of the voting interests in 21st of Arizona: $12.8 million in 2001; $14.7 million in 2000; and $12.9 million in 1999.
3 We no longer have any California homeowner policies in force. See further discussion in Item 7 under the caption Underwriting Results - Homeowner and Earthquake Lines in Runoff.
4 We ceased writing earthquake coverage in 1994, but we have remaining loss reserves from the 1994 Northridge Earthquake that are subject to upward development. See further discussion in Item 7 under the captions Underwriting Results - Homeowner and Earthquake Lines, Critical Accounting Policies, and the Notes to Consolidated Financial Statements.
5 Includes the following counties: Imperial, Kern, Orange, Riverside, Santa Barbara, San Bernardino and Ventura.
6 Includes all California counties other than Los Angeles County, San Diego County, and those specified in Footnote 5.

coverages are also optional and cover damage to the policyholder's automobile whether or not the insured is at fault. In some states, we are required to offer personal injury protection coverage in lieu of the medical payments coverage required in California.

Various limits of liability are underwritten with maximum limits of $500,000 per person and $500,000 per accident. Our most popular bodily injury liability limits in force are $100,000 per person and $300,000 per accident.

Our personal umbrella policy ("PUP") provides a choice of liability coverage limits of $1.0 million, $2.0 million or $3.0 million in excess of underlying automobile liability coverage that we write. The $2.0 million and $3.0 million limits were added in May 2002. We require minimum underlying automobile limits, written by us, of $250,000 per person and $500,000 per accident for PUP policies sold since May 2002 (limits of $100,000 per person and $300,000 per accident were previously required). We reinsure 90% of any PUP loss with unrelated reinsurers.

PERSONAL AUTO PRODUCT INNOVATIONS

Starting in May 2002, we began offering motorcycle coverage primarily to our auto policyholders in California. In August 2002, we introduced a new private passenger auto policy in California that does not have certain standard features found in our primary policy. This limited-feature product is similar in most respects to the product offered by many of our competitors, and is positioned as a lower-cost alternative for customers who believe they need less coverage than provided by our standard product. In October 2002, we enhanced our underwriting guidelines allowing us to provide quotes to more customers who do not meet California's statutory "good driver" definition, but who are considered to be insurable risks within our class plan.

The foregoing product innovations account for approximately 9% of new auto policies written in California in 2003. Each innovation was designed to earn an underwriting profit equivalent to the rest of the California auto product (with the exception of Assigned Risk program). Initial results for each product innovation are in line with expected profit levels.

MARKETING

While we offer personal auto policies in eight states, most of our marketing efforts are focused on the larger urban markets in California(1). Beginning in late 2002, we resumed active marketing in Arizona.

Our marketing and underwriting strategy is to appeal to careful and responsible drivers who desire a feature-rich product at a competitive price. We use direct mail, broadcast and print media, outdoor, community events and the Internet to generate inbound telephone calls, which are served by centralized licensed insurance agents. Because our sales agents are centralized, we can deliver a highly efficient and professional experience for our California and Arizona customers 24 hours per day, 365 days per year through a convenient, toll-free 800-211-SAVE telephone number. California and Arizona customers may also obtain an auto rate quotation and purchase a policy on our web site.

The following table summarizes advertising expenditures (in millions) and total new auto policies written in California, our primary market, for the past five years:

Years Ended December 31,	2003	2002	2001	2000	1999
Total advertising expenditures	$ 53.9	$ 43.3	$ 16.9	$ 9.8	$ 21.3
New auto policies written in California(2)	254,830	185,927	51,002	50,901	86,703

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1 We began offering personal auto insurance in Illinois, Indiana and Ohio on January 28, 2004. Results from these new markets are not expected to be material in 2004.

2 Includes new PUP and motorcycle policies, which are insignificant for all periods presented.

CONSUMER ADVOCACY

We have introduced several publications and community events designed to assist customers and potential customers in making choices about their auto insurance and automobile safety. The Insider's Guide to Buying California Auto Insurance, currently available in both English and Spanish, compares coverage and service features of products offered by the Company and its major competitors. The comparisons are explained in understandable language to help "demystify" the choices consumers must make in selecting their personal auto insurance carrier.

We also publish the Child Safety Seat Guide, Crash Test Ratings Guide, and A Driving Need - A Guide for Mature Drivers and Those Who Care about Them. All of these publications are available free of charge on our web site at www.21st.com/company/getmore/safety/safety.jsp. We have also distributed these publications in California movie theaters, county fairs, direct mail promotions and other venues.

We extended our partnership with the California Highway Patrol to address the critical safety issues of proper child safety seat installation and distracted driving. Working in conjunction with Highway Patrol officers we held 16 child safety seat inspection events in under-served communities throughout California. During these events more than 1,600 inspections were conducted, 800 unsafe/recalled seats were replaced and 1,000 new seats were donated. We also posted billboards carrying the message "Wrap Your Most Important Package Safely" in high visibility locations around the state. On the issue of distracted driving we developed a handout discouraging cell phone usage by drivers in traffic as well as a billboard campaign under the theme of "Just Drive." All of the materials are co-branded by the Company and the Highway Patrol.

CUSTOMER RETENTION AND VEHICLES IN FORCE

Customer retention in California, measured based on the number of insured vehicles and the number of vehicles in force, were as follows as of the end of each of the past five years:

December 31,	2003	2002	2001	2000	1999
Average customer retention - California personal auto(1)	92%	93%	92%	96%	96%
California vehicles in force	1,383,175	1,178,459	1,051,982	1,150,643	1,179,928
All other states vehicles in force	33,332	27,174	23,489	31,337	18,130
Total auto lines exposure	1,416,507	1,205,633	1,075,471	1,181,980	1,198,058
California auto base rate changes	+3.9% APRIL	+5.7% May	+4.0% July	+6.4% November	-6.9% February

From March 1996 to February 1999, we implemented six rate decreases which resulted in a cumulative reduction in rates of nearly 23% in our California Personal Auto Program. As a result of this series of rate decreases, retention rates rose to record levels for us through 2000. Growth in vehicles in force during this period was modest as our major competitors also lowered their rates. In the year 2000, we recognized that loss costs had stopped declining and were again rising. While our competitors took no action or, in some cases, continued to take rate decreases, we took decisive action to improve our results and position us for profitable growth when the marketplace ultimately did react to these adverse trends. In 2000, we curtailed our advertising, adopted stricter underwriting measures, modified our class plan rating system, and increased our California auto program base rate by 6.4%, followed by a further rate increase of 4% in 2001. These actions contributed to the declines in retention and vehicles in force in 2000 and 2001. Beginning in the latter half of 2001, our major California competitors began implementing rate increases and we restarted active marketing and advertising, both of which contributed

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1 Represents an overall measure of customer retention, including new customers as well as long-time customers. Retention rates for new customers are typically lower than for long-time customers.

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to the increases in our retention and vehicles in force in 2002. In January 2003, the Company received approval for a 3.9% rate increase, which we implemented for new and renewal policies effective March 31, 2003.

UNDERWRITING AND PRICING

The regulatory system in California requires the prior approval of insurance rates. Within the regulatory framework, we establish our premium rates based primarily on actuarial analyses of our own historical loss and expense data. This data is compiled and analyzed to establish overall rate levels as well as classification differentials.

Our rates are established at levels intended to generate underwriting profits and vary for individual policies based on a number of rating characteristics. These rates are a blend of base rates and class plan filings made with the California Department of Insurance ("CDI"). Base rates are the primary amount projected to generate an adequate underwriting profit. Class plan changes are filings that serve to modify the factors that impact the base rates so that each individual receives a rate that reflects their respective losses and expenses. Class plan changes are generally meant to be revenue neutral to us, but ultimately are done in conjunction with a base rate filing.

California law requires that the primary rating characteristics that must be used for automobile policies are driving record (e.g., history of accidents and moving violations), annual mileage and number of years the driver has been licensed. A number of other "optional" rating factors are also permitted and used in California, which include characteristics such as automobile garaging location, make and model of car, policy limits and deductibles, and gender and marital status.

The following table summarizes changes in our base premium rates for each of the past five years. Positive numbers represent increases; negative numbers represent decreases.

	Changes in Our Base Premium Rates				
Years Ended December 31,	2003	2002	2001	2000	1999
Personal auto lines excluding PUP					
California	3.9%	5.7%	4.0%	6.4%	(6.9)%
Arizona	3.0	3.7	16.5	20.0	(9.7)
Nevada	-	22.0	12.6	-	-
Oregon	-	3.1	14.0	21.0	-
Washington	-	10.7	44.9	-	-

Lines in runoff					
Homeowner	N/A	13.2	4.0	-	(7.5)
Earthquake	N/A	N/A	N/A	N/A	N/A

We are required to offer insurance to any California applicant who meets the statutory definition of a "Good Driver." This definition includes all drivers licensed more than three years with no more than one violation point count under criteria contained in the California Vehicle Code. These criteria include a variety of moving violations and certain at-fault accidents.

We review many of our policies prior to the time of renewal and as changes occur during the policy period. Some mid-term changes may result in premium adjustments, cancellations or non-renewals because of a substantial increase in risk.

COMPETITION

The personal automobile insurance market is highly competitive and is comprised of a large number of well-capitalized companies, many of which operate in a number of states and offer a wider variety of products than us. Several of these competitors are larger and have greater financial resources than us on a stand-alone basis. According to A.M. Best, we were the seventh largest writer of private

passenger automobile insurance in California based on direct premiums written for 2002. Our main competition comes from other major writers who concentrate on the good driver market.

Market shares in California of the top ten writers of personal automobile insurance, based on direct premiums written, according to A.M. Best, for the past five years were as follows:

	Market Share in California Based on Direct Premiums Written				
Years Ended December 31,	2002	2001	2000	1999	1998
21ST CENTURY INSURANCE GROUP	6%	6%	6%	6%	6%
State Farm Group	14	13	13	14	15
Zurich/Farmers Group	11	12	13	14	15
California State Auto Group	9	10	10	10	10
Allstate Insurance Group	9	11	10	9	8
Automobile Club of Southern California Group	9	9	9	9	8
Mercury General Group	9	8	8	8	7
USAA Group	3	3	3	3	3
Government Employees Group (GEICO)	3	3	3	2	2
Progressive Insurance Group	2	2	2	3	2

SERVICING OF BUSINESS

Computerized systems provide the information resources, telecommunications and data processing capabilities necessary to manage our business. These systems support the activities of our marketing, sales, service and claims people who are dedicated to serving the needs of customers. New technology investments have been focused on making it faster and easier for customers to transact business while ultimately lowering our per-transaction costs.

Using our web site, most customers are now able to receive and accept quotations, bind policies, pay their bills, inquire about the status of their policies and billing information, make most common policy changes, submit first notice of loss on a claim and access a wealth of consumer information. New technology provides our sales and service agents with integrated knowledge about customer contacts and enables speedier and even more convenient customer service.

CLAIMS
Claims operations include the receipt and analysis of initial loss reports, assignment of legal counsel when necessary, and management of the settlement process. Whenever possible, physical damage claims are handled through the use of Company drive-in claims facilities, vehicle inspection centers and Direct Repair Program ("DRP") providers. The claims management staff administers the claims settlement process and oversees the work of the legal and adjuster personnel involved in that process. Each claim is carefully analyzed to provide for fair loss payments, compliance with our contractual and regulatory obligations and management of loss adjustment expenses. Liability and property damage claims are handled by specialists in each area.

We make extensive use of our DRP to expedite the repair process. The program involves agreements between us and more than 160 independent repair facilities. We agree to accept the repair facility's damage estimate without requiring each vehicle to be reinspected by our adjusters. All DRP facilities undergo a screening process before being accepted, and we maintain an aggressive inspection audit program to assure quality results. Our inspection teams visit all repair facilities each month and perform a quality control inspection on approximately 40% of all repairable vehicles in this program. The customer benefits by getting the repair process started faster and by having the repairs guaranteed for as long as the customer owns the vehicle. We benefit by not incurring the overhead expense of a larger staff of adjusters and by negotiating repair prices we believe are beneficial. Currently, more than 30% of all damage repairs are handled using the DRP method.

Our policy is to use original equipment manufacturer ("OEM") parts. As a result, we believe we do not have exposure to the types of class action suits some competitors have drawn over their use of after market parts.

We have established 12 claims division service offices in areas of major customer concentrations. Our eight vehicle inspection centers, located in Southern and Northern California, handle total losses, thefts and vehicles that are not drivable.

The claims services division is responsible for subrogation and medical payment claims. We also maintain a Special Investigations Unit as required by the California State Insurance Code, which investigates suspected fraudulent claims. We believe our efforts in this area have been responsible for saving several million dollars annually.

We utilize internal legal staff to handle most aspects of claims litigation. These attorneys handle approximately 75% of all lawsuits against our policyholders. Suits directly against us and those which may involve a conflict of interest, are assigned to outside counsel.

GROWTH AND PROFITABILITY OBJECTIVES
We have stated that our long-term goal is to build an organization that consistently produces a 96% combined ratio prepared using accounting principles generally accepted in the United States of America ("GAAP"), or better, and at

least 15% annual growth in direct written premiums. To achieve these goals, we have undertaken many steps since 1999 including:

- Restored pricing and underwriting discipline;
- Successfully restarted active advertising for new customers;
- Introduced product innovations to spur growth and profitability; and
- Launched numerous initiatives to lower unit transaction costs.

UNDERWRITING EXPENSE RATIO - PERSONAL AUTO LINES

Our direct statutory underwriting expense ratio for private passenger auto (defined as direct underwriting expenses on a statutory basis divided by direct premiums written), was lower than seven of our nine largest competitors in the markets in which we served for 2002.

The following table presents statutory underwriting expense ratio information extracted from statutory filings by A.M. Best for the top ten California personal automobile insurance companies for 1998 through 2002, the most recent data available.

	Statutory Underwriting Expense Ratio (1)				
Years Ended December 31,	2002	2001	2000	1999	1998
21ST CENTURY INSURANCE GROUP	20.3%(2)	15.0%	14.1%	13.8%	10.9%
Zurich/Farmers Group	27.0%	26.2%	25.8%	26.6%	26.1%
Mercury General Group	25.1%	25.8%	25.9%	26.7%	26.3%
State Farm Group	23.0%	22.6%	23.5%	22.9%	21.6%
California State Auto Group	22.8%	23.9%	25.1%	15.7%	19.0%
Allstate Insurance Group	22.7%	23.1%	25.5%	24.1%	22.7%
Progressive Insurance Group	21.5%	22.8%	21.1%	21.8%	22.7%
Automobile Club of Southern California Group	21.2%	21.6%	22.2%	22.2%	22.1%
Government Employees Group (GEICO)	14.7%	14.2%	17.0%	18.1%	17.7%
USAA Group	12.0%	12.7%	12.3%	13.7%	11.7%

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1 There is generally a difference between underwriting expense ratios prepared using statutory accounting principles and GAAP. In 2003, our GAAP underwriting expense ratio was 17.9% compared to our statutory underwriting expense ratio of 16.7%.

2 In the third quarter of 2002, we recorded a pre-tax charge to write-off $37.2 million of previously capitalized software costs for abandoned portions of an advanced personal lines processing system. The underwriting expense ratio excluding such write-down would have been 16.6%.

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Our direct statutory underwriting expense ratio for 2003 was 16.7%. Excluding the effects of the 2002 software write-off recorded in the third quarter of 2002 our direct statutory, underwriting expense ratio increased by 0.1% from 16.6% to 16.7% in 2003 over 2002. Comparable 2003 figures for our competitors are not yet available. In 2002, the capacity of the Company's new business call center was doubled, enabling us to handle a record volume of new business throughout the year. Several productivity enhancement initiatives are underway aimed at reducing per-unit process costs. The increases in our ratio from 1998 through 2001 were primarily due to the cumulative 23% decrease in rate level in

California from 1996 to 1999, and increases in data processing, depreciation and advertising expenditures.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The cost to settle a customer's claim is comprised of two major components: losses and loss adjustment expenses.

Losses in connection with third party coverages represent damages as a result of an insured's acts that result in property damage or bodily injury. First party losses involve damage or injury to the insured's property or person. In either case, the ultimate cost of the loss is not always immediately known and, over time, may be higher or lower than initially estimated. When establishing initial and subsequent estimates, the amount of loss is reduced for salvage (e.g., proceeds from the disposal of the wrecked automobile) and subrogation (e.g., proceeds from another party who is fully or partially liable, such as the insurer of the driver who caused the accident involving one of our customers).

Loss adjustment expenses ("LAE") represent the costs of adjusting, investigating and settling claims, and are primarily comprised of the cost of our claim department, external inspection services, and internal and external legal counsel. Corporate support areas such as human resources, finance, and information technology support our overall operations, and, accordingly, a portion of their operational costs are also allocated to LAE. The LAE allocable portion of such corporate support costs is reviewed periodically as changes occur in our organization, and we modify the allocation percentages as appropriate. During 2003, such changes effectively decreased our ratio of LAE to earned premium by approximately 1.8% from 6.2% in 2002 to 4.4% in 2003.

Accounting for losses and LAE is highly subjective because these costs must be estimated, often weeks, months or even years in advance of when the payments actually are made to claimants, attorneys, claims personnel and others involved in the claims settlement process. At the time of sale of an auto policy, for example, the number of claims that will happen is unknown, and so is the ultimate amount it will take to settle them.

Accounting principles require insurers to record estimates for loss and LAE in the periods in which the insured events, such as automobile accidents, occur. This estimation process requires us to estimate both the number of accidents that may have occurred (called "frequency") and the ultimate amount of loss and LAE (called "severity") related to each accident. We employ actuaries who are professionally trained and certified in the process of establishing estimates for frequency and severity. From time to time, actuarial experts from outside firms are engaged to review the work of our actuaries. Historically, our actuaries have not projected a range around the carried loss reserves. Rather, they have used several methods and different underlying assumptions to produce a number of point estimates for the required reserves. Management reviews the assumptions underlying the loss ratios and selects the carried reserve after carefully reviewing the appropriateness of the underlying assumptions.

Estimating the Frequency of Auto Accidents. By studying the historical lag between the actual date of loss and the date the accident is reported by the customer to the claims department, our actuaries can make a reasonable, yet never perfect, estimate for the number of claims that ultimately will be reported for a given period. This measurement is often referred to as frequency. The difference between the estimated ultimate number of claims that will be made and the number that have actually been reported in any given period is often referred to as "IBNR" (incurred but not reported) claims.

For example, when estimating the frequency of accidents, history has shown that approximately 99.7% of property damage claims and 89.2% of liability claims are reported by year-end. Accordingly, in this illustration, our actuaries add an estimated 0.3% to the number of property damage claims and 10.8% to the number of liability claims to provide for incurred but not reported ("IBNR") claims. In making these estimates, a fundamental assumption is that past events are representative indicators of future outcomes.

Estimating the Severity of Auto Claims. Adjusters in our claim department establish loss estimates for individual claims based upon various factors such as the extent of the injuries, property damage sustained, and the age of the claim. Our actuaries review these estimates, giving consideration to the adjusters' historical ability to accurately estimate the ultimate claim and length of time it will take to settle the claim, and provide for development in the adjusters' estimates as applicable. Generally, the longer it takes to settle a claim, the higher the ultimate claim cost. The ultimate amount of the loss is considered the "severity" of the claim. In addition, the actuaries estimate the severity of the IBNR claims.

The severities are estimated by our actuaries each month based on historical studies of average claim payments and the patterns of how the claims were paid. Again, the fundamental assumption used in making these estimates is that past events are reliable indicators of future outcomes.

Estimating Loss and LAE for Lines in Runoff. While the personal auto lines represent our core business, we also have losses and LAE relating to developments on remaining loss reserves for homeowners and earthquake lines. These lines are said to be "in runoff" because we no longer have policies in force. As discussed in the Notes to Consolidated Financial Statements, we have not written any earthquake policies since 1994 and we exited the homeowners insurance business at the beginning of 2002. Developing reserve estimates for the earthquake line is particularly subjective because most of the remaining earthquake claims are in litigation. Our actuaries evaluate the homeowners reserve requirement on a quarterly basis, while personnel in our legal and claims areas prepare monthly evaluations of the earthquake reserves.

LOSS AND RESERVE DEVELOPMENT

Management believes that our reserves are adequate and represent our best estimate based on the information currently available. However, because reserve estimates are necessarily subject to the outcome of future events, changes in estimates are unavoidable in the property and casualty insurance business. These changes sometimes are referred to as "loss development" or "reserve development."

For the personal auto lines, our actuaries prepare a monthly evaluation of loss and LAE indications by accident year, and we assesses whether there is a need to adjust reserve estimates. Homeowners reserves are reviewed quarterly. The adequacy of earthquake reserves is reviewed monthly by personnel in our legal and claims areas. As claims are reported and settled and as other new information becomes available, changes in estimates are made and are included in earnings of the period of the change.

The changes in prior accident year estimates recorded in each of the past five calendar years, net of applicable reinsurance, are summarized below (in thousands)(1):

Changes in the Calendar Year of Prior
Accident Year Estimates, Net of Reinsurance

Years ended December 31,	2003	2002	2001	2000	1999
Personal auto	$11,159	$16,200	$ 45,742	$42,178	$(14,239)
Homeowner and Earthquake(2)	40,048	56,158	72,265	2,845	5,543
	$51,207	$72,358	$118,007	$45,023	$ (8,696)

To understand these changes, it is useful to put them in the context of the cumulative reserve development experienced by the Company over a longer time frame. The tables on the following pages present the development of loss and LAE reserves for the personal auto lines (Table 1) and for the homeowner and earthquake lines in runoff (Table 2), for the years 1993 through 2003. The figures in both tables are shown gross of reinsurance.

A redundancy (deficiency) exists when the original reserve estimate is greater (less) than the re-estimated reserves. Each amount in the tables includes the effects of all changes in amounts for prior periods. The tables do not present accident year or policy year development data. Conditions and trends that have affected the development of liabilities in the past may not necessarily occur in the future. Therefore, it would not be appropriate to extrapolate future deficiencies or redundancies based on the table. A detailed discussion of loss reserve development follows the tables.

The top line of each table shows the reserves at the balance sheet date for each of the years indicated. The upper portion of the table indicates the cumulative amounts paid as of subsequent year-ends with respect to that reserve liability. The lower portion of the table indicates the re-estimated amount of the previously recorded reserves based on experience as of the end of each succeeding year, including cumulative payments made since the end of the respective year. The estimates change as more information becomes known about the frequency and severity of claims for individual years.

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1 Positive amounts represent deficiencies in loss and LAE expenses, while negative amounts represent redundancies.

2 We no longer have any California homeowners policies in force. We ceased writing earthquake coverage in 1994, but we have remaining loss reserves from the 1994 Northridge Earthquake that are subject to upward development. See further discussion in Item 7 under the captions Underwriting Results - Homeowner and Earthquake Lines in Runoff, Critical Accounting Policies, and the Notes to Consolidated Financial Statements.

TABLE 1 - Auto Lines as of December 31, (Amounts in thousands, except claims)	1993	1994	1995	1996	1997	
RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, DIRECT	$525,892	$552,872	$506,747	$468,257	$403,263	$
PAID (CUMULATIVE) AS OF:						
One year later	319,938	329,305	318,273	260,287	253,528	

Two years later	393,731	403,462	392,420	336,538	319,064	
Three years later	410,808	429,595	416,541	354,854	333,349	
Four years later	422,640	435,795	422,393	357,913	340,907	
Five years later	425,021	437,041	423,429	363,068	341,446	
Six years later	425,397	437,052	427,723	362,824	341,374	
Seven years later	425,041	437,015	427,355	362,508		
Eight years later	424,982	436,737	427,059			
Nine years later	424,745	436,518				
Ten years later	424,571					
RESERVES RE-ESTIMATED AS OF:						
One year later	451,054	465,934	440,158	365,566	359,262	
Two years later	429,602	438,672	424,091	366,858	337,258	
Three years later	418,576	439,125	425,404	359,925	335,246	
Four years later	424,630	438,895	424,643	357,607	355,605	
Five years later	425,880	436,397	422,389	377,414	340,537	
Six years later	424,475	435,878	442,024	361,980	340,552	
Seven years later	424,188	451,478	426,719	361,865		
Eight years later	424,603	448,972	426,636			
Nine years later	424,435	436,237				
Ten years later	424,388					
REDUNDANCY (DEFICIENCY)	$101,504	$116,635	$ 80,111	$106,392	$ 62,711	$
Supplemental Auto Claims Data:						
Claims reported during the year for CA only	315,558	352,182	324,143	294,615	279,211	
Claims pending at year-end for CA only	62,892	70,717	63,142	58,172	55,738	

TABLE 1 - Auto Lines as of December 31, (Amounts in thousands, except claims)	2001	2002	2003
RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, DIRECT	$301,985	$333,113	$419,913
PAID (CUMULATIVE) AS OF:			
One year later	239,099	249,815	
Two years later	312,909		
Three years later			
Four years later			
Five years later			
Six years later			
Seven years later			
Eight years later			
Nine years later			
Ten years later			
RESERVES RE-ESTIMATED AS OF:			
One year later	323,791	348,865	
Two years later	338,338		
Three years later			
Four years later			
Five years later			
Six years later			
Seven years later			
Eight years later			
Nine years later			
Ten years later			

REDUNDANCY (DEFICIENCY)	$(36,353)	$(15,752)

Supplemental Auto Claims Data:

Claims reported during the year for CA only	298,417	293,955	331,734
Claims pending at year-end for CA only	50,365	51,488	58,577

See Notes 8 and 16 of the Notes to Consolidated Financial Statements

TABLE 2 - Homeowner and Earthquake
Lines in Runoff as of December 31,

(Amounts in thousands)	1993	1994	1995	1996	1997
RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, DIRECT	$51,598	$ 203,371	$ 78,087	$ 75,272	$ 34,624
PAID (CUMULATIVE) AS OF:					
One year later	26,936	193,887	55,738	75,100	30,232
Two years later	34,717	236,406	119,211	100,296	74,127
Three years later	37,052	295,768	139,792	142,850	82,974
Four years later	39,504	314,225	180,799	151,342	106,274
Five years later	40,550	354,324	188,987	174,513	152,592
Six years later	41,217	362,379	211,771	220,805	216,383
Seven years later	42,318	385,161	257,839	284,455	
Eight years later	42,339	431,154	321,169		
Nine years later	42,455	494,260			
Ten years later	42,502				
RESERVES RE-ESTIMATED AS OF:					
One year later	41,685	253,775	116,741	101,903	77,445
Two years later	40,189	290,526	142,071	145,635	82,716
Three years later	39,657	316,256	182,616	150,434	85,519
Four years later	41,025	355,690	186,631	153,521	140,532
Five years later	41,205	359,084	190,334	208,533	193,375
Six years later	41,586	363,260	245,267	261,389	231,217
Seven years later	42,599	418,407	298,161	299,109	
Eight years later	42,450	471,330	335,657		
Nine years later	42,524	508,639			
Ten years later	42,579				
REDUNDANCY (DEFICIENCY)	$ 9,019	$(305,268)	$(257,570)	$(223,837)	$(196,593)

(Amounts in thousands)	2000	2001	2002	2003
RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, DIRECT	$ 12,379	$ 47,305	$ 50,896	$18,410

PAID (CUMULATIVE) AS OF:			
One year later	30,706	58,274	71,147
Two years later	78,647	125,447	
Three years later	143,564		
Four years later			
Five years later			
Six years later			
Seven years later			
Eight years later			
Nine years later			
Ten years later			
RESERVES RE-ESTIMATED AS OF:			
One year later	68,245	103,470	89,281
Two years later	121,176	142,211	
Three years later	159,331		
Four years later			
Five years later			
Six years later			
Seven years later			
Eight years later			
Nine years later			
Ten years later			
REDUNDANCY (DEFICIENCY)	$(146,952)	$(94,906)	$(38,385)

NOTE: Costs associated with claims that were re-opened as a result of SB 1899 are displayed in the table as a 1994 event (since they all related to the Northridge Earthquake), even though the legislation allowing the re-opening of related claims was not passed until almost seven years later.

See Notes 8 and 16 of the Notes to Consolidated Financial Statements

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Auto Lines Reserve Development. As shown in the ten-year development table, our auto lines historically developed redundancies prior to 1999 and have exhibited adverse development for 1999 through 2002. The period from 1993 to 1999 was quite unusual in that, during that time, we experienced declining frequencies and declining severities in our auto line. As Table 1 shows, we did not immediately have confidence in these declining trends and did not immediately lower our reserve estimates.

Much of the decline in trend occurred between 1996 and 1998 because of moderation in health care costs due to greater use of HMO's and laws that were enacted in California that limited the ability of uninsured motorists and drunk drivers to collect non-economic damages. During 1999, we assumed that the past trend of declining frequencies and severities would continue. However, in retrospect, it can now be seen that the favorable decline in trends ended and loss costs began to increase. In 2000, we continued to assume lower loss severity primarily because of what then seemed to be an acceleration in the pattern of claims payments and the uncertainty inherent in identifying a change in multi-year patterns. In 2001, we experienced significant, unexpected development in our uninsured motorist coverage while the actuarial indications for most prior accident years were adjusted upward as more data became available. The changes in injury trends affected the entire California market and occurred, to a greater or lesser degree, in virtually every state in the country.

Starting in 2001, we improved the quality and timeliness of the data available to make initial estimates and periodic changes in estimates. We have dedicated more resources to better understand the underlying drivers of the changes in frequency and severity trends as they begin emerging. For example, in the second quarter of 2003 we began making accident month actuarial analyses of our reserves for the auto lines.

Homeowner and Earthquake Lines in Runoff. In Table 2, substantially all of the development relates to the earthquake line. A major earthquake occurred on January 17, 1994, centered in the San Fernando Valley community of Northridge (the "Northridge Earthquake"). Through December 31, 2003, we have settled over 46,000 Northridge Earthquake claims at a total cost (i.e., loss plus LAE) of over $1.2 billion.

In September 2000, the State of California enacted Senate Bill 1899 ("SB 1899"), which allowed Northridge Earthquake claims barred by contract and the statute of limitations to be reopened during calendar year 2001. Please see Note 16 of the Notes to Consolidated Financial Statements for additional background on the Northridge Earthquake and SB 1899, including a discussion of factors that have contributed to the difficulty of obtaining accurate loss and LAE estimates in the wake of that legislation.

The loss development in Table 2 is easiest to understand by dividing it into "pre-SB 1899" and "post-SB 1899" segments. This is because the costs relating to the re-opened claims are displayed in the table as a 1994 event (since they all related to the Northridge Earthquake), even though the legislation allowing the re-opening of certain claims was not passed until almost seven years later. Before SB 1899 was passed in late 2000, we had only approximately 50 earthquake claims remaining to be resolved out of an initial 35,000 homeowner earthquake claims. Although we settled 98% of the claims within a year of the quake, many upward changes in estimates were required in 1994 and beyond as new information emerged on the severity of the damages and as settlements of litigated claims occurred. As a result, we recorded the following upward changes in loss estimates after 1994, but before SB 1899 came into play: 1995 - $57 million; 1996 - $40 million; 1997 - $24.8 million; 1998 - $40 million; 1999 - $2.5 million; and 2000 - $3.5 million.

Calendar year 2001 was the one-year window SB 1899 permitted for claimants to bring additional insurance claims and legal actions allegedly arising out of the Northridge Earthquake. Prior to the enactment of this law, such claims were considered by previously applicable law to be fully barred, or settled and closed. Any additional legal actions with respect to such claims were barred under the policy contracts, settlement agreements, and/or applicable statutes of limitation. As a result of the enactment of this unprecedented legislation, claimants asserted additional claims against the Company allegedly related to damages that occurred in the 1994 earthquake but which were now being reported seven years later in 2001. Plaintiff attorneys and public adjusters conducted extensive advertising campaigns to solicit claimants. Hundreds of claims were filed in the final days and hours before the December 31, 2001 deadline.

During 2001, the Company recorded an additional $70 million of pre-tax losses related to the 1994 earthquake, including $50 million in the fourth quarter to cover the indemnity and inspection portion of the claims. The Company lacked sufficient information to record a reasonable estimate of the related legal defense costs until the third quarter of 2002, at which time an additional provision of $46.9 million was recorded. In the first two quarters of 2002, we expensed an additional $11.9 million of legal defense costs as they were paid. Based on subsequent developments, we recorded an additional provision of $37.0 million in the first quarter of 2003.

At the end of each month, legal and claim personnel within the Company review the adequacy of the remaining SB 1899 reserves based on the most current information available. Based on that review, we believe our remaining earthquake reserves are adequate as of December 31, 2003. However, we continue to caution that these estimates are subject to a greater than normal degree of uncertainty and possible future material adjustment as new facts become known.

REINSURANCE
A reinsurance transaction occurs when an insurer transfers or cedes a portion of its exposure to a reinsurer for a premium. The reinsurance cession does not legally discharge the insurer from its liability for a covered loss, but provides for reimbursement from the reinsurer for the ceded portion of the risk. We periodically monitor the continuing appropriateness of our reinsurance arrangements to determine that our retention levels are reasonable and that our reinsurers are financially sound, able to meet their obligations under the agreements and that the contracts are competitively priced.

The majority of our cessions are with AIG subsidiaries, which have earned A.M. Best's highest financial rating of A++. The A.M. Best financial ratings of our other reinsurers range from A- to A+. Our reinsurance arrangements are discussed in more detail in Note 10 of the Notes to Consolidated Financial Statements.

Our net retention of insurance risk after reinsurance for 2004 and the preceding five years is summarized below:

	Contracts Incepting During					
Net Retention	2004	2003	2002	2001	2000	1999
Auto and motorcycle lines	100%	100%	97%(1)	94%	92%	90%
Personal umbrella policies(2)	10	10	10	16	37	36
Homeowner line in runoff	0	0	0	94	92	0

We also have catastrophe reinsurance agreements relating to the auto line with Endurance Specialty Insurance Ltd., Folksamerica Reinsurance Company and Transatlantic Reinsurance Company (a majority held AIG subsidiary), which reinsure any covered events up to $30.0 million in excess of $15.0 million ($45.0 million in excess of $20.0 million effective January 1, 2004).

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1 Effective September 1, 2002, we entered into an agreement to cancel future cessions under our quota share with AIG subsidiaries. The treaty would have ceded 4% of premiums for the auto and motorcycle lines to AIG subsidiaries in the remainder of 2002 and would have declined to 2% in 2003. After September 1, 2002, 100% of auto and motorcycle premiums are retained by us.

2 Personal umbrella coverage is only available to our auto customers. Approximately 1% of the auto customers have umbrella coverage.

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STATE REGULATION OF INSURANCE COMPANIES
Insurance companies are subject to regulation and supervision by the insurance departments of the various states. The insurance departments have broad regulatory, supervisory and administrative powers, such as:

- Licensing of insurance companies, agents and customer service employees;
- Prior approval, in California and some other jurisdictions, of premium rates;
- Establishment of capital and surplus requirements and standards of solvency;
- Nature of, and limitations on, investments insurers are allowed to hold;
- Periodic examinations of the affairs of insurers;
- Annual and other periodic reports of the financial condition and results of operations of insurers;
- Establishment of statutory accounting rules;
- Issuance of securities by insurers;
- Restrictions on payment of dividends; and
- Restrictions on transactions with affiliates.

Currently, the California Department of Insurance ("CDI") has primary regulatory jurisdiction over our subsidiaries, including prior approval of premium rates. The CDI typically conducts a financial examination of our affairs every three years. The most recently completed triennial examination, for the three years ended December 31, 1999, did not require us to restate our 1999 statutory financial statements. In general, the current regulatory requirements in the other states in which our subsidiaries are licensed insurers are no more stringent than in California.

In addition to regulation by the CDI, we and the personal lines insurance business in general are also subject to legislative, judicial and political action in addition to the normal business forces of competition between companies and the choices of consumers.

To our knowledge, no new laws were enacted in 2003 by any state in which we do business that are expected to have a material impact on the auto insurance industry. However, under the preceding Insurance Commissioner, the State of California began hearings for the purpose of implementing generic rating factors in connection with the Commissioner's authority to approve insurance rates, including the rating of auto insurance. The draft regulations made public by the CDI focus on restricting an insurer's rate of return rather than on the price charged by the insurer to the consumer. If implemented, we believe these draft regulations could negatively affect our profitability.

HOLDING COMPANY REGULATION

Our subsidiaries are also subject to regulation by the CDI pursuant to the provisions of the California Insurance Holding Company System Regulatory Act (the "Holding Company Act"). Many transactions defined to be of an "extraordinary" nature may not be effected without the prior approval of the CDI. In addition, the Holding Company Act limits the amount of dividends our insurance subsidiaries may pay. An extraordinary transaction includes a dividend which, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of the insurance company's policyholders' surplus as of the preceding December 31 or (ii) the insurance company's statutory net income for the preceding calendar year.

The insurance subsidiaries currently have $75.1 million of statutory unassigned surplus that could be paid as dividends to the parent company without prior written approval from insurance regulatory authorities in 2004. However, given the current uncertainty surrounding the taxability of dividends received by holding companies from their insurance subsidiaries (see further discussion in Item 3 of this report and Note 15 of the Notes to Consolidated Financial Statements), it is unlikely that our insurance subsidiaries will make any dividend payments to us in 2004. There is no assurance that the related tax issue will be favorably resolved in the near term, in which case we face the prospect of raising additional capital at the holding company level, cutting or ceasing dividends to stockholders, or having to pay the additional tax on dividends from the insurance company to the holding company.

NON-VOLUNTARY BUSINESS

Automobile liability insurers in California are required to participate in the California Automobile Assigned Risk Plan ("CAARP"). Drivers whose driving records or other relevant characteristics make them difficult to insure in the voluntary market may be eligible to apply to CAARP for placement as "assigned risks." The number of assignments for each insurer is based on the total applications received by the plan and the insurer's market share. As of December 31, 2003, the number of assigned risk insured vehicles was 3,678 compared to 2,436 at the end of 2002. The CAARP assignments have historically produced underwriting losses. As of December 31, 2003, this business represented less than 1% of our total direct premiums written, and the underwriting losses were $0.5 million in 2003, $0.5 million in 2002 and $0.7 million in 2001.

Insurers offering homeowner insurance in California are required to participate in the California FAIR Plan ("FAIR Plan"). FAIR Plan is a state administered pool of difficult to insure homeowners. Each participating insurer is allocated a percentage of the total premiums written and losses incurred by the pool according to its share of total homeowner direct premiums written in the state. Participation in the current year FAIR Plan operations is based on the pool from two years prior. Since we ceased writing direct homeowners business in 2002, the Company will continue to receive assignments in the 2004 calendar year. Our FAIR Plan underwriting results for 2003, 2002 and 2001 were immaterial. However, a major shortfall in FAIR Plan operations, such as might be caused by a catastrophe, could result in an increase in costs.

EMPLOYEES

We had approximately 2,700 full and part-time employees at December 31, 2003. We provide medical, pension and 401(k) savings plan benefits to eligible employees, according to the provisions of each plan.

DEBT OFFERING

In December 2003, we completed a private offering of $100 million principal amount of 5.9 percent Senior Notes due in December 2013. The effective interest rate on the Senior Notes when all offering costs are taken into account and amortized over the term of the Senior Notes is approximately 6 percent per annum. Of the $99.2 million net proceeds from the offering, $85 million was used to increase the statutory surplus of our wholly-owned subsidiary, 21st Century Insurance Company, and the balance was retained by our holding company.

Under a registration rights agreement executed in connection with the offering, we have agreed to, among other things: (i) file a registration statement on or before April 7, 2004 enabling holders to exchange the notes for publicly registered notes; (ii) use our reasonable best efforts to cause the registration statement relating to the exchange offer to become or be declared effective on or before June 6, 2004; (iii) use our reasonable best efforts to consummate the exchange offer within 45 days after the effective date of the registration statement. In the event such registration statement does not become effective by June 6, 2004, the interest rate on the Senior Notes will increase by 0.25%.

ITEM 2. PROPERTIES

We lease approximately 400,000 square feet of office space for our headquarters facilities, which are located in Woodland Hills, California. The lease term expires in February 2015, and the lease may be renewed for two consecutive five-year periods.

We also lease office space in 17 other locations, of which 9 locations are in California primarily for claims-related employees. We anticipate no difficulty in extending these leases or obtaining comparable office facilities in suitable locations.

On December 31, 2002, the Company entered into a sale-leaseback transaction for $15.8 million of equipment and leasehold improvements and $44.2 million of software. The leaseback transaction has been accounted for as a capital lease. For a summary of the Company's lease obligations, see discussion under Item 7 of this report and Notes 7 and 12 of the Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is named as a defendant in lawsuits related to claims and insurance policy issues, both on individual policy files and by class actions seeking to attack the Company's business practices. A description of the legal proceedings to which the Company and its subsidiaries are a party is contained in Note 12 of the Notes to Consolidated Financial Statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On October 17, 2003, the majority holder of the Company's common stock approved by written consent (i) to change the Company's state of incorporation from California to Delaware pursuant to a merger of the Company with and into a wholly owned subsidiary of the Company organized under the laws of the State of Delaware and (ii) a form of indemnity agreement for the Company's directors and officers. The Company's Certificate of Incorporation and Bylaws, attached as Appendices B and C, respectively, to the Information Statement filed with the SEC on November 13, 2003, are incorporated by reference.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

(a) PRICE RANGE OF COMMON STOCK

The following table sets forth the high and low bid prices on the New York Stock Exchange for the common stock for the indicated periods.

	2003		2002	
	HIGH	LOW	High	Low
Fourth Quarter	$14.50	$13.00	$14.24	$ 9.60
Third Quarter	16.05	13.03	19.67	9.15
Second Quarter	17.25	12.00	21.80	17.70
First Quarter	13.50	11.20	19.50	15.82

(b) HOLDERS OF COMMON STOCK

The approximate number of holders of our common stock on December 31, 2003 was 600.

(c) DIVIDENDS

We paid quarterly cash dividends of $0.08 per share from the first quarter of 2001 through the third quarter of 2002. Quarterly dividends of $0.02 per share were paid from the fourth quarter of 2002 through the fourth quarter of 2003.

The Company's Board of Directors considers a variety of factors in determining the timing and amount of dividends. Accordingly, the Company's past history of dividend payments does not assure that future dividends will be paid.

(d) SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS
Securities authorized for issuance under equity compensation plans at December 31, 2003 are as follows:

	COLUMN (A)	COLUMN (B)	COLUMN (C)
PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (IN THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIE REMAINING AVAILABLE FUTURE ISSUANCE UNDER E COMPENSATION PLANS (EXCLUDING SECURITI REFLECTED IN COLUMN ((IN THOUSANDS)
Equity compensation plans approved by security holders	6,744	$ 17.05	
Equity compensation plans not approved by security holders	None	N/A	
Total	6,744	$ 17.05	

See note 14 to the Notes to Consolidated Financial Statements for additional information.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for each of the years in the five-year period ended December 31, 2003 should be read in conjunction with the Company's consolidated financial statements and the accompanying notes included in Item 8 of this report.

All amounts set forth in the following tables are in thousands, except for ratios and per share data.

Years Ended December 31,	2003	2002	2001	2000	1999
PERSONAL AUTO LINES DATA					
Direct premiums written	$1,223,377	$995,794	$898,862	$881,212	$ 855,783

Ceded premiums written(1)	(4,858)	(18,902)	(56,205)	(72,675)	(86,974)
Net premiums written	1,218,519	976,892	842,657	808,537	768,809
Net premiums earned	1,172,679	924,559	838,489	803,770	770,234
Loss and LAE ratio(2)	78.6%	82.9%	88.1%	90.8%	77.4%
Underwriting expense ratio(3)	17.9	15.6	14.9	14.2	12.3
Combined ratio(4)	96.5%	98.5%	103.0%	105.0%	89.7%
ALL LINES DATA					
Direct premiums written	$1,223,484	$998,248	$929,315	$910,720	$ 880,531
Ceded premiums written(5)	(4,854)	(32,949)	(60,359)	(78,592)	(111,718)
Net premiums written	1,218,630	965,299	868,956	832,128	768,813
Net premiums earned	1,172,677	924,559	864,145	825,486	770,423
Total revenues	1,246,464	981,295	914,078	869,762	832,681
Loss and LAE ratio	82.0%	89.4%	96.7%	90.8%	78.6%
Expense ratio(3)	17.9	15.5	15.0	14.4	12.9
Combined ratio(6)	99.9%	104.9%	111.7%	105.2%	91.5%
NET INCOME (LOSS)	$ 53,575	$(12,256)	$(27,568)	$ 12,945	$ 87,528
EARNINGS (LOSS) PER SHARE					
Basic	$ 0.63	$ (0.14)	$ (0.32)	$ 0.15	$ 1.00
Diluted	0.63	(0.14)	(0.32)	0.15	1.00
DIVIDENDS DECLARED	0.08	0.26	0.32	0.48	0.64