

REGENCY CENTERS CORP  
Form 8-K  
March 06, 2017

**SECURITIES AND EXCHANGE COMMISSION**

**UNITED STATES**

**Washington, DC 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d)**

**of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported) March 6, 2017**

**REGENCY CENTERS CORPORATION**

**(Exact name of registrant as specified in its charter)**

**Florida**  
**(State or other jurisdiction**

**of incorporation)**

**001-12298**  
**(Commission**

**File Number)**

**59-3191743**  
**(IRS Employer**

**Identification No.)**

**One Independent Drive, Suite 114**

**32202**

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**Jacksonville, Florida**

**(Address of principal executive offices)**

**(Zip Code)**

**Registrant's telephone number including area code: (904)-598-7000**

**Not Applicable**

**(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 7.01 Regulation FD Disclosures.**

On March 6, 2017, Regency Centers Corporation (the Company) provided a presentation at the Citi 2017 Global Property CEO Conference. A copy of the presentation is attached as Exhibit 99.1.

The information in this report, including the referenced presentation materials, shall not be deemed filed for the purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference into any disclosure document relating to the Company, except to the extent, if any, expressly set forth by specific reference in such filing.

**Item 9.01 Financial Statements and Exhibits.**

**(d) Exhibits:**

Exhibit 99.1 Presentation dated March 6, 2017.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**REGENCY CENTERS CORPORATION**  
(registrant)

March 6, 2017

By: /s/ J. Christian Leavitt  
J. Christian Leavitt, Senior Vice President and  
Treasurer

3

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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	\$ 31,862	\$ 553	\$ 3,304	\$ 28	\$ 3,304	\$ 28
Mortgage backed bonds	120,824	1,345	25,206	795	57,068	1,348
Tax-exempt bonds	9,868	216	40,786	999	161,610	2,344
Collateralized mortgage obligations	90,940	1,317	42,905	1,153	133,845	2,470
Corporate and other						
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.

F-15

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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.

<b>Maturity</b>	<b>Cost</b>	<b>Fair Value</b>
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
<b>Total</b>	<b>\$ 496,813</b>	<b>\$ 493,727</b>

The components of net investment income were as follows:

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
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)
<b>Net investment income</b>	<b>\$ 21,464</b>	<b>\$ 17,188</b>	<b>\$ 9,018</b>

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.

F-16

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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



**BRISTOL WEST HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
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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

F-18

**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 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
<b>Gross</b>	<b>594,964</b>	<b>590,719</b>	<b>617,873</b>	<b>646,944</b>	<b>752,859</b>	<b>695,605</b>
Ceded	9,082	(9,657)	35,258	(51,872)	(383,848)	(370,284)
<b>Net</b>	<b>\$ 604,046</b>	<b>\$ 581,062</b>	<b>\$ 653,131</b>	<b>\$ 595,072</b>	<b>\$ 369,011</b>	<b>\$ 325,321</b>

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.



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

**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.





**BRISTOL WEST HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
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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.



**BRISTOL WEST HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
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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.)



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

**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
	<hr/>
Total minimum lease payments	\$ 35,816
	<hr/>

**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.



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

**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



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

*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)
	<hr/>
Shares outstanding, December 31, 2004	294,059
Shares granted	186,109
Shares forfeited	(4,927)
	<hr/>
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

F-25

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

*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*:

	<b>Years Ended December 31,</b>	
	<b>2005</b>	<b>2004</b>
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
<b>Net income per share</b>		
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**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
(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.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
(dollars in thousands, except per share data)

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

**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**  
**YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
(dollars in thousands, except per share data)

*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>
<b>2006</b>				
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
<b>2005</b>				
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

F-30

**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
<b>Fixed Maturities</b>			
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
<b>Total fixed maturities</b>	<b>\$ 496,813</b>	<b>\$ 493,727</b>	<b>\$ 493,727</b>
<b>Equity Securities</b>			
Preferred stock	\$ 2,000	\$ 2,000	\$ 2,000
<b>Total equity securities</b>	<b>\$ 2,000</b>	<b>\$ 2,000</b>	<b>\$ 2,000</b>
<b>Total investments</b>	<b>\$ 498,813</b>	<b>\$ 495,727</b>	<b>\$ 495,727</b>

S-1



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

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets:</b>		
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
<b>Total assets</b>	<b>\$ 457,951</b>	<b>\$ 409,022</b>
<b>Liabilities and Capital:</b>		
Accounts payable, accrued expenses, and other liabilities	\$ 1,200	\$ 2,142
Long-term debt, including current portion	100,000	69,925
<b>Total liabilities</b>	<b>101,200</b>	<b>72,067</b>
<b>Stockholders' Equity</b>		
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)
<b>Total stockholders' equity</b>	<b>356,751</b>	<b>336,955</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 457,951</b>	<b>\$ 409,022</b>

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

	Years ended December 31,		
	2006	2005	2004
<b>Income:</b>			
Other income	\$ 241	\$ 256	\$ 31
<b>Total income</b>	<b>241</b>	<b>256</b>	<b>31</b>
<b>Cost and Expenses:</b>			
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
<b>Total expenses</b>	<b>15,497</b>	<b>12,079</b>	<b>7,597</b>
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
<b>Net earnings</b>	<b>\$ 42,136</b>	<b>\$ 54,702</b>	<b>\$ 61,137</b>

S-3

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

	Years ended December 31,		
	2006	2005	2004
<b>Cash flows from operating activities:</b>			
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
<b>Cash flows from investing activities:</b>			
Capital contributions to subsidiaries	(25,000)		(110,000)
Purchase of equity securities			(400)
Net cash used in investing activities	(25,000)		(110,400)
<b>Cash flows from financing activities:</b>			
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)**

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

S-5

**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>
<b>For the year ended December 31, 2006</b>					
Property and casualty insurance premiums	\$ 564,639	\$ 9,657	\$ 26,080	\$ 581,062	4%
<b>Total premiums</b>	<b>\$ 564,639</b>	<b>\$ 9,657</b>	<b>\$ 26,080</b>	<b>\$ 581,062</b>	<b>4%</b>
<b>For the year ended December 31, 2005</b>					
Property and casualty insurance premiums	\$ 625,444	\$ 51,872	\$ 21,500	\$ 595,072	4%
<b>Total premiums</b>	<b>\$ 625,444</b>	<b>\$ 51,872</b>	<b>\$ 21,500</b>	<b>\$ 595,072</b>	<b>4%</b>
<b>For the year ended December 31, 2004</b>					
Property and casualty insurance premiums	\$ 681,554	\$ 370,284	\$ 14,051	\$ 325,321	4%
<b>Total premiums</b>	<b>\$ 681,554</b>	<b>\$ 370,284</b>	<b>\$ 14,051</b>	<b>\$ 325,321</b>	<b>4%</b>

S-6

**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>
<b>2006</b>					
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
<b>2005</b>					
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
<b>2004</b>					
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

S-7

**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	
<b><u>Years ended December 31,</u></b>			
<b>2006</b>	\$ 388,781	\$ 5,293	\$ 386,823
<b>2005</b>	\$ 394,597	\$ 9	\$ 302,623
<b>2004</b>	\$ 216,845	\$ 2,513	\$ 202,948

S-8