

Consolidated Balance Sheets

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands, except share data)	December 31,	
	2003	2002
Assets		
Investments:		
Fixed maturities:		
Available-for-sale, at fair value (amortized cost — \$817,205 in 2003 and \$466,479 in 2002)	\$ 835,229	\$ 484,819
Held-to-maturity, at amortized cost (fair value — \$195,047 in 2003 and \$249,768 in 2002)	180,700	231,781
Trading, at fair value (amortized cost — \$7,946 in 2003 and \$7,591 in 2002)	8,406	8,196
Equity securities available-for-sale, at fair value (cost — \$144,550 in 2003 and \$136,283 in 2002)	276,021	227,342
Short-term investments, at cost which approximates fair value	33,004	47,889
Total investments	1,333,360	1,000,027
Cash	—	—
Accrued investment income	12,915	9,454
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$11,220 in 2003 and \$10,930 in 2002	152,860	122,258
Ceded unearned premiums	101,748	95,406
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$13,569 in 2003 and \$10,508 in 2002	372,048	340,886
Deferred policy acquisition costs, net	63,737	60,102
Property and equipment, at cost, net of accumulated depreciation of \$34,647 in 2003 and \$31,786 in 2002	18,616	17,757
Investment in unconsolidated investee	30,683	25,261
Goodwill, net of accumulated amortization of \$4,700 in 2003 and 2002	26,214	27,882
Other assets	22,183	20,294
Total assets	\$2,134,364	\$1,719,327
Liabilities and shareholders' equity		
Liabilities:		
Unpaid losses and settlement expenses	\$ 903,441	\$ 732,838
Unearned premiums	367,642	350,803
Reinsurance balances payable	92,382	78,231
Notes payable, short-term debt	47,560	54,356
Income taxes — current	7,152	1,787
Income taxes — deferred	38,818	26,022
Bonds payable, long-term debt	100,000	—
Other liabilities	23,235	18,735
Total liabilities	1,580,230	1,262,772
Shareholders' equity:		
Common stock (\$1 par value, authorized 50,000,000 shares, issued 30,957,837 shares in 2003 and 30,472,864 shares in 2002)	30,958	30,473
Paid-in capital	179,684	170,205
Accumulated other comprehensive earnings net of tax	97,699	71,297
Retained earnings	326,808	265,573
Deferred compensation	6,069	5,531
Treasury stock, at cost (5,792,487 shares in 2003 and 5,791,689 shares in 2002)	(87,084)	(86,524)
Total shareholders' equity	554,134	456,555
Total liabilities and shareholders' equity	\$2,134,364	\$1,719,327

Consolidated Statements of Earnings and Comprehensive Earnings

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands, except per share data)	Years ended December 31,		
	2003	2002	2001
Net premiums earned	\$463,597	\$348,065	\$273,008
Net investment income	44,151	37,640	32,178
Net realized investment gains (losses)	12,138	(3,552)	4,168
Consolidated revenue	519,886	382,153	309,354
Losses and settlement expenses	278,990	203,122	155,876
Policy acquisition costs	119,281	105,543	90,904
Insurance operating expenses	27,989	23,792	18,554
Interest expense on debt	1,010	1,860	3,211
General corporate expenses	3,886	3,505	2,636
Total expenses	431,156	337,822	271,181
Equity in earnings of unconsolidated investee	5,548	4,397	2,845
Earnings before income taxes and cumulative effect	94,278	48,728	41,018
Income tax expense (benefit):			
Current	23,760	18,494	7,728
Deferred	(773)	(5,618)	3,043
Income tax expense	22,987	12,876	10,771
Earnings before cumulative effect	71,291	35,852	30,247
Cumulative effect of initial application of SFAS 133	—	—	800
Net earnings	\$ 71,291	\$ 35,852	\$ 31,047
Other comprehensive earnings (loss), net of tax			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	\$ 31,793	\$ (24,538)	\$ (17,207)
Less: Reclassification adjustment for gains (losses) included in net earnings	(5,391)	2,359	(2,467)
Other comprehensive earnings (loss)	26,402	(22,179)	(19,674)
Comprehensive earnings	\$ 97,693	\$ 13,673	\$ 11,373
Earnings per share:			
Basic			
Earnings per share before cumulative effect	\$ 2.84	\$ 1.80	\$ 1.54
Cumulative effect of SFAS 133 adoption	—	—	0.04
Net earnings per share	\$ 2.84	\$ 1.80	\$ 1.58
Comprehensive earnings per share	\$ 3.89	\$ 0.69	\$ 0.58
Diluted			
Earnings per share before cumulative effect	\$ 2.76	\$ 1.75	\$ 1.51
Cumulative effect of SFAS 133 adoption	—	—	0.04
Net earnings per share	\$ 2.76	\$ 1.75	\$ 1.55
Comprehensive earnings per share	\$ 3.78	\$ 0.67	\$ 0.57
Weighted average number of common shares outstanding:			
Basic	25,120	19,937	19,630
Diluted	25,846	20,512	20,004

Consolidated Statements of Shareholders' Equity

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands, except per share data)	Total Shareholders' Equity	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Stock at Cost
Balance, January 1, 2001	\$326,654	\$12,806	\$ 69,942	\$113,150	\$212,159	\$5,389	\$(86,792)
Net earnings	31,047				31,047		
Other comprehensive loss, net of tax	(19,674)			(19,674)			
Treasury shares reissued (194,250 shares)	4,343		3,869				474
Treasury shares purchased (5,544 shares)	(123)						(123)
Adjustment to accounting for deferred compensation plans	—					651	(651)
Shares issued from exercise of stock options	335	15	320				
Other capital items, including CatEPuts amortization	(950)		(950)				
Dividends declared (\$.32 per share)	(6,200)				(6,200)		
Balance, December 31, 2001	\$335,432	\$12,821	\$ 73,181	\$93,476	\$237,006	\$6,040	\$(87,092)
Net earnings	35,852				35,852		
Other comprehensive loss, net of tax	(22,179)			(22,179)			
2-for-1 stock split	—	12,835	(12,835)				
Shares issued from public offering, less costs	114,620	4,800	109,820				
Treasury shares reissued (24,573 shares)	634		575				59
Adjustment to accounting for deferred compensation plans	—					(509)	509
Shares issued from exercise of stock options	431	17	414				
Other capital items, including CatEPuts amortization	(950)		(950)				
Dividends declared (\$.35 per share)	(7,285)				(7,285)		
Balance, December 31, 2002	\$456,555	\$30,473	\$170,205	\$71,297	\$265,573	\$5,531	\$(86,524)
Net earnings	71,291				71,291		
Other comprehensive earnings, net of tax	26,402			26,402			
Shares issued from public offering, less costs	10,048	420	9,628				
Treasury shares purchased (798 shares)	(22)						(22)
Adjustment to accounting for deferred compensation plans	—					538	(538)
Shares issued from exercise of stock options	708	65	643				
Other capital items, including CatEPuts amortization	(792)		(792)				
Dividends declared (\$.40 per share)	(10,056)				(10,056)		
Balance, December 31, 2003	\$554,134	\$30,958	\$179,684	\$97,699	\$326,808	\$6,069	\$(87,084)

Consolidated Statements of Cash Flows

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands)	Years ended December 31,		
	2003	2002	2001
Cash flows from operating activities			
Net earnings	\$ 71,291	\$ 35,852	\$ 31,047
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net realized investment gains (losses)	(12,138)	3,552	(4,168)
Depreciation	3,234	3,546	3,277
Other items, net	164	(884)	(6,164)
Change in:			
Accrued investment income	(5,209)	(3,392)	(2,894)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)	(30,602)	(17,090)	(10,407)
Reinsurance balances payable	14,151	19,793	7,271
Ceded unearned premium	(6,342)	(28,780)	(2,442)
Reinsurance balances recoverable on unpaid losses	(31,162)	(63,631)	(37,559)
Deferred policy acquisition costs	(3,635)	(7,230)	(9,585)
Accounts payable and accrued expenses	5,107	6,801	(2,475)
Unpaid losses and settlement expenses	170,603	128,333	64,755
Unearned premiums	16,839	94,353	44,648
Income taxes: Current	5,365	1,102	1,469
Deferred	(773)	(5,618)	3,043
Changes in investment in unconsolidated investee: Undistributed earnings	(5,548)	(4,397)	(2,845)
Net proceeds from trading portfolio activity	(326)	(339)	903
Net cash provided by operating activities	\$ 191,019	\$ 161,971	\$ 77,874
Cash flows from investing activities			
Purchase of:			
Fixed maturities, held-to-maturity	\$ (3,002)	\$ (7,568)	\$ (9,288)
Fixed maturities, available-for-sale	(508,785)	(354,137)	(147,868)
Equity securities, available-for-sale	(31,505)	(47,867)	(30,536)
Short-term investments, net	—	—	(10,964)
Property and equipment	(4,403)	(3,397)	(8,403)
Note receivable	—	—	(6,000)
Proceeds from sale of:			
Fixed maturities, held-to-maturity	6,340	—	—
Fixed maturities, available-for-sale	116,047	57,085	37,577
Equity securities, available-for-sale	31,907	46,008	32,995
Short-term investments, net	13,816	1,305	—
Property and equipment	311	533	495
Insurance shell (UIH)	5,100	—	—
Proceeds from call or maturity of:			
Fixed maturities, held-to-maturity	48,079	38,657	42,506
Fixed maturities, available-for-sale	40,684	19,758	18,165
Note receivable	1,500	1,500	6,500
Net cash used in investing activities	\$ (283,911)	\$ (248,123)	\$ (74,821)
Cash flows from financing activities			
Proceeds from stock offering	\$ 10,048	\$ 114,620	\$ —
Proceeds from issuance of long-term debt — bonds	98,463	—	—
Proceeds from issuance of short-term debt	1,185	11,380	10,855
Payment on short-term debt	(7,981)	(34,263)	(12,379)
Shares issued under stock option plan	708	431	335
Treasury shares purchased	(22)	—	(123)
Treasury shares reissued	—	634	4,343
Cash dividends paid	(9,509)	(6,650)	(6,084)
Net cash provided by (used in) financing activities	\$ 92,892	\$ 86,152	\$ (3,053)
Net decrease in cash	—	—	—
Cash at beginning of year	—	—	—
Cash at end of year	\$ —	\$ —	\$ —