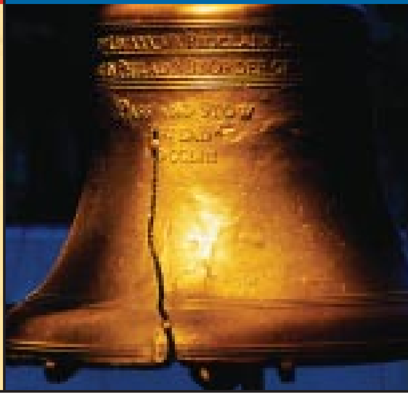
ANNUAL REPORT 2003



The reasons behind our *success*

PHILADELPHIA INSURANCE COMPANIES

P R O F I L E

Philadelphia Consolidated Holding Corp. (Nasdaq: PHLY) is an insurance holding company with assets of nearly $2.0 billion and a history dating back to 1962, with the incorporation of a subsidiary. We design, market and underwrite commercial and personal property and casualty insurance products – with value-added coverages and services – for select target markets and niches. Our business is produced through 36 regional offices located in major U.S. markets, primarily by independent agents and brokers, our own marketing staff and the Internet.

THE COMPANY OWNS THE FOLLOWING OPERATING COMPANIES:

Philadelphia Indemnity Insurance Company

A Pennsylvania domiciled commercial property and casualty insurance company licensed as an admitted carrier in 49 states and the District of Columbia.

Philadelphia Insurance Company

A Pennsylvania domiciled commercial property and casualty insurance company licensed in Pennsylvania as an admitted carrier and approved in 37 states as a surplus lines insurer.

Mobile USA Insurance Company

A Florida domiciled personal lines property and casualty insurance company for the homeowners and the manufactured housing markets which is licensed as an admitted carrier in 11 states.

Liberty American Insurance Company

A Florida domiciled personal lines property and casualty insurance company for the homeowners and the manufactured housing markets which is licensed as an admitted carrier in Florida.

Maguire Insurance Agency, Inc.

A captive underwriting manager founded in 1962 by James J. Maguire, the Company's Chairman. The underwriting manager produces insurance only for the account of the Company's insurance subsidiaries.

Mobile Homeowners Insurance Agencies, Inc.

A managing general agency domiciled in Florida that produces personal lines insurance primarily for mobile homeowners and the manufactured housing market in Florida.

MHIA Premium Finance Company

A premium finance company authorized in the state of Florida to finance premiums for personal lines policies.

COMPANY HIGHLIGHTS

PHLY RATES WITH THE INDUSTRY

- A+ rating from A.M. Best
- Ward's 50 Benchmark Group
- Standard & Poor's Small Cap 600 Index

R E S U L T S O F O U R S U C C E S S

Philadelphia Consolidated Holding Corp. (Nasdaq: PHLY) is an insurance holding company with assets of nearly $2.0 billion and a history dating back to 1962, with the incorporation of a subsidiary. We design, market and underwrite commercial and personal property and casualty insurance products — with value-added coverages and services — for select target markets and niches. Our business is produced through 36 regional offices located in major U.S. markets, primarily by independent agents and brokers, our own marketing staff and the Internet.

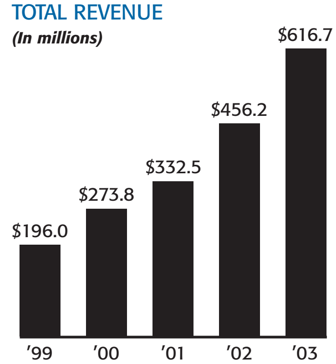
By sticking to our core strategy, we were able to generate premium growth in 2003 well above the industry average. Just as important, our combined ratio was well below the industry average. Our core strategy is built on adherence to an underwriting philosophy of sound risk selection and pricing discipline. We employ a mixed marketing platform for product distribution and strive to create value added features not typically found in property and casualty products.

While 2003 was challenging for the industry as a whole — with rating agency downgrades, insolvencies and consolidations — we made strong progress. Many agents considered us a port in the storm. In us, they found a stable, profitable company with an A+ rating, differentiated products and consistent pricing. Maybe that is because we have been doing this for more than 42 years…and we plan to be around a long, long time.

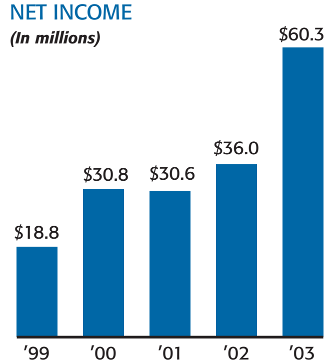
FINANCIAL HIGHLIGHTS

(In millions, except per share amounts)	As of and for the Years Ended December 31, **2003**	**2002**	**2001**
Total Revenue	**$ 616.7**	$ 456.2	$ 332.5
Net Income	**$ 60.3**	$ 36.0	$ 30.6
Diluted Earnings per Share	**$ 2.66**	$ 1.62	$ 1.78
Total Assets	**$ 1,869.0**	$ 1,358.3	$ 1,017.7
Total Shareholders' Equity	**$ 543.7**	$ 477.8	$ 428.7
Book Value per Common Share Outstanding	**$ 24.71**	$ 21.85	$ 19.93
GAAP Combined Ratio	**91.3%**	94.3%	93.4%

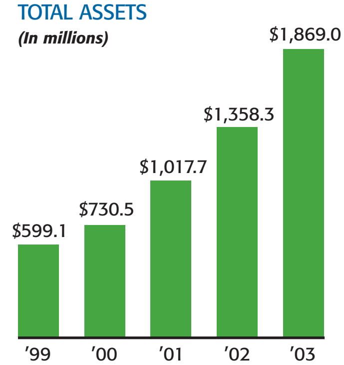
TOTAL REVENUE
(In millions)



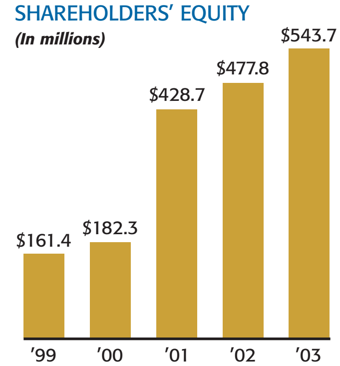
NET INCOME
(In millions)



TOTAL ASSETS
(In millions)



SHAREHOLDERS' EQUITY
(In millions)



TO OUR SHAREHOLDERS

"Our heartfelt thanks go to our nearly 900 employees nationwide for another excellent year. Their winning attitude can be seen both on the job and in off-hour pursuits."

A Culture of Success

2003 marked our 42nd year as a provider of commercial insurance products, and our 10th year as a public company. In the face of a continued shake-out in the insurance industry, we had a shining year. While several well-known names exited lines of business, or the market altogether, we stepped in to fill the void — within our niche markets.

After 42 years of building a successful business, agents across the country are beginning to take notice of our strengths:

- An underwriting philosophy of sound risk selection and pricing discipline.
- Specialty niche insurance with innovative and value-added features not typically found in property and casualty products.
- Innovative technology delivering data and information in real time via proprietary web-based applications.
- A double-digit compounded annual growth rate over the last 10 years in key metrics: gross written premiums, net income per share and book value per share.
- A statutory combined ratio of 90.3% in 2003, indicating our more profitable performance than the industry, which averaged 101.1%.
- A policy renewal rate approximating 94% in 2003.
- A financially sound company with a strong balance sheet, and an A+ (Superior) AM Best Rating.

What are the reasons behind our success? In a word: Culture. But all companies have their own unique culture. So what makes ours so successful? This is the story you will find in the following pages. Behind the numbers, beyond the strategies, you will find consistent evidence of the discipline that drives Philadelphia Insurance Companies, or PHLY. It keeps our underwriting profitable. It provides a structure for our processes. It keeps us focused on our customers and attuned to our people. And it encourages us to share our good fortune by giving back to the community.

2003 Results

Most important, our disciplined culture enables us to achieve superior results. In 2003, net earned premiums rose to $571.6 million, a 35.7% increase over the previous year. Strong net cash flow from operations, at $298.5 million or 45.6% above the prior year, contributed to growth in investments, which totaled $1,172.1 million at year-end 2003. With our consistent and conservative investment strategy — approximately 92% of our portfolio is allocated to fixed-income securities and 8% to equity securities — net investment income grew to $38.8 million in a challenging market environment. As a result, total revenues reached a record $616.7 million, up 35.2%, with profitable growth coming from all business operating segments, and with new business written and policy renewal retentions exceeding our expectations.

Commercial Lines: Gross written premiums grew 40.0% over the prior year to $662.3 million. This premium growth was from our core products at an accident year loss ratio of 55.4%. With certain major competitors becoming a diminished presence in the market, we have gained additional agency relationships, policyholders and premiums for our commercial packages.

Specialty Lines: Gross written premiums grew 39.9% over the prior year to $154.1 million and the 53.2% accident year loss ratio for these products was consistent with our profitability goals. Growth drivers are similar to those in Commercial Lines, with industry disruptions benefiting our specialty products, most notably non-profit directors and officers (D&O) product lines.

Personal Lines: Gross written premiums grew 11.3% over the prior year to $89.5 million and the accident year loss ratio was 57.0%.We consciously restricted growth in new business and renewals as part of our strategy to manage our property exposure in Florida. To offset these limitations, we continue to expand our production and underwriting capabilities by arranging with insurers to act as their managing underwriter.

"What are the reasons behind our success? In a word: Culture. But all companies have their own unique culture. So what makes ours so successful? This is the story you will find in these pages. Behind the numbers, beyond the strategies, you will find consistent evidence of the discipline that drives Philadelphia Insurance Companies, or PHLY."

"We introduced several new products in 2003, including a directors' & officers' liability product for private companies, a commercial package for non-profit mental health agencies and expansions of our broad-based specialty property program for hotels, office parks and office buildings."

Other Highlights of 2003:

- Philadelphia Insurance Companies was selected for the Ward's 50 Benchmark Group of top-performing property casualty insurance companies for the third year in a row. This is particularly notable in a time of industry disruptions, with insurer insolvencies and rating downgrades.
- We added two new regional offices, for a total of 12, allowing us to get closer to customers not only with marketing, but also underwriting and claims.
- We launched our Midwest Processing Center to supplement our home office servicing of automatic renewals and endorsements.
- Our stock price appreciated 38% in 2003, ending the year at $48.83.

We introduced several new products in 2003, including a directors' & officers' liability product for private companies, a commercial package for non-profit mental health agencies and expansions of our broad-based specialty property program for hotels, office parks and office buildings. A new package for business professionals combines both a business owner's policy and professional liability coverage. Our Personal Lines segment added a business owner's policy for home-based businesses and identity theft insurance, an increasingly valuable offering in today's high-tech world.

Corporate Governance

In 2003, we welcomed two new members to our Board of Directors: Michael J. Cascio and Margaret M. Mattix. Mr. Cascio has more than 24 years in the insurance industry, with a concentration on actuarial, underwriting and reinsurance matters. Ms. Mattix has more than 23 years of varied business experience, most notably in marketing, product development, human resources, e-business and strategic partnerships within the specialty-manufacturing sector.

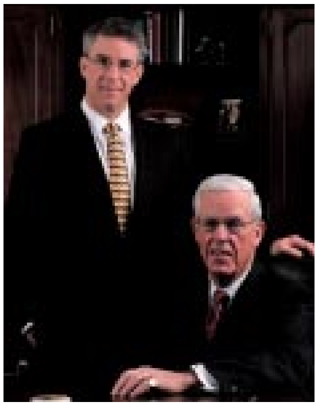
Corporate governance continues to be in the public spotlight, with the Sarbanes-Oxley Act of 2002 (SOx) establishing extensive compliance regulations for public companies. During 2003, we increased our Internal Audit staff to assist us in connection with the many requirements of this new legislation.

One benefit of SOx is that it generated opportunities for us in D&O liability insurance, which we offer for private companies. With industry pricing for D&O coverage on the rise, we have been quite successful in our niche within a niche.

Living The Culture

Our heartfelt thanks go to our nearly 900 employees nationwide for another excellent year. Their winning attitude can be seen both on the job and in off-hour pursuits. Several members of our management team, including your CEO, competed in marathons and Ironman triathlons this year, both to test their personal abilities and to raise money for local charities.

We find such athletic endeavors demand the same kind of preparation, discipline and persistence that leads to success in business. But no matter if our people are participants or spectators in the sports arena, we consider everyone a winner. They are the ones who live our culture and prove its value every day. The evidence of their efforts are manifested in the kinds of tangible benefits you will read about on the following pages: efficiency, technology, consistency and loyalty. Working together, we will continue to meet the evolving insurance needs of our agents, brokers and policyholders.



JAMES J. MAGUIRE
Chairman of the Board and Founder

JAMES J. MAGUIRE JR.
President and Chief Executive Officer

The measure of our success

"Philadelphia Insurance Companies have clearly defined the classes of business they want to write. The coverage forms and expertise they provide for these target classes is superior. They provide a stable, creative and consistent market in today's chaotic insurance marketplace."

PAMELA PARRY
GBP Risk Solutions
Executive Vice President
and Sales Manager

Pamela Parry with Sherry Gamble Punches, PHLY Regional Manager, at the Desert Botanical Gardens in Phoenix, Arizona

R E V I E W O F O P E R A T I O N S

Virtually all businesses seek efficiencies of size, of scale, of operations. Typically, this means adding technology or making acquisitions. When we talk about efficiency, it may include new technology systems, but it always involves creative thinking about how we do things.

Our diverse distribution platform promotes organic growth through multiple sources: PHLY marketing representatives, independent agents and brokers, wholesalers, preferred agents and the Internet. We have 204 field office personnel in 36 offices organized in 12 regions across the country. Our marketing representatives make about 12,000 calls per month to proactively solicit submissions from pre-identified prospects and brokers.

In 2003, our preferred agents delivered 60.2% growth in new business premiums to PHLY, while our Preferred Agent program itself grew 23.5% to 105 agents. Within this dynamic partnership, we help independent agents to unearth new business opportunities by providing differentiated products, supplying prequalified leads and accompanying them on calls to policyholders. We also help them and their policyholders manage their risks through education about loss control.

In 2003, we continued to decentralize certain functions to regional offices, helping to make workflow more efficient and freeing marketing reps to spend more time interacting with agents and policyholders. We opened a Midwest Processing Center in Kansas City, Missouri, to handle processing of policies, endorsements and renewals for states west of the Mississippi. We also added claims adjusters in Dallas, Texas and Sacramento, California.

One innovation we piloted at the Midwest Processing Center was a paperless policy issuance program. Agents receive a user-friendly CD-ROM containing policy, endorsement and loss control information. This new approach allows the option of delivering printed or electronic documents to policyholders. Liberty American Insurance Group, our Personal Lines group, has also adopted the paperless approach, converting all its documents to electronic files.

PHLY saw tremendous premium growth in 2003, yet agents have been pleasantly surprised with the speed and efficiency with which we continue to process their business, issue policies and handle claims. Technology has played a big part in our ability to keep pace. So has creativity, as we continue to streamline our processes, eliminate duplication of effort and improve workflow.

CREATIVE THINKING

When we talk about efficiency, it may include new technology systems, but it always involves creative thinking about how we do things.

DISTRIBUTION PLATFORM

Our diverse distribution platform promotes organic growth through multiple sources: PHLY marketing representatives, independent agents and brokers, wholesalers, preferred agents and the Internet.

PAPERLESS POLICY

This new approach allows the option of delivering printed or electronic documents to policyholders.

INVESTMENTS IN TECHNOLOGY

OUR GOAL

Our ultimate goal is to give agents the ability to administer all their business with us online, using secure access.

INTOUCH® WEB PORTAL

Its InTouch℠ Web portal enables Liberty American to produce nearly 100% of its business over the Internet.

ADVANCED SYSTEMS PLATFORM

With our advanced systems platform, we can drill down through the latest data to uncover developing trends and issues that need action.

One advantage of technology can be a disadvantage for some: there is always something new around the corner. We embrace this continual evolution because it enables us to better integrate our systems and offer new tools and capabilities to our employees, agents and policyholders.

The next phase of our technology effort is currently underway: converting our systems to a Web-enabled network that allows access to all our rating, quoting and billing systems over the Internet. This work, which we expect to complete in 2004, utilizes our web portal — www.accessphly.com — which gives secured, third party access to our systems. Our ultimate goal is to give agents the ability to administer all their business with us online.

Liberty American continues to leverage technology to gain operating efficiencies and provide better customer service. Its InTouch℠ Web portal enables Liberty American to produce nearly 100% of its business over the Internet. In 2003, it bound more than 60,571 policies and processed 36,067 endorsements through InTouch℠. The portal also gives agents secure access to numerous business applications, with the ability to view and print underwriting manuals, declaration pages and commission statements.

Our investments in technology reinforce our disciplined approach to underwriting by giving us the tools to monitor our progress on a number of levels. With our advanced systems platform, we can drill down through the latest data to uncover developing trends and issues that need action. We comb through reports on a monthly basis, if not more often, looking at premiums, losses and other metrics at various levels of detail including region, state, underwriter, producer and agent. We look at loss trends from prior years by product line, line of business and any number of other key metrics.

By being able to evaluate performance at such a detailed level, we can make the appropriate corrections to keep ourselves on track. These actions might include increasing prices, raising deductibles, lowering the policy limits or even exiting a line of business. Whatever action we take, it will be based on solid data from actual experience.

Converting our systems to a ***web-enabled*** *network*

"I have been in the insurance industry for over thirty years and have found Philadelphia Insurance Companies to be one of the most imaginative and progressive companies I've worked with to date. They have shown the ability to successfully underwrite and service classes of business that other companies would generally shy away from. This ability is directly tied to the talents of those individuals with whom I associate with at Philadelphia Insurance Companies. I couldn't ask for a better long-term partner."

JOHN MCLAUGHLIN
Daniel & Henry Company
Vice President

Steve Westhead, PHLY RVP, with John McLaughlin at the Gateway Arch in St. Louis, Missouri

We manage our capital with fiscal responsibility

"When we lost our market for our health club book, Philadelphia went from respected competitor to valued partner literally over night. Our firm and our clients really appreciate Philadelphia's quality product and consistent performance. Philadelphia has a knack for excelling in niches that other markets dabble in, then withdraw from."

JIM FOLEY
InterWest Insurance Services
Vice President

KEN McKAY
InterWest Insurance Services
Vice President

Jim Foley, Chuck Pedone, PHLY RVP, and Ken McKay at the Golden Gate Bridge in San Francisco, California

OUR UNDERWRITING DISCIPLINE

The insurance industry has been beset by disruptions, with a string of rating downgrades leading to the diminished market presence of certain major competitors. Through it all, PHLY has been a port in the storm for agents. In us, they found a stable, well managed company with an A+ rating, differentiated products and consistent pricing. Most are agents we have known for some time, because we continually work to forge and strengthen relationships within the industry. So when they needed consistency, they turned to PHLY — and we expect this momentum to continue through 2004.

We attribute our consistency to several factors:

- Our underwriting discipline means that we don't grow top line revenues at the expense of bottom line profits. We understand that good risk selection leads to a better loss ratio, which leads to less volatile pricing and a more stable market for the agent and policyholder.

- We are diversified, both in the kinds of insurance we offer and in the geographic distribution of our national business.

- We continue to develop differentiated niche products — and for each one, we can cite "10 Reasons Why" ours is better than the competition. This keeps our products from becoming a commodity item.

- We manage our capital with fiscal responsibility so that we never jeopardize our ability to pay claims. A.M. Best not only rates PHLY A+ (Superior), its gives us a high BCAR rating — Best's Capital Adequacy Ratio — which compares our capital strength against a composite of industry peers.

- Our investment portfolio is plain vanilla in that we take a highly conservative approach: approximately 92% is allocated to fixed-income securities, with a weighted-average rating of AA+ by Standard & Poor's, Moody's and Fitch and 8% allocated to equity securities.

The most stable component of PHLY is our management. Our executives have an average of 17 years tenure and nearly 23 years in the industry. They are seasoned insurance veterans who live our culture each day and who are passionate about succeeding in our business pursuits. Their vested interest in the success of PHLY is more than business, it is a source of personal pride.

DIVERSIFIED

We are well diversified, both in the kinds of insurance we offer and in the geographic distribution of our national business

FISCAL RESPONSIBILITY

We manage our capital with fiscal responsibility so that we never jeopardize our ability to pay claims.

STABLE MANAGEMENT

Our executives have an average of 17 years tenure and nearly 23 years in the industry.

DELIVERING EXCEPTIONAL SERVICE TO CUSTOMERS

SUPERIOR PERFORMANCE
PHLY is a high-energy, fast-paced company with a track record of superior performance. And we know that to perform at such high levels, and to do it consistently, we need to continually invest in our people…and our community.

RECOGNITION PROGRAM
We also recognize the attainment of professional designations and academic degrees through our rewards and recognition programs.

LONG-STANDING TRADITION
Our long-standing tradition of helping a variety of charitable organizations, causes and events just grows stronger every year.

We work as hard to retain business as we do to get it in the first place. Maybe that is why our policy renewal rate approximated 94% in 2003.

The loyalty of our agents and policyholders is matched by the loyalty of our people, the majority of whom have many years of experience with PHLY and within the industry. Their results demonstrate the depth of their commitment to delivering exceptional service to customers, which they define broadly to include agents, policyholders and fellow employees.

We realize that the work environment can be just as important to our people as the jobs they do, and so we offer comprehensive employment benefits and programs. These include everything from wide-ranging healthcare coverage starting on the date of hire, to a profit-sharing 401k savings plan with company match, to educational incentives and tuition reimbursement, to subsidized health club memberships. We also recognize the attainment of professional designations and academic degrees through our rewards and recognition programs. We have found that having a balanced life leads to a more satisfied and productive employee, and so we continue to review and revise our benefits. In 2004, we plan to launch a flextime initiative.

On the whole, we consider ourselves very fortunate, and we feel that sharing our good fortune with our local communities is the right thing to do. Our long-standing tradition of helping a variety of charitable organizations, causes and events just grows stronger every year. In 2003, PHLY made a five-year commitment to underwrite the business education program at a local area vocational school — Mercy Vocational High School — with $250,000 in grants to provide new computers, software and other equipment. Throughout the year, employees nationwide donated their time and money — often with a company match — to numerous worthy causes, including Easter Seals, Juvenile Diabetes Foundation, American Red Cross and Children's Hospital of Philadelphia. We served in soup kitchens, collected holiday gifts for families in need and participated in fund-raising athletic events. Our commitment to community service and their generosity makes us proud.

PHLY is a high-energy, fast-paced company with a track record of superior performance. And we know that to perform at such high levels, and to do it consistently, we need to continually invest in our people…and our community.

We need to continually ***invest*** *in our people*

"We have been writing MRDD Residential facilities for years and were lead to PHLY because of their commitment to writing this type of business. We continue to grow steadily with PHLY through their commitment to their business plan, integrity of their people, the financial strength of the company and a clear sense of who they are and the type of business they want to write."

BOB HOPPE, CPCU
Berwanger Overmyer Associates,
A Hilb Rogal & Hobbs Company
Executive Vice President

Bob Hoppe and Terri King, PHLY Regional Office Manager, at the Rock 'n Roll Hall of Fame in Cleveland, Ohio

Financial Section

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SELECTED FINANCIAL DATA

(In thousands, except share and per share data)	As of and For the Years Ended December 31, 2003	2002	2001	2000	1999
Operations and Comprehensive Income Statement Data:					
Gross Written Premiums	$ 905,993	$ 663,739	$ 473,565	$ 361,872	$ 274,918
Gross Earned Premiums	$ 789,498	$ 555,485	$ 421,063	$ 328,350	$ 245,978
Net Written Premiums	$ 599,361	$ 523,171	$ 333,817	$ 263,429	$ 184,071
Net Earned Premiums	$ 571,579	$ 421,186	$ 296,093	$ 227,292	$ 164,915
Net Investment Income	38,806	37,516	32,426	25,803	20,695
Net Realized Investment Gain (Loss)	794	(3,371)	3,357	11,718	5,700
Other Income	5,519	911	587	8,981	4,722
Total Revenue	616,698	456,242	332,463	273,794	196,032
Net Loss and Loss Adjustment Expenses	359,177	267,433	179,655	131,304	99,410
Acquisition Costs and Other Underwriting Expenses	162,912	129,918	97,020	75,054	53,793
Other Operating Expenses	7,822	6,372	6,841	14,679	8,939
Total Losses and Expenses	529,911	403,723	283,516	221,037	162,142
Minority Interest: Distributions on Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust	—	—	2,749	7,245	7,245
Income Before Income Taxes	86,787	52,519	46,198	45,512	26,645
Total Income Tax Expense	26,510	16,514	15,639	14,742	7,802
Net Income	$ 60,277	$ 36,005	$ 30,559	$ 30,770	$ 18,843
Weighted-Average Common Shares Outstanding	21,908,788	21,611,053	16,528,601	12,177,989	12,501,165
Weighted-Average Share Equivalents Outstanding	751,600	682,382	656,075	2,411,552	2,614,399
Weighted-Average Shares and Share Equivalents Outstanding	22,660,388	22,293,435	17,184,676	14,589,541	15,115,564
Basic Earnings Per Share	$ 2.75	$ 1.67	$ 1.85	$ 2.53	$ 1.51
Diluted Earnings Per Share	$ 2.66	$ 1.62	$ 1.78	$ 2.11	$ 1.25
Year End Financial Position:					
Total Investments and Cash and Cash Equivalents	$ 1,245,994	$ 950,861	$ 723,318	$ 487,028	$ 420,016
Total Assets	$ 1,869,031	$ 1,358,334	$ 1,017,722	$ 730,464	$ 599,051
Unpaid Loss and Loss Adjustment Expenses	$ 627,086	$ 445,548	$ 302,733	$ 237,494	$ 188,063
Minority Interest in Consolidated Subsidiaries	$ —	$ —	$ —	$ 98,905	$ 98,905
Total Shareholders' Equity	$ 543,736	$ 477,823	$ 428,692	$ 182,325	$ 161,440
Common Shares Outstanding	22,007,552	21,868,877	21,509,723	13,431,408	12,590,908
Insurance Operating Ratios (Statutory Basis):					
Net Loss and Loss Adjustment Expenses to Net Earned Premiums	63.1%	63.5%	60.7%	57.8%	59.7%
Underwriting Expenses to Net Written Premiums	27.2%	28.0%	31.2%	31.3%	33.6%
Combined Ratio	90.3%	91.5%	91.9%	89.1%	93.3%
A.M. Best Rating	A+ (Superior)	A+ (Superior)	A+ (Superior)	A+ (Superior)	A+ (Superior)

General

Overview

The Company designs, markets, and underwrites specialty commercial and personal property and casualty insurance products for select target industries or niches. The Company's operations are classified into three reportable business segments which are organized around its three underwriting divisions: The Commercial Lines Underwriting Group which has underwriting responsibility for the Commercial Automobile and Commercial Property and Commercial multi-peril package insurance products; The Specialty Lines Underwriting Group which has underwriting responsibility for the professional liability insurance products; and The Personal Lines Group has responsibility for personal property and casualty insurance products for the Manufactured Housing and Homeowners markets. The company operates solely within the United States through its 12 regional and 24 field offices.

The Company generates its revenues through the sale of commercial property and casualty insurance policies. The insurance policies are sold through the Company's five distribution channels which include direct sales, retail insurance agents/open brokerage, wholesalers, preferred agents and the internet. The Company believes that consistency in its field office representation has created excellent relationships with local insurance agencies across the country.

The Company also generates revenue from its investment portfolio, which approximated $1.2 billion at December 31, 2003 and generated $43.4 million in gross pretax investment income during 2003. The Company utilizes external independent professional investment managers with the objective of realizing relatively high levels of investment income while generating competitive after tax total rates of return within duration and credit quality targets.

Management measures the results of operations through monitoring certain measures of growth and profitability, including, but not limited to: number of policies written, pricing, risk selection, loss ratio (sum of net loss and loss adjustment expenses divided by net earned premiums) and expense levels.

During 2003, the prior year market trends of premium rate increases and turmoil in the property and casualty insurance market continued. Although further premium rate increases were realized during 2003, the increases moderated from those realized in 2002. The increases have primarily arisen due to the significant property and casualty industry losses as a result of the tragic terrorist attacks of September 11, 2001, lower interest rates, and diminished risk capacity. Rating agency downgrades, insolvencies and consolidations in the industry also continued to be market factors during 2003.

In this environment, the Company continued its strong growth, with gross written premiums increasing 36.5% to $906.0 million. Gross written premium growth was strong across all the Company's business segments with in-force policy counts increasing 22.8% and 39.7% for the commercial and specialty lines segments, respectively, remaining flat for the personal lines segment, and weighted average premium rate increases on renewal business approximating 4.3%, 10.2% and 9.4% for the commercial, specialty and personal lines segments, respectively.

(Dollars in millions)	Commercial Lines	Specialty Lines	Personal Lines	Total
2003 Gross Written Premium	$ 662.4	$ 154.1	$ 89.5	$ 906.0
2002 Gross Written Premium	$ 473.1	$ 110.2	$ 80.5	$ 663.8
Percentage Increase	40.0%	39.9%	11.3%	36.5%
2003 Weighted Average Premium Rate Increase on Renewal Business	4.3%	10.2%	9.4%	
2002 Weighted Average Premium Rate Increase on Renewal Business	10.0%	26.0%	8.0%	

The Company also believes its core strategy of adhering to an underwriting philosophy of sound risk selection and pricing discipline, the mixed marketing platform for its product distribution and the creation of value added features not typically found in property and casualty products have also contributed to generating premium growth above industry averages, as well as enabling the Company to produce combined ratios (the sum of net loss and loss adjustment expenses and acquisition costs and other underwriting expenses, divided by net earned premiums) well below industry averages.

The GAAP combined ratio for the year ended December 31, 2003 was 91.3%, which, once again, was substantially lower than the property and casualty industry as a whole. Included in the 2003 calendar year net loss and loss adjustment expenses was $44.6 million of prior accident year development, of which, $38.8 million was attributable to the Company's run-off residual value line of business. The following table illustrates the 2003 calendar year and accident year loss ratios by segment.

	Commercial Lines	Specialty Lines	Personal Lines	Total
2003 calendar year loss and loss adjustment expense ratio	63.9%	59.6%	60.1%	62.8%
2003 accident year loss and loss adjustment expense ratio	55.4%	53.2%	57.0%	55.0%

Investments

The Company's investment objective is the realization of relatively high levels of investment income while generating competitive after-tax total rates of return within a prudent level of risk and within the constraints of maintaining adequate securities in amount and duration to meet cash requirements of current operations and long-term liabilities, as well as maintaining and improving the Company's A.M. Best rating. The Company utilizes external independent professional investment managers for its fixed maturity and equity investments. These investments consist of diversified issuers and issues, and as of December 31, 2003, approximately 87.8% and 6.6% of the total invested assets (total investments plus cash equivalents) on a cost basis consisted of investments in fixed maturity and equity securities, respectively, versus 90.2% and 5.6%, respectively, at December 31, 2002.

During 2003 the relative percentage investment in tax-exempt fixed maturity securities versus taxable fixed maturity securities increased, due to the Company taking advantage of the more favorable after-tax yields. At the end of 2003, on a cost basis, investment grade tax-exempt fixed maturity securities represented 39.2% of the total invested assets, compared to 30.3% as of the end of 2002.

Asset backed, mortgage pass through, and collateralized mortgage obligation securities, on a cost basis, amounted to $183.0 million, $159.2 million and $53.8 million, respectively, as of December 31, 2003 and $202.8 million, $81.3 million and $89.2 million, respectively, as of December 31, 2002. The asset backed, mortgage pass through, and collateralized mortgage obligation investments are amortizing securities possessing favorable prepayment risk and/or extension profiles.

The Company regularly performs various analytical procedures with respect to its investments, including identifying any security whose fair value is below its cost. Upon identification of such securities, a detailed review is performed for all securities, except interests in securitized assets, meeting predetermined thresholds to determine whether such decline is other than temporary. If the Company determines a decline in value to be other than temporary, based upon its detailed review, or if a decline in value for an equity investment has persisted continuously for nine months, the cost basis of the security is written down to its fair value. The factors considered in reaching the conclusion that a decline below cost is other than temporary include, but are not limited to, whether: the issuer is in financial distress; the investment is secured; a significant credit rating action has occurred; scheduled interest payments have been delayed or missed; or changes in laws and/or regulations have impacted an issuer or industry. The amount of any write down is included in earnings as a realized loss in the period the impairment arose. This evaluation resulted in non-cash realized investment losses of $1.0 million and $2.1 million for the years ended December 31, 2003 and 2002, respectively. Such non-cash realized investment losses resulted from other than temporary declines in the fair value of certain holdings in the Company's common stock portfolio occurring primarily in the fourth quarter of 2002 and the first quarter of 2003. The Company primarily attributes these other than temporary declines in fair value to the uncertain economic climate, the overhang of corporate governance issues, and the high profile bankruptcies occurring during 2002 into early 2003.

Additionally, the Company conducts its impairment evaluation and recognition for interests in securitized assets in accordance with the guidance provided by the Emerging Issues Task Force of the Financial Accounting Standards Board ("EITF") in EITF 99-20. Under this guidance, impairment losses on securities must be recognized if both the fair value of the security is less than its book value and the net present value of expected future cash flows is less than the net present value of expected future cash flows at the most recent (prior) estimation date. If these criteria are met, an impairment charge, calculated as the difference between the current book value of the security and its fair value, is included in earnings as a realized loss in the period the impairment arose. This evaluation resulted in non-cash realized investment losses of $9.3 million and $1.6 million for the years ended December 31, 2003 and 2002, respectively. These non-cash realized investment losses were primarily due to investments in collateralized bond obligations as a result of the non investment grade default rates which remain higher than historic averages.

The Company's fixed maturity portfolio amounted to $1,081.7 million and $854.5 million, as of December 31, 2003 and December 31, 2002, respectively, of which 98.6% of the portfolio for both years was comprised of investment grade securities. From the fourth quarter of 2001 into early 2003 following the war in Iraq, U.S. investment grade securities experienced varying price and ratings volatility, having been affected by the uncertain economic climate, corporate governance issues, and the subsequent stream of corporate scandals and high profile bankruptcies. More recently certain sectors of the investment grade security market have continued to lag despite a return to a more favorable economic climate. However, the high quality of the Company's overall "AA+" rated fixed maturity portfolio, has mitigated potential volatility. The Company had fixed maturity investments with unrealized losses amounting to $10.6 million and $9.2 million as of December 31, 2003 and December 31, 2002, respectively. Of these amounts, interests in securitized assets had unrealized losses amounting to $9.2 million and $7.3 million as of December 31, 2003 and December 31, 2002, respectively. As discussed above, the Company's impairment evaluation and recognition for interests in securitized assets is conducted in accordance with the guidance provided by the EITF. Investments in aircraft collateralized Enhanced Equipment Trust Certificates (EETCs) had unrealized losses amounting to $0 and $1.3 million as of December 31, 2003 and December 31, 2002, respectively.

The following table identifies the period of time securities with an unrealized loss at December 31, 2003 have continuously been in an unrealized loss position. Included in the amounts displayed in the table are $6.5 million of unrealized losses due to non-investment grade fixed maturity securities having a fair value of $15.6 million. No issuer of securities or industry represents more than 4.4% and 15.5%, respectively, of the total estimated fair value, or 18.1% and 39.7%, respectively, of the total gross unrealized loss included in the table below. As previously discussed, there are certain risks and uncertainties inherent in the Company's impairment methodology, such as the financial condition of specific industry sectors and the resultant effect on underlying security collateral values. Should the Company subsequently determine a decline in the fair value below the cost basis to be other than temporary, the security would be written down to its fair value and the difference would be included in earnings as a realized loss for the period such determination was made.

	Gross Unrealized Losses *(In millions)*				
Continuous time in unrealized loss position	**Fixed Maturities Available for Sale Excluding Interests in Securitized Assets**	**Interests in Securitized Assets**	**Total Fixed Maturities Available for Sale**	**Equity Securities**	**Total Investments**
0 – 3 months	$ 0.2	$ 0.3	$ 0.5	$ 1.5	$ 2.0
>3 – 6 months	0.3	0.5	0.8	0.1	0.9
>6 – 9 months	0.5	0.6	1.1	—	1.1
>9 – 12 months	—	—	—	—	—
>12 – 18 months	—	1.9	1.9	—	1.9
>18 – 24 months	—	3.4	3.4	—	3.4
> 24 months	0.4	2.5	2.9	—	2.9
Total Gross Unrealized Losses	$ 1.4	$ 9.2	$ 10.6	$ 1.6	$ 12.2
Estimated fair value of securities with a gross unrealized loss	$ 101.9	$ 96.9	$ 198.8	$ 6.8	$ 205.6

The following table presents certain information with respect to individual securities with a significant unrealized loss position as of December 31, 2003.

	Significant Unrealized Losses by Security *(In millions)*		
Issuer	**Security Type**	**Carrying Value**	**Unrealized Loss**
Batterson Park CBO I CLC 144A	Equity Security – Equity Tranche of Securitized Asset	$ 0.0	$ 1.2
Conseco Fin SEC Corp 2000-4 M1	Fixed Maturity – Interest in Securitized Assets	0.5	1.6
Conseco Fin SEC Corp SER 2000-4 M2	Fixed Maturity – Interest in Securitized Assets	0.1	1.0
Greentree Financial Corp. 99-2 B1	Fixed Maturity – Interest in Securitized Assets	0.3	2.2
Nextcard CRCN MNT 2001-1 CLB144A	Fixed Maturity – Interest in Securitized Assets	3.7	1.3
		$ 4.6	$ 7.3

During 2003 the Company recorded impairment losses of $1.1 million, $0.1 million, $0.5 million for the Batterson Park CBO I CLC 144A, Conseco Fin SEC Corp SER 2000-4M2, and Greentree Financial Corp 99-2-B1 securities, respectively. Based upon the Company's impairment evaluation as of December 31, 2003 utilizing cash flow assumptions of the supporting collateral, estimated default and recovery rates it was concluded that the remaining unrealized losses in the significant unrealized losses by security table are not other than temporary.

During 2003 the Company's gross loss on the sale of fixed maturity and equity securities amounted to $0.7 million and $0.8 million, respectively. The fair value of the fixed maturity and equity securities at the time of sale was $20.1 million and $4.4 million, respectively. During 2002 the Company's gross loss on the sale of fixed maturity and equity securities amounted to $0.3 million and $3.2 million, respectively. The fair value of the fixed maturity and equity securities at the time of sale was $31.6 million and $14.1 million, respectively. The decision to sell these securities was based upon management's assessment of economic conditions.

Market Risk of Financial Instruments

The Company's financial instruments are subject to the market risk of potential losses from adverse changes in market rates and prices. The primary market risks to the Company are equity price risk associated with investments in equity securities and interest rate risk associated with investments in fixed maturities. The Company has established, among other criteria, duration, asset quality and asset allocation guidelines for managing its investment portfolio market risk exposure. The Company's investments are held for purposes other than trading and consist of diversified issuers and issues.

The table below provides information about the Company's financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. The information is presented in U.S. dollar equivalents.

	December 31, 2003 Expected Maturity Dates							Total Fair
(In thousands, except average interest rate)	2004	2005	2006	2007	2008	Thereafter	Total	Value
Fixed Maturities								
Available for Sale:								
Principal Amount	$ 119,372	$ 150,850	$ 128,609	$ 106,668	$ 127,667	$ 412,502	$ 1,045,668	$ 1,078,394
Book Value	$ 120,047	$ 153,444	$ 130,874	$ 107,360	$ 129,818	$ 421,813	$ 1,063,356	
Average Interest Rate	4.03%	3.80%	3.59%	4.78%	4.27%	4.11%	4.08%	4.29%
Preferred:								
Principal Amount	$ 1,500	$ 1,000	$ 3,625	—	—	—	$ 6,125	$ 6,572
Book Value	$ 1,489	$ 1,040	$ 3,792	—	—	—	$ 6,321	
Average Interest Rate	6.06%	6.84%	6.46%	—	—	—	6.43%	6.18%
Short-Term Investments:								
Principal Amount	$ 68,469	—	—	—	—	—	$ 68,469	$ 68,469
Book Value	$ 68,469	—	—	—	—	—	$ 68,469	—
Average Interest Rate	1.24%	—	—	—	—	—	1.24%	1.24%
Loans Payable:								
Principal Amount	$ 48,482	—	—	—	—	—	$ 48,482	—
Average Interest Rate	1.23%	—	—	—	—	—	1.23%	—

Certain Critical Accounting Estimates and Judgments

■ Investments

—*Fair values*

The carrying amount for the Company's investments approximates their estimated fair value. The Company measures the fair value of investments based upon quoted market prices or by obtaining quotes from third party broker-dealers. Material assumptions and factors utilized by such broker-dealers in pricing these securities include: future cash flows, constant default rates, recovery rates and any market clearing activity that may have occurred since the prior month-end pricing period. The Company's total investments include $13.7 million in securities for which there is no readily available independent market price.

—*Other than temporary impairment, excluding interests in securitized assets*

The Company regularly performs various analytical procedures with respect to its investments, including identifying any security whose fair value is below its cost. Upon identification of such securities, a detailed review is performed for all securities, meeting predetermined thresholds, to determine whether such decline is other than temporary. If the Company determines a decline in value to be other than temporary, based upon its detailed review, or if a decline in value for an equity investment has persisted continuously for nine months, the cost basis of the security is written down to its fair value. The factors considered in reaching the conclusion that a decline below cost is other-than-temporary include, but are not limited to, whether: the issuer is in financial distress; the investment is secured; a significant credit rating action has occurred; scheduled interest payments have been delayed or missed; changes in laws and/or regulations have impacted an issuer or industry. The amount of any write down is included in earnings as a realized loss in the period the impairment arose (see Investments).

—*Impairment recognition for investments in securitized assets* The Company conducts its impairment evaluation and recognition for interests in securitized assets in accordance with the guidance provided by the Emerging Issues Task Force of the Financial Accounting Standards Board. Under this guidance, impairment losses on securities must be recognized if both the fair value of the security is less than its book value and the net present value of expected future cash flows is less than the net present value of expected future cash flows at the most recent (prior) estimation date. If these criteria are met, an impairment charge, calculated as the difference between the current book value of the security and its fair value, is included in earnings as a realized loss in the period the impairment arose (see Investments).

Liability for Unpaid Loss and Loss Adjustment Expenses:

The liability for unpaid loss and loss adjustment expenses ($627.1 million and $445.6 million as of December 31, 2003 and 2002, respectively) reflects the Company's best estimate for future amounts needed to pay losses and related settlement expenses with respect to insured events. Based upon past experience this estimate has been redundant by as much as 18.5% and deficient by as much as 41.4%. The process of establishing the liability for property and casualty unpaid loss and loss adjustment expenses is a complex and imprecise process, requiring the use of informed estimates and judgments. This liability includes an amount determined on the basis of claim adjusters' evaluations with respect to insured events that have occurred and an amount for losses incurred that have not been reported to the Company. In some cases significant periods of time, up to several years or more, may elapse between the occurrence of an insured loss and the reporting of such to the Company. The method for determining the Company's liability for unpaid loss and loss adjustment expenses includes, but is not limited to, reviewing past loss experience and considering other factors such as legal, social, and economic developments. The methods of making such estimates and establishing the resulting liabilities are regularly reviewed and updated, and any adjustments resulting therefrom are made in the accounting period in which the adjustment arose.

During 2003 the Company increased the liability for unpaid loss and loss adjustment expenses by $51.7 million ($44.6 million net of reinsurance recoverables), primarily for accident years 1997 through 2001. This increase in the liability for unpaid loss and loss adjustment expense, net of reinsurance recoverables, was primarily due to the following:

—The Company increased the estimated gross and net loss for unreported claims incurred and related claim adjustment expenses on residual value polices issued during the years 1998 through 2002 by $38.8 million. As of December 31, 2003 the Company's total liability for gross and net unpaid loss and loss adjustment expenses for these policies is estimated to be $30.3 million. The residual value policies provide coverage guaranteeing the value of a leased automobile at the lease termination which can be up to five years from lease inception. The increase in the estimated gross and net loss was a result of:

- Further deterioration in both claims frequency and severity for leases expiring in 2003. During the second quarter of 2003, the Company engaged a consulting firm to aid in evaluating the ultimate potential loss exposure under these policies. Based upon the study and the subsequent evaluation by the Company, the Company changed its assumptions relating to future frequency and severity of losses, the estimate for unpaid loss and loss adjustment expenses by $33.0 million. The Company primarily attributes this deterioration to the following factors that led to a softening of prices in the used car market subsequent to the September 11, 2001 terrorist attacks: prolonged 0% new car financing rates and other incentives which increased new car sales and the volume of trade-ins, daily rental units being sold into the market earlier and in greater numbers than expected, further adding to the over supply of used cars, and the overall uncertain economic conditions.
- The Company entering into an agreement with U.S. Bank, N.A. d/b/a Firstar Bank ("Firstar") for residual value insurance policies purchased by Firstar. Under the terms of the agreement, the Company paid Firstar $27.5 million in satisfaction of any and all claims made or which could have been made by Firstar under the residual value policies. The Company increased the gross and net reserves for loss and loss adjustment expenses from $21.7 million to $27.5 million.

—The Company increased its estimate for unpaid loss and loss adjustment expenses for non residual value policies by $43.5 million ($30.8 million net of reinsurance recoverables) primarily for accident years 1999 to 2001 and decreased its estimate of the unpaid loss and loss adjustment expenses by $30.6 million ($25.0 million net of reinsurance recoverables) for the 2002 accident year. The increase in accident years 1999 to 2001 is principally attributable to:

- $19.6 million ($13.7 million net of reinsurance recoverables) of development in professional liability products as a result of case reserves developing greater than anticipated from the year-end 2002 ultimate loss estimate; $18.1 million ($11.1 million net of reinsurance recoverables) of development in the automobile and general liability coverages for commercial package products due to losses developing beyond the underlying pricing assumptions; and $5.8 million ($6.0 million net of reinsurance recoverables) of development in the commercial automobile excess liability insurance and GAP commercial automobile products due to losses developing beyond the underlying pricing assumptions.

—The decrease in unpaid loss and loss adjustment expenses in accident year 2002 is principally attributable to:

- $4.2 million ($4.7 million net of reinsurance recoverables) and $26.4 million ($20.3 million net of reinsurance recoverables) of favorable development in professional liability products and commercial package products, respectively, due to conservative initial loss estimates combined with favorable product pricing.

The method for determining reinsurance recoverables and estimated recoverability are regularly reviewed and adjustments resulting from this review are included in earnings in the period the adjustment arose.

Deferred Acquisition Costs:

Policy acquisition costs ($56.3 million and $61.3 million as of December 31, 2003 and 2002, respectively) which include commissions (net of ceding commissions), premium taxes, fees, and certain other costs of underwriting policies, are deferred and amortized over the same period in which the related premiums are earned. Deferred acquisition costs are limited to the estimated amounts recoverable after providing for losses and expenses that are expected to be incurred, based upon historical and current experience. Anticipated investment income is considered in determining whether a premium deficiency exists. The methods of making such estimates and establishing the deferred costs are continually reviewed by the Company, and any adjustments therefrom are made in the accounting period in which the adjustment arose.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements (as that term is defined in Item 303(a) (4) of Regulation S-K) that have or are reasonably likely to have a current or as of December 31, 2003, future effect on it financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors as of December 31, 2003.

Results of Operations (2003 versus 2002)

Premiums: Premium information relating to the Company's business segments is as follows:

(Dollars in millions)	Commercial Lines	Specialty Lines	Personal Lines	Total
2003 Gross Written Premiums	$ 662.4	$ 154.1	$ 89.5	$ 906.0
2002 Gross Written Premiums	$ 473.1	$ 110.2	$ 80.4	$ 663.7
Percentage Increase	40.0%	39.9%	11.3%	36.5%
2003 Gross Earned Premiums	$ 566.1	$ 138.3	$ 85.1	$ 789.5
2002 Gross Earned Premiums	$ 384.4	$ 93.9	$ 77.2	$ 555.5
Percentage Increase	47.3%	47.2%	10.2%	42.1%

The overall growth in gross written premiums is primarily attributable to the following:

- Further rating downgrades of certain major competitor property and casualty insurance companies have led to their diminished presence in the Company's commercial and specialty lines business segments and continue to result in additional prospects and increased premium writings, most notably for the Company's various commercial package and non-profit D&O product lines.
- The displacement of certain competitor property and casualty insurance companies and their independent agency relationships continues to result in new agency relationship opportunities for the Company. These relationship opportunities have resulted in additional policyholders and premium writings for the Company's commercial and specialty lines segments.
- Continued expansion of marketing efforts relating to commercial lines and specialty lines products through the Company's field organization and preferred agents.
- In-force policy counts have increased 22.8% and 39.7% for the commercial and specialty lines segments, respectively, primarily as a result of the factors discussed above. Policy counts were approximately the same for the personal lines segment as a result of restricting new business and not renewing certain business to manage overall property exposures and the related catastrophe loss considerations. Firming prices in the property and casualty industry resulted in weighted average rate increases on renewal business approximating 4.3%, 10.2%, and 9.4% for the commercial, specialty and personal lines segments, respectively.

The respective net written premium changes for commercial lines, specialty lines and personal lines segments for the year ended December 31, 2003 vs. December 31, 2002 were:

(Dollars in millions)	Commercial Lines	Specialty Lines	Personal Lines	Total
2003 Net Written Premiums	$ 460.4	$ 108.3	$ 30.7	$ 599.4
2002 Net Written Premiums	$ 383.3	$ 102.4	$ 37.5	$ 523.2
Percentage Increase (Decrease)	20.1%	5.8%	(18.1%)	14.6%
2003 Net Earned Premiums	$ 428.1	$ 109.2	$ 34.3	$ 571.6
2002 Net Earned Premiums	$ 299.9	$ 85.8	$ 35.5	$ 421.2
Percentage Increase (Decrease)	42.7%	27.4%	(3.4%)	35.7%

The differing percentage changes in net written premiums versus gross written premiums for the commercial lines, specialty lines and personal lines segments during the year results from:

- The Company entering into a Quota Share reinsurance agreement (effective April 1, 2003) covering all of the Company's lines of business. Under this agreement, the Company cedes 22% of its net written premium (including 22% of the net unearned premium reserves at April 1, 2003) and loss and loss adjustment expenses. The Company also receives a provisional commission of 33.0% adjusted pro-rata based upon the ratio of losses incurred to premiums earned. Pursuant to this reinsurance agreement the Company withholds the reinsurance premium reduced by the reinsurers' expense allowance and the Company's ceding commission allowance in a Funds Held Payable to Reinsurer account. This Funds Held Payable to Reinsurer account is also reduced by ceded paid losses and loss adjustment expenses under this agreement, and increased by an interest credit. During the year ended December 31, 2003, the Company ceded $191.8 million of written premium, which included unearned premium reserves of $63.6 million at April 1, 2003.

- Relatively lower reinsurance costs (ceded premiums) as a result of increasing the Company's loss retention from $0.5 million to $2.0 million on its commercial lines per-risk property reinsurance treaty and from $0.9 million to $1.0 million on its excess liability reinsurance treaty, effective January 1, 2003.

Net Investment Income: Net investment income approximated $38.8 in 2003 and $37.5 million in 2002. Total investments grew to $1,172.1 million at December 31, 2003 from $908.9 million at December 31, 2002. The growth in investment income is due to investing net cash flows provided from operating activities. The Company's average duration of its fixed income portfolio increased to approximately 4.0 years at December 31, 2003, compared to 3.2 years at December 31, 2002 as a result of investing in overall "AAA" rated intermediate to longer tax exempt fixed income securities due to their perceived relative value to taxable alternatives. The Company's taxable equivalent book yield on its fixed income holdings declined to 4.9% at December 31, 2003, from 5.2% at December 31, 2002, as a result of investing strong cash inflows due to premium increases at relatively low interest rates during the Federal Reserve's latest easing cycle. Net investment income was reduced by $2.3 million due to the interest credit on the Funds Held Account balance pursuant to the Company's quota share reinsurance agreement (see Premiums).

The total return, which includes the effects of both income and price returns on securities, of the Company's fixed income portfolio was 4.36% and 9.09% for the years ended December 31, 2003 and 2002, respectively, and was similar to the Lehman Brothers Intermediate Aggregate Bond Index ("the Index") total return of 3.81% and 9.51% for the same periods, respectively. The Company expects some variation in its portfolio's total return compared to the index because of the differing sector, security and duration composition of its portfolio compared to the index.

Net Realized Investment Gain (Loss): Net realized investment gains (losses) were $0.8 million for the year ended December 31, 2003 and ($3.4) million for the same period in 2002. The Company realized net investment gains of $7.1 million and $4.0 million from the sale of fixed maturity and equity securities, respectively, for the year ended December 31, 2003, and $4.0 million and $6.3 million in non-cash realized investment losses for fixed maturity and common stock investments, respectively, as a result of the Company's impairment evaluations.

The Company realized $3.4 million in net investment gains from the sale of fixed maturity securities and $3.1 million in net investment losses from the sale of common stock equity securities for the year ended December 31, 2002. Additionally, $2.1 million and $1.6 million in non-cash realized investment losses were recorded for common stock and fixed maturity investments, respectively as a result of the Company's impairment evaluations.

Other Income: Other income approximated $5.5 million for the year ended December 31, 2003 and $0.9 million for the same period of 2002. Other income primarily consists of commissions earned on brokered personal lines business, and to a lesser extent brokered commercial lines business. The Company is seeking to increase brokering activities in its personal lines segment as it is restricting new business and not renewing certain policies in designated areas of Florida as a result of its property exposures in these areas and related catastrophe loss considerations.

Net Loss and Loss Adjustment Expenses: Net loss and loss adjustment expenses increased $91.8 million (34.3%) to $359.2 million for the year ended December 31, 2003 from $267.4 million for the same period of 2002 and the loss ratio decreased to 62.8% in 2003 from 63.3% in 2002. This increase in net loss and loss adjustment expenses was due to the 35.7% growth in net earned premiums, a $38.8 million increase in the estimated gross and net loss for unreported claims incurred and related claim adjustment expenses on residual value polices issued during the years 1998 through 2002, and a $5.8 million net increase in the estimated gross and net loss reserves for loss and loss adjustment expenses primarily for claims made professional liability and commercial automobile lines of business in prior accident years. Additionally, during the year the Company ceded $109.3 million of net earned premium and $62.7 million in net loss and loss adjustment expenses pursuant to the quota share reinsurance agreement (see Premiums).

As of December 31, 2003, the Company has estimated a total liability for gross and net unpaid loss and loss adjustment expenses for the residual value policies of $30.3 million. The residual value policies provide coverage guaranteeing the value of a leased automobile at the lease termination, which can be up to five years from lease inception. As part of the Company's monitoring and evaluation process, a consulting firm was engaged during the second quarter of 2003 to aid in evaluating the ultimate potential loss exposure under these policies. Based upon the result of the indications and subsequent evaluation by the Company and changes in the Company's assumptions relating to future frequency and severity of losses, the estimate for unpaid loss and loss adjustment expenses was increased by $33.0 million. The Company primarily attributes this deterioration to the following factors that led to a softening of prices in the used car market subsequent to the September 11, 2001 terrorist attacks: prolonged 0% new car financing rates and other incentives which increased new car sales and the volume of trade-ins, daily rental units being sold into the market earlier and in greater numbers than expected further adding to the oversupply of used cars; and the overall general economic conditions. As of December 31, 2003, approximately 22,000 leases were outstanding under the Company's residual value policies.

Acquisition Costs and Other Underwriting Expenses: Acquisition costs and other underwriting expenses increased $33.0 million (25.4%) to $162.9 million for the year ended December 31, 2003 from $129.9 million for the same period of 2002. This increase was due primarily to the 35.7% growth in net earned premiums and in part to the Company establishing a $1.4 million allowance for doubtful reinsurance receivables based upon its review of collectibility from its reinsurers. During the year the Company ceded $109.3 million of net earned premium and earned $46.7 million in ceding commission under the quota share reinsurance agreement (see Premiums).

Other Operating Expenses: Other operating expenses increased $1.4 million to $7.8 million for the year ended December 31, 2003 from $6.4 million for the same period of 2002 as the Company continues to control its expenses during this period of premium growth.

Income Tax Expense: The Company's effective tax rate for the years ended December 31, 2003 and 2002 was 30.5% and 31.4%, respectively. The effective rates differed from the 35% statutory rate principally due to investments in tax-exempt securities and the relative proportion of tax exempt income to total income before tax.

Results of Operations (2002 versus 2001)

Premiums: Gross written premiums grew $190.1 million (40.1%) to $663.7 million in 2002 from $473.6 million in 2001; gross earned premiums grew $134.4 million (31.9%) to $555.5 million in 2002 from $421.1 million in 2001; net written premiums increased $189.4 million (56.7%) to $523.2 million in 2002 from $333.8 million in 2001; and net earned premiums grew $125.1 million (42.2%) to $421.2 million in 2002 from $296.1 million in 2001.

The respective gross written premium increases for the commercial lines, specialty lines and personal lines segments for the years ended December 31, 2002 vs. December 31, 2001 amount to $157.9 million (50.0%), $30.0 million (37.8%) and $2.2 million (2.8%), respectively. The overall growth in gross written premiums is primarily attributable to the following:

- Further rating downgrades of certain major competitor property and casualty insurance companies have led to their diminished presence in the Company's commercial and specialty lines business segments and continue to result in additional prospects and increased premium writings, most notably for the Company's various commercial package and non-profit D&O product lines.
- The continued consolidation of certain competitor property and casualty insurance companies has led to the displacement of certain of their independent agency relationships. This consolidation continues to result in new agency relationship opportunities for the Company, which have resulted in additional prospects and premium writings for the Company's commercial and specialty lines segments.
- Continued expansion of marketing efforts relating to commercial lines and specialty lines products through the Company's field organization and preferred agents.
- As a result of firming prices in the property and casualty industry, rate increases on renewal business have approximated 16.0%, 26.0%, and 8.0% for the commercial, specialty and the personal lines segments, respectively. Additionally, in force policy counts have increased 43.0% and 13.0% for the commercial and specialty lines segments, respectively, primarily as a result of the factors discussed above. Policy counts have decreased approximately 7.0% for the personal lines segment as a result of restricting new business and not renewing certain business to manage overall property exposures and the related catastrophe loss considerations.

Overall premium growth has been offset in part by the following factors:

- Specialty Lines Segment—The Company's decision not to renew approximately 2,000 policies in the professional liability product lines due to inadequate pricing levels being experienced as a result of market conditions and/or an unacceptable underwriting risk profile.
- Personal Lines Segment—The Company's decision to restrict new business and not renew approximately 9,000 policies in designated areas of Florida in the Company's manufactured housing and homeowners product lines, based on an evaluation of property exposures and the related catastrophe loss considerations.

Pursuant to a routine underwriting review which focused on pricing adequacy and loss experience, as well as other underwriting criteria, the Company cancelled a Commercial Automobile Excess Liability Insurance customer (Commercial Lines Underwriting Group) effective October 22, 2002 as a result of an unacceptable underwriting risk profile. Such customer's gross written premium and net written premium amounted to $36.7 million and $10.9 million, respectively, for the year ended December 31, 2002.

Additionally, the respective net written premium increases (decreases) for commercial lines, specialty lines and personal lines segments for the year ended December 31, 2002 vs. December 31, 2001 amount to $160.5 million (71.7%), $31.8 million (45.6%) and ($2.9) million (7.1%) respectively. The differing percentage increases (decreases) in net written premiums versus gross written premiums for the year is primarily due to the Company commuting a 2001 accident year aggregate stop loss reinsurance program during the quarter ended June 30, 2002 whereby net written and net earned premiums increased by $3.6 million ($2.4 million Commercial Lines, $0.8 million Specialty Lines, $0.4 million Personal Lines), and in part to other various changes in, or pricing of, the Company's reinsurance program.

Net Investment Income: Net investment income approximated $37.5 million in 2002 and $32.4 million in 2001. Total investments grew to $908.9 million at December 31, 2002 from $673.4 million at December 31, 2001. The growth in investment income is due to investing net cash flows provided from operating activities and the proceeds of the Company's fourth quarter 2001 equity offering. The capital market environment during 2001 and most of 2002 (low U.S. Treasury yields) had the effect of increasing the level of prepayments in certain of the Company's interest rate sensitive investments. The Company's average duration of its fixed income portfolio approximated 3.2 years at December 31, 2002, compared to 2.7 years at December 31, 2001. Additionally, due to the capital market environment, the Company has invested approximately $75.1 million in overall "AAA" rated floating rate and shorter amortizing securities to reduce interest rate risk with the expectation of reinvesting these funds into longer duration investments at higher future fixed income rates. The Company's tax equivalent book yield on its fixed income holdings was 5.2% at December 31, 2002, compared to 6.0% at December 31, 2001.

The total return, which includes the effect of realized and unrealized gains and losses, of the Company's fixed income portfolio was 9.09% and 7.30% for the years ended December 31, 2002 and 2001, respectively versus the Lehman Brothers US Aggregate Bond Index ("the Index") total return of 9.51% and 8.67% for the same periods, respectively. While the performance during 2002 and 2001 was similar to the total return of the Index, performance differed from the Index due primarily to the following factors:

- the Company's fixed income portfolio is overweighted in the spread sectors, versus the Index, to capture the incremental spread available in non-Treasury securities consistent with its investment objective of achieving the highest after-tax risk adjusted yields;

- the Company maintains a higher level of credit quality in the portfolio versus the Index; and

- the Company maintains a shorter portfolio duration versus the Index.

Net Realized Investment Gain (Loss): Net realized investment gains (losses) were ($3.4) million for the year ended December 31, 2002 and $3.4 million for the same period in 2001. The Company realized net investment losses of $3.1 million from the sales of common stock equity securities and $3.4 million in net investment gains from the sale of fixed maturity securities during the year ended December 31, 2002. Additionally, $2.1 million and $1.6 million in non-cash realized investment losses were recorded for common stock and fixed maturity investments, respectively, as a result of the Company's impairment evaluation (see Investments). The Company realized net investment gains of $8.3 million from the sales of common stock equity securities and $0.9 million from the sales of fixed maturity securities during the year ended December 31, 2001. These realized net investment gains were offset by $5.8 million in non-cash realized investment losses experienced on certain securities as a result of the Company's impairment evaluation (see Investments). The proceeds from the sales were reinvested in fixed maturity securities to increase current investment income and decrease the overall percentage of investments in common stock securities.

Other Income: Other income approximated $0.9 million for the year ended December 31, 2002 and $0.6 million for the same period of 2001. Other income primarily consists of commissions earned on brokered personal lines business, and to a lesser extent brokered commercial lines business. The Company is seeking to increase brokering activities in its personal lines segment, as it is restricting new business and not renewing certain policies in designated areas of Florida as a result of its property exposures in these areas and the related catastrophe loss considerations.

Net Loss and Loss Adjustment Expenses: Net loss and loss adjustment expenses increased $87.7 million (48.8%) to $267.4 million for the year ended December 31, 2002 from $179.7 million for the same period of 2001 and the loss ratio increased to 63.5% in 2002 from 60.7% in 2001. This increase in net loss and loss adjustment expenses was due principally to the 42.2% growth in net earned premiums, and in part to the Company increasing loss and loss adjustment expenses incurred as a result of changes in estimates of insured events in prior years by: $27.6 million ($68.0 million gross of reinsurance) due to deterioration in frequency and severity trends on automobile leases currently expiring on residual value policies issued during the years 1998 through 2001 (see Certain Critical Accounting Estimates and Judgments – Liability for Unpaid Loss and Loss Adjustment Expense); and by $4.9 million ($6.9 million gross of reinsurance) due to adverse loss experience on the Commercial Automobile Excess Liability Insurance product (see Certain Critical Accounting Estimates and Judgments – Liability for Unpaid Loss and Loss Adjustment Expense). The Company also commuted a 2001 accident year aggregate stop loss reinsurance program in the second quarter of 2002, resulting in net written and net earned premium increasing by $3.6 million. The Company had not ceded any losses to the 2001 accident year aggregate stop loss reinsurance program. The year ended December 31, 2001 included a $4.0 million increase to unpaid loss and loss adjustment expenses arising from business interruption, business personal property, business property and workers' compensation exposures relating to the September 11, 2001 terrorist attacks. The Company has entered into various reinsurance agreements for the purpose of limiting its loss exposure. Net reinsurance recoveries as a percentage of loss and loss adjustment expenses may vary considerably from period to period based upon the number and/or severity of our individual losses in excess of the amount retained under the Company's reinsurance agreements in any one period.

Acquisition Costs and Other Underwriting Expenses: Acquisition costs and other underwriting expenses increased $32.9 million (33.9%) to $129.9 million for the year ended December 31, 2002 from $97.0 million for the same period of 2001. This increase was due primarily to the 42.2% growth in net earned premiums, offset in part by:

- A lower weighted average effective commission rate incurred on the commercial and specialty lines segment products of approximately 12.7% for the year ended December 31, 2002 compared to a weighted average effective commission rate of approximately 13.9% for the year ended December 31, 2001. The Company has been able to incur a relatively lower commission rate on business produced by independent agents in the current market environment.

- Incremental written premium growth without a corresponding incremental increase in operating costs.

Other Operating Expenses: Other operating expenses decreased $0.4 million to $6.4 million for the year ended December 31, 2002 from $6.8 million for the same period of 2001. The decrease in other operating expenses was primarily due to the discontinuance of goodwill amortization effective January 1, 2002, which amounted to $1.5 million for the year ended December 31, 2001. This decrease has been partially offset by an increase in expenses attributable to increased operating activities.

Income Tax Expense: The Company's effective tax rate for the year ended December 31, 2002 and 2001 was 31.4% and 33.9%, respectively. The effective rates differed from the 35% statutory rate principally due to investments in tax-exempt securities and in part due to the discontinuance of goodwill amortization. The decrease in the effective tax rate is principally due to a greater investment of cash flows in tax-exempt securities relative to taxable securities.

Liquidity and Capital Resources

Philadelphia Consolidated Holding Corp. (PCHC) is a holding company whose principal assets currently consist of 100% of the capital stock of its subsidiaries. PCHC's primary sources of funds are dividends from its subsidiaries and payments received pursuant to tax allocation agreements with the insurance subsidiaries. For the year ended December 31, 2003, payments to PCHC pursuant to such tax allocation agreements totaled $36.3 million. The payment of dividends to PCHC from the insurance subsidiaries is subject to certain limitations imposed by the insurance laws of the Commonwealth of Pennsylvania and State of Florida. Accumulated statutory profits or policyholders' surplus of the insurance subsidiaries from which dividends may be paid totaled $179.2 million at December 31, 2003. Of this amount, the insurance subsidiaries are entitled to pay a total of approximately $50.7 million of dividends in 2004 without obtaining prior approval from the Insurance Commissioner of the Commonwealth of Pennsylvania or State of Florida. During 2003 the insurance subsidiaries paid dividends of $4.0 million to Liberty American Insurance Group, Inc., a subsidiary of PCHC. During 2003 PCHC repurchased 10,000 shares of its common stock for approximately $0.3 million under the stock repurchase authorization. At December 31, 2003 the remaining stock repurchase authorization is $24.7 million.

The Company produced net cash from operations of $298.5 million in 2003, $205.0 million in 2002 and $115.1 million in 2001. Sources of operating funds consist primarily of net premiums written and investment income. Funds are used primarily to pay claims and operating expenses and for the purchase of investments. Cash from operations in 2003 was primarily generated from strong premium growth during such year due to increases in the number of policies written and price increases realized on renewal business. Net loss and loss expense payments were $237.4 million in 2003, $157.9 million in 2002, and $125.0 million in 2001. Net cash from operations also included cash provided from tax savings as a result of the exercise of employee stock options amounting to $0.9 million, $1.3 million and $25.8 million for 2003, 2002 and 2001, respectively. Management believes that the Company has adequate liquidity to pay all claims and meet all other cash needs.

Two of the Company's Insurance Subsidiaries are members of the Federal Home Loan Bank of Pittsburgh ("FHLB"). A primary advantage of FHLB membership is the ability of members to access credit products from a reliable capital markets provider. The availability of any one member's access to credit is based upon its FHLB eligible collateral. At December 31, 2003, the Insurance Subsidiaries' borrowing capacity with FHLB was $124.8 million. The Insurance Subsidiaries have utilized a portion of its borrowing capacity to purchase a diversified portfolio of investment grade floating rate securities. These purchases were funded by floating rate FHLB borrowings to achieve a positive spread between the rate of interest on these securities and FHLB borrowing rates. The remaining unused borrowing capacity provides an immediately available line of credit. Borrowings aggregated $48.5 million at December 31, 2003, bear interest at adjusted LIBOR and mature twelve months from inception. The weighted-average interest rate on borrowings outstanding as of December 31, 2003 was 1.23% per annum. These borrowings are collateralized by investment securities, principally asset backed securities, with a carrying value of $59.1 million.

In the normal course of business, the Company has entered into various reinsurance contracts with unrelated reinsurers. The Company participates in such agreements for the purpose of limiting loss exposure and diversifying business. Reinsurance contracts do not relieve the Company from its obligations to policyholders. To reduce the potential for a write-off of amounts due from reinsurers, the Company: evaluates the financial condition of its reinsurers, principally contracts with large reinsurers that are rated at least "A" (Excellent) by A.M. Best Company, regularly monitors its reinsurance receivables and attempts to collect the obligations of its reinsurers on a timely basis.

Under certain reinsurance agreements, the Company is required to maintain investments in trust accounts to secure its reinsurance obligations (primarily the payment of losses and loss adjustment expenses on business it does not write directly). At December 31, 2003, the investment and cash balances in such trust accounts totaled approximately $1.7 million. In addition, various insurance departments of states in which the Company operates require the deposit of funds to protect policyholders within those states. At December 31, 2003, the balance on deposit for the benefit of such policyholders totaled approximately $15.5 million.

The Insurance Subsidiaries, which operate under an intercompany reinsurance pooling agreement, must have certain levels of surplus to support premium writings. Guidelines of the National Association of Insurance Commissioners (the "NAIC") suggest that a property and casualty insurer's ratio of annual statutory net premium written to policyholders' surplus should not exceed 3-to-1. The ratio of combined annual statutory net premium written by the insurance subsidiaries to their combined policyholders' surplus was 1.5-to-1.0 and 1.7-to-1.0 for 2003 and 2002, respectively.

The NAIC's risk-based capital method is designed to measure the acceptable amount of capital and surplus an insurer should have based on the inherent specific risks of each insurer. The adequacy of a company's actual capital and surplus is evaluated by a comparison to the risk-based capital results. Insurers failing to meet minimum risk-based capital requirements may be subject to scrutiny by the insurer's domiciliary insurance department and ultimately rehabilitation or liquidation. As of December 31, 2003, PIIC, PIC, MUSA and LAIC exceeded their minimum risk-based capital requirements of $107.6 million, $13.1 million, $15.3 million and $14.9 million, respectively, by 218%, 134%, 40% and 48%, respectively.

Contractual Obligations

The Company has certain contractual obligations and commitments as of December 31, 2003 which are summarized below:

Certain Contractual Obligations[1]	Payments Due by Period (In thousands) Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long-Term Debt Obligations[2]	$ 48,482	$ 48,482	$ —	$ —	$ —
Operating Leases	17,602	4,611	11,753	1,238	—
Other Long-Term Commercial Commitments[3]	2,252	2,252	—	—	—
Total	$ 68,336	$ 55,345	$ 11,753	$ 1,238	$ —

(1) Unpaid loss and loss adjustment expenses are not included in the above table as there is no related contractual maturity for such obligations.
(2) Represents 12 month collateralized borrowings from the Federal Home Loan Bank of Pittsburgh.
(3) Represents open commitments under certain limited partnership and information technology development agreements.

Inflation

Property and casualty insurance premiums are established before the amount of losses and loss adjusted expenses, or the extent to which inflation may affect such amounts, is known. The Company attempts to anticipate the potential impact of inflation in establishing its premiums and reserves. Substantial future increases in inflation could result in future increases in interest rates, which, in turn, are likely to result in a decline in the market value of the Company's investment portfolio and resulting unrealized losses and/or reductions in shareholders' equity.

New Accounting Pronouncements

FASB Interpretation 46 "Consolidation of Variable Interest Entities" was issued in January 2003 and is effective at various dates for various requirements. This interpretation addresses consolidation of variable interest entities (formerly known as special purpose entities). Management has determined that this interpretation will have no effect on the Company's consolidated financial statements.

In May 2003, the Financial Accounting Standards Board "FASB" issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments With Characteristics of both Liabilities and Equity", which establishes standards for how an issuer classifies and measures financial instruments characteristics of both liabilities and equity. With the exception of certain financial measurement criteria deferred indefinitely by the FASB, SFAS No. 150 was adopted in fiscal 2003. The implementation of SFAS No. 150 had no impact on the Company's financial condition or results of operations.

Forward-Looking Information

Certain information included in this report and other statements or materials published or to be published by the Company are not historical facts but are forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new and existing products, expectations for market segment and growth, and similar matters. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary remarks regarding important factors which, among others, could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performance, development, results of the Company's business, and the other matters referred to above include, but are not limited to: (i) changes in the business environment in which the Company operates, including inflation and interest rates; (ii) changes in taxes, governmental laws, and regulations; (iii) competitive product and pricing activity; (iv) difficulties of managing growth profitably; (v) claims development and the adequacy of our liability for unpaid loss and loss adjustment expenses; (vi) severity of natural disasters and other catastrophe losses; (vii) adequacy of reinsurance coverage which may be obtained by the Company; (viii) ability and willingness of our reinsurers to pay; and (ix) future terrorist attacks.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	As of December 31, 2003	2002
Assets		
Investments:		
Fixed Maturities Available for Sale at Market (Amortized Cost $1,066,523 and $832,701)	**$ 1,081,694**	$ 854,513
Equity Securities at Market (Cost $79,813 and $51,257)	**90,358**	54,346
Total Investments	**1,172,052**	908,859
Cash and Cash Equivalents	**73,942**	42,002
Accrued Investment Income	**11,008**	8,571
Premiums Receivable	**179,509**	130,007
Prepaid Reinsurance Premiums and Reinsurance Receivables	**292,157**	151,352
Deferred Income Taxes	**19,176**	7,541
Deferred Acquisition Costs	**56,288**	61,272
Property and Equipment, Net	**16,821**	12,794
Goodwill	**25,724**	25,724
Other Assets	**22,354**	10,212
Total Assets	**$ 1,869,031**	$ 1,358,334
Liabilities and Shareholder's Equity		
Policy Liabilities and Accruals:		
Unpaid Loss and Loss Adjustment Expenses	**$ 627,086**	$ 445,548
Unearned Premiums	**422,589**	306,093
Total Policy Liabilities and Accruals	**1,049,675**	751,641
Funds Held Payable to Reinsurer	**110,011**	—
Loans Payable	**48,482**	39,113
Premiums Payable	**35,044**	33,553
Other Liabilities	**82,083**	56,204
Total Liabilities	**1,325,295**	880,511
Commitments and Contingencies		
Shareholders' Equity:		
Preferred Stock, $.01 Par Value, 10,000,000 Shares Authorized, None Issued and Outstanding	**—**	—
Common Stock, No Par Value, 100,000,000 Shares Authorized, 22,007,552 and 21,868,877 Shares Issued and Outstanding	**281,088**	276,945
Notes Receivable from Shareholders	**(5,444)**	(6,407)
Accumulated Other Comprehensive Income	**16,715**	16,185
Retained Earnings	**251,377**	191,100
Total Shareholders' Equity	**543,736**	477,823
Total Liabilities and Shareholders' Equity	**$ 1,869,031**	$ 1,358,334

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In thousands, except share and per share data)	For the Years Ended December 31, 2003	2002	2001
Revenue:			
Net Earned Premiums	**$ 571,579**	$ 421,186	$ 296,093
Net Investment Income	**38,806**	37,516	32,426
Net Realized Investment Gain (Loss)	**794**	(3,371)	3,357
Other Income	**5,519**	911	587
Total Revenue	**616,698**	456,242	332,463
Losses and Expenses:			
Loss and Loss Adjustment Expenses	**469,547**	361,154	222,581
Net Reinsurance Recoveries	**(110,370)**	(93,721)	(42,926)
Net Loss and Loss Adjustment Expenses	**359,177**	267,433	179,655
Acquisition Costs and Other Underwriting Expense	**162,912**	129,918	97,020
Other Operating Expenses	**7,822**	6,372	6,841
Total Losses and Expenses	**529,911**	403,723	283,516
Minority Interest: Distributions on Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust	**—**	—	2,749
Income Before Income Taxes	**86,787**	52,519	46,198
Income Tax Expense (Benefit):			
Current	**38,430**	22,018	18,216
Deferred	**(11,920)**	(5,504)	(2,577)
Total Income Tax Expense	**26,510**	16,514	15,639
Net Income	**$ 60,277**	$ 36,005	$ 30,559
Other Comprehensive Income (Loss), Net of Tax:			
Holding Gain (Loss) Arising during Year	**$ 1,046**	$ 5,533	$ (2,851)
Reclassification Adjustment	**(516)**	2,191	(2,182)
Other Comprehensive Income (Loss)	**530**	7,724	(5,033)
Comprehensive Income	**$ 60,807**	$ 43,729	$ 25,526
Per Average Share Data:			
Basic Earnings Per Share	**$ 2.75**	$ 1.67	$ 1.85
Diluted Earnings Per Share	**$ 2.66**	$ 1.62	$ 1.78
Weighted-Average Common Shares Outstanding	**21,908,788**	21,611,053	16,528,601
Weighted-Average Share Equivalents Outstanding	**751,600**	682,382	656,075
Weighted-Average Shares and Share Equivalents Outstanding	**22,660,388**	22,293,435	17,184,676

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands, except share data)	For the Years Ended December 31, 2003	2002	2001
Common Shares:			
Balance at Beginning of Year	**21,868,877**	21,509,723	13,431,408
Issuance of Shares Pursuant to Public Offering	**—**	—	3,600,000
Issuance of Shares Pursuant to Stock Purchase Contracts	**—**	—	3,993,006
Exercise of Employee Stock Options	**99,875**	107,000	391,083
Issuance of Shares Pursuant to Stock Purchase Plans, net	**38,800**	252,154	94,226
Balance at End of Year	**22,007,552**	21,868,877	21,509,723
Treasury Shares:			
Balance at Beginning of Year	**—**	—	—
Exercise of Employee Stock Options	**(6,500)**	—	—
Issuance of Shares Pursuant to Stock Purchase Plans, net	**(3,500)**	(75,000)	—
Shares Repurchased Pursuant to Authorization	**10,000**	75,000	—
Balance at End of Year	**—**	—	—
Common Stock:			
Balance at Beginning of Year	**$ 276,945**	$ 268,509	$ 46,582
Issuance of Shares Pursuant to Public Offering	**—**	—	114,518
Issuance of Shares Pursuant to Stock Purchase Contracts	**—**	—	98,905
Exercise of Employee Stock Options	**2,852**	2,115	6,437
Issuance of Shares Pursuant to Stock Purchase Plans	**1,291**	6,321	2,067
Balance at End of Year	**281,088**	276,945	268,509
Notes Receivable from Shareholders:			
Balance at Beginning of Year	**(6,407)**	(3,373)	(2,287)
Notes Receivable Issued Pursuant to Employee Stock Purchase Plans	**(1,065)**	(4,017)	(2,158)
Collection of Notes Receivable	**2,028**	983	1,072
Balance at End of Year	**(5,444)**	(6,407)	(3,373)
Accumulated Other Comprehensive Income,			
Net of Deferred Income Taxes:			
Balance at Beginning of Year	**16,185**	8,461	13,494
Other Comprehensive Income (Loss), Net of Taxes	**530**	7,724	(5,033)
Balance at End of Year	**16,715**	16,185	8,461
Retained Earnings:			
Balance at Beginning of Year	**191,100**	155,095	124,536
Net Income	**60,277**	36,005	30,559
Balance at End of Year	**251,377**	191,100	155,095
Common Stock Held in Treasury:			
Balance at Beginning of Year	**—**	—	—
Common Shares Repurchased	**(300)**	(2,023)	—
Exercise of Employee Stock Options	**94**	—	—
Issuance of Shares Pursuant to Stock Purchase Plans	**206**	2,023	—
Balance at End of Year	**—**	—	—
Total Shareholders' Equity	**$ 543,736**	$ 477,823	$ 428,692

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31, 2003	2002	2001
Cash Flows from Operating Activities:			
Net Income	$ 60,277	$ 36,005	$ 30,559
Adjustments to Reconcile Net Income to Net			
Cash Provided by Operating Activities:			
Net Realized Investment (Gain) Loss	(794)	3,371	(3,357)
Depreciation and Amortization Expense	8,097	2,142	2,528
Deferred Income Tax Benefit	(11,920)	(5,504)	(2,577)
Change in Premiums Receivable	(49,502)	(33,982)	(26,648)
Change in Other Receivables	(143,242)	(53,740)	(26,944)
Change in Deferred Acquisition Costs	4,984	(19,746)	(8,202)
Change in Income Taxes Payable	513	367	(6,083)
Change in Other Assets	(11,782)	(2,438)	(840)
Change in Unpaid Loss and Loss Adjustment Expenses	181,538	142,815	65,239
Change in Unearned Premiums	116,496	108,254	52,355
Change in Funds Held Payable to Reinsurer	110,011	—	—
Change in Other Liabilities	32,958	26,173	13,320
Tax Benefit from Exercise of Employee Stock Options	889	1,251	25,799
Net Cash Provided by Operating Activities	298,523	204,968	115,149
Cash Flows from Investing Activities:			
Proceeds from Sales of Investments in Fixed Maturities	184,082	226,981	112,676
Proceeds from Maturity of Investments in Fixed Maturities	202,284	147,850	72,650
Proceeds from Sales of Investments in Equity Securities	23,992	18,546	20,864
Cost of Fixed Maturities Acquired	(628,879)	(576,564)	(424,852)
Cost of Equity Securities Acquired	(54,956)	(36,421)	(22,529)
Purchase of Property and Equipment, Net	(6,692)	(5,191)	(1,808)
Net Cash Used for Investing Activities	(280,169)	(224,799)	(242,999)
Cash Flows from Financing Activities:			
Net Proceeds from Public Offering of Common Stock	—	—	114,518
Proceeds from Loans Payable	62,340	9,923	31,341
Repayments on Loans Payable	(52,971)	(2,151)	(22,000)
Proceeds from Exercise of Employee Stock Options	2,057	864	3,041
Proceeds from Collection of Notes Receivable	2,028	983	1,072
Proceeds from Shares Issued Pursuant to Stock Purchase Plans	432	4,327	46
Cost of Common Stock Repurchased	(300)	(2,023)	—
Net Cash Provided by Financing Activities	13,586	11,923	128,018
Net Increase (Decrease) in Cash and Cash Equivalents	31,940	(7,908)	168
Cash and Cash Equivalents at Beginning of Year	42,002	49,910	49,742
Cash and Cash Equivalents at End of Year	$ 73,942	$ 42,002	$ 49,910
Cash Paid During the Year for:			
Income Taxes	$ 36,319	$ 20,110	$ 7,023
Interest	$ 638	$ 616	$ 689
Non-Cash Transactions:			
Issuance of Shares Pursuant to Employee Stock Purchase Plans in Exchange for Notes Receivable	$ 1,065	$ 4,017	$ 2,158

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

1 General Information and Significant Accounting Policies

Philadelphia Consolidated Holding Corp. ("Philadelphia Insurance"), and its subsidiaries (collectively the "Company") doing business as Philadelphia Insurance Companies, include four property and casualty insurance companies, Philadelphia Indemnity Insurance Company ("PIIC") and Philadelphia Insurance Company ("PIC"), which are domiciled in Pennsylvania; and Mobile USA Insurance Company ("MUSA") and Liberty American Insurance Company ("LAIC"), which are domiciled in Florida (collectively the "Insurance Subsidiaries"); an underwriting manager, Maguire Insurance Agency, Inc.; a managing general agency, Mobile Homeowners Insurance Agencies, Inc; a premium finance company Liberty American Premium Finance Company; and an investment subsidiary, PCHC Investment Corp. The Company designs, markets, and underwrites specialty commercial and personal property and casualty insurance products for select target industries or niches including, among others, nonprofit organizations; the health, fitness and wellness industry; select classes of professional liability; the rental car industry; automobile leasing industry; and personal property and casualty insurance products for the manufactured housing and homeowners markets. All marketing, underwriting, claims management, investment, and general administration is provided by the underwriting manager and managing general agency.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements requires making estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain prior years' amounts have been reclassified for comparative purposes.

(a) Investments

Fixed maturity investments, classified as Available for Sale, are carried at market value with the change in unrealized appreciation (depreciation) credited or charged directly to shareholders' equity, net of applicable deferred income taxes. Income on fixed maturities is recognized on the accrual basis.

The carrying amount for the Company's investments approximates their estimated fair value. The Company measures the fair value of investments based upon quoted market prices or by obtaining quotes from third party broker-dealers. Material assumptions and factors utilized by such broker-dealers in pricing these securities include: future cash flows, constant default rates, recovery rates and any market clearing activity that may have occurred since the prior month-end pricing period. The Company's total investments include $13.7 million in securities for which there is no readily available independent market price.

The decision to purchase or sell investments is based on management's assessment of various factors such as foreseeable economic conditions, including current interest rates and the interest rate risk, and the liquidity and capital positions of the Company.

Investments in fixed maturities are adjusted for amortization of premiums and accretion of discounts to maturity date, except for asset backed, mortgage pass-through and collateralized mortgage obligation securities which are adjusted for amortization of premiums and accretion of discounts over their estimated lives. Certain asset backed, mortgage pass-through and collateralized mortgage obligation security repayment patterns will change based on interest rate movements and, accordingly, could impact future investment income if the reinvestment of the repayment amounts are at lower interest rates than the underlying securities. Asset backed, mortgage pass-through and collateralized mortgage obligation securities amounted to $177.7 million, $162.5 million and $53.5 million, respectively, at December 31, 2003 and $200.0 million, $86.1 million and $90.7 million, respectively, at December 31, 2002. The asset backed, mortgage pass-through and collateralized mortgage obligation securities held as of December 31, 2003 and 2002 are shorter tranche securities possessing favorable prepayment risk profiles.

Equity securities are carried at market value with the change in unrealized appreciation (depreciation) credited or charged directly to shareholders' equity, net of applicable deferred income taxes.

Realized investment gains and losses are calculated on the specific identification basis and recorded as income when the securities are sold.

The Company regularly performs various analytical procedures with respect to its investments, including identifying any security whose fair value is below its cost. Upon identification of such securities, a detailed review is performed for all securities, except interests in securitized assets, meeting predetermined thresholds, to determine whether such decline is other than temporary. If the Company determines a decline in value to be other than temporary, the cost basis of the security is written down to its fair value with the amount of the write down included in earnings as a realized loss in the period the impairment arose. This evaluation resulted in non-cash realized investment losses of $1.0 million and $2.1 million for the years ended December 31, 2003 and December 31, 2002, respectively. No impairment losses were recorded for the year ended December 31, 2001.

Additionally, the Company's impairment evaluation and recognition for interests in securitized assets is conducted in accordance with the guidance provided by the Emerging Issues Task Force of the Financial Accounting Standards Board. Under this guidance, impairment losses on securities must be recognized if both the fair value of the security is less than its book value and the net present value of expected future cash flows is less than the net present value of expected future cash flows at the most recent (prior) estimation date. If these criteria are met, an impairment charge, calculated as the difference between the current book value of the security and its fair value, is included in earnings as a realized loss in the period the impairment arose. This re-evaluation resulted in non-cash realized investment losses of $9.3 million, $1.6 million and $5.8 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company held no derivative financial instruments, nor embedded financial derivatives, as of December 31, 2003 and 2002.

(b) Cash and Cash Equivalents

Cash equivalents, consisting of fixed maturity investments with maturities of three months or less when purchased and money market funds, are stated at market value.

(c) Deferred Acquisition Costs
Policy acquisition costs, which include commissions (net of ceding commissions), premium taxes, fees, and certain other costs of underwriting policies, are deferred and amortized over the same period in which the related premiums are earned. Deferred acquisition costs are limited to the estimated amounts recoverable from future income, including anticipated investment income, after providing for losses and expenses included in future income that are expected to be incurred, based upon historical and current experience. If such costs are estimated to be unrecoverable, they are expensed.

(d) Property and Equipment
Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Costs incurred in developing information systems technology are capitalized and included in property and equipment. These costs are amortized over their useful lives from the dates the systems technology becomes operational. Upon disposal of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in earnings. The carrying value of property and equipment is reviewed for recoverability including an evaluation of the estimated useful lives of such assets.

(e) Goodwill
The Company adopted the provisions of Statement of Financial Accounting Standards No. 142 (“SFAS No. 142”), “Goodwill and Other Intangible Assets” on January 1, 2002. SFAS No. 142 eliminates the practice of amortizing goodwill through periodic charges to earnings and establishes a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). As a result of the impairment analysis, no change in the carrying amount of goodwill, which arose from the purchase of Liberty, was recorded by the Company for the years ended December 31, 2003 and December 31, 2002, respectively. Goodwill amortization was $1.5 million for the year ended December 31, 2001.

(f) Liability for Unpaid Loss and Loss Adjustment Expenses
The liability for unpaid loss and loss adjustment expenses reflects the Company’s best estimate for future amounts needed to pay losses and related settlement expenses with respect to insured events. The process of establishing the ultimate claims liability is necessarily a complex imprecise process, requiring the use of informed estimates and judgments using data currently available. The liability includes an amount determined on the basis of claim adjusters’ evaluations with respect to insured events that have occurred and an amount for losses incurred that have not been reported to the Company. In some cases significant periods of time, up to several years or more, may elapse between the occurrence of an insured loss and the reporting of such to the Company. The method for determining the Company’s liability for unpaid loss and loss adjustment expenses includes, but is not limited to, reviewing past loss experience and considering other factors such as legal, social, and economic developments. The methods of making such estimates and establishing the resulting liabilities are regularly reviewed and updated and any adjustments therefrom are made in the accounting period in which the adjustment arose. If the Company’s ultimate losses, net of reinsurance, prove to differ substantially from the amounts recorded at December 31, 2003, the related adjustments could have a material adverse impact on the Company’s financial condition, and results of operations.

(g) Premiums
Premiums are generally earned on a pro rata basis over the terms of the policies. Premiums applicable to the unexpired terms of the policies in-force are reported as unearned premiums. The Company records an allowance for doubtful accounts for premiums receivable balances estimated to be uncollectible. At December 31, 2003 and 2002 the allowance for doubtful accounts amounted to $2.2 million and $1.7 million, respectively.

(h) Reinsurance Ceded
In the normal course of business, the Company seeks to reduce the loss that may arise from events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. At December 31, 2003 and 2002 the allowance for uncollectible reinsurance amounted to $1.2 million and $0, respectively. Amounts for reinsurance assets and liabilities are reported gross.

(i) Assessments
The Insurance Subsidiaries are subject to state guaranty fund assessments, which provide for the payment of covered claims or meet other insurance obligations from insurance company insolvencies, and other assessments related to its insurance activities. Each state has enacted legislation establishing guaranty funds and other insurance activity related assessments resulting in a variety of assessment methodologies. Expense for guaranty fund and insurance activity related assessments are recognized when it is probable that an assessment will be imposed, the obligatory event has occurred and the amount of the assessment is reasonably estimatable. As of December 31, 2003 and 2002, included in Other Liabilities in the Consolidated Balance Sheets were $10.3 million and $6.1 million, respectively, of liabilities for state guarantee fund and other assessments. As of December 31, 2003 and 2002, included in Other Assets were $0.1 million and $1.8 million, respectively, of related assets for premium tax offsets or policy surcharges. The related asset is limited to the amount that is determined based upon future premium collections or policy surcharges from policies in force.

(j) Income Taxes
The Company files a consolidated federal income tax return. Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date.

(k) Earnings Per Share
Basic earnings per share has been calculated by dividing net income by the weighted-average common shares outstanding. Diluted earnings per share has been calculated by dividing net income by the weighted-average common shares outstanding and the weighted-average share equivalents outstanding.

(l) Comprehensive Income
Components of comprehensive income, as detailed in the Consolidated Statements of Operations and Comprehensive Income, are net of tax. The related tax effect of Holding Gains (Losses) arising during the year was $0.6 million, $3.0 million and ($1.5) million in 2003, 2002 and 2001, respectively. The related tax effect of Reclassification Adjustments was $0.3 million, ($1.2) million, and $1.2 million in 2003, 2002 and 2001, respectively.

(m) Stock Based Compensation Plans

The Company continues to maintain its accounting for stock-based compensation in accordance with APB No. 25, but has adopted the disclosure provisions of SFAS No. 148. The following represents pro forma information as if the Company recorded compensation costs using the fair value of the issued compensation instruments (the results may not be indicative of the actual effect on net income in future years):

(In thousands, except per average common share data)	2003	2002	2001
Net Income As Reported	$ 60,277	$ 36,005	$ 30,559
Assumed Stock Compensation Cost	3,029	2,254	1,543
Pro Forma Net Income	$ 57,248	$ 33,751	$ 29,016
Diluted Earnings Per Average Common Share as Reported	$ 2.66	$ 1.62	$ 1.78
Pro Forma Diluted Earnings Per Average Common Share	$ 2.53	$ 1.51	$ 1.69

(n) New Accounting Pronouncements

FASB Interpretation 46 "Consolidation of Variable Interest Entities" was issued in January 2003 and is effective at various dates for various requirements. This interpretation addresses consolidation of variable interest entities (formerly known as special purpose entities). Management has determined that this interpretation will have no effect on the Company's consolidated financial statements.

In May 2003, the Financial Accounting Standards Board "FASB" issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments With Characteristics of both Liabilities and Equity", which establishes standards for how an issuer classifies and measures financial instruments characteristics of both liabilities and equity. With the exception of certain financial measurement criteria deferred indefinitely by the FASB, SFAS No. 150 was adopted in fiscal 2003. The implementation of SFAS No. 150 had no impact on the Company's financial condition or results of operations.

2 Statutory Information

Accounting Principles: GAAP differs in certain respects from Statutory Accounting Principles ("SAP") prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania and/or the State of Florida. The principal differences between SAP and GAAP are as follows:

- Under SAP, investments in debt securities are carried at amortized cost, while under GAAP, investments in debt securities classified as Available for Sale are carried at fair value.
- Under SAP, policy acquisition costs, such as commissions, premium taxes, fees, and other costs of underwriting policies are charged to current operations as incurred, while under GAAP, such costs are deferred and amortized on a pro rata basis over the period covered by the policy.
- Under SAP, certain assets, designated as "Non-admitted Assets" (such as prepaid expenses) are charged against surplus.
- Under SAP, net deferred income tax assets are admitted following the application of certain criteria, with the resulting admitted deferred tax amount being credited directly to policyholder surplus.
- Under SAP, premiums receivable are considered nonadmitted if determined to be uncollected based upon aging criteria as defined in SAP.
- Under SAP, the costs and related recoverables for guaranty funds and other assessments are recorded based on management's estimate of the ultimate liability and related recoverable settlement, while under GAAP, such costs are accrued when the liability is probable and reasonably estimatable and the related recoverable amount is based on future premium collections or policy surcharges from in-force policies.
- Under SAP, unpaid losses and loss adjustment expenses and unearned premiums are reported net of the effects of reinsurance transactions, whereas under GAAP, unpaid loss and loss adjustment expenses and unearned premiums are reported gross of reinsurance.

Financial Information: The combined statutory capital and surplus of the Insurance Subsidiaries as of December 31, 2003 and 2002 was $415.9 million and $312.6 million, respectively. Combined statutory net income for the years ended December 31, 2003, 2002 and 2001 was $49.9 million, $14.5 million, and $28.3 million, respectively. The Company made capital contributions of $47.0 million and $20.0 million to the Insurance Subsidiaries for the years ended December 31, 2003 and 2002, respectively.

Dividend Restrictions: The Insurance Subsidiaries are subject to various regulatory restrictions which limit the maximum amount of annual shareholder dividends allowed to be paid. The maximum dividend which the Insurance Subsidiaries may pay to Philadelphia Insurance during 2004 without prior approval is $50.7 million. Dividends paid for the years ended December 31, 2003 and 2002 were $4.0 million and $5.1 million, respectively.

Risk-Based Capital: Risk-based capital is a method developed by the National Association of Insurance Commissioners ("NAIC") designed to measure the acceptable amount of capital and surplus an insurer should have based on the inherent specific risks of each insurer. The adequacy of a company's actual capital and surplus is evaluated by a comparison to the risk-based capital results. Insurers failing to meet minimum risk-based capital requirements may be subject to scrutiny by the insurer's domiciliary insurance department and ultimately rehabilitation or liquidation. As of December 31, 2003, PIIC, PIC, MUSA and LAIC exceeded their minimum risk-based capital requirement of $107.6 million, $13.1 million, $15.3 million and $14.9 million, respectively, by 218%, 134%, 40% and 48%, respectively.

3 Investments

The Company invests primarily in investment grade fixed maturities which possessed an average quality rating of AA+ at December 31, 2003. The cost, gross unrealized gains and losses and estimated market value of investments as of December 31, 2003 and 2002 are as follows:

(In thousands)	Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value(2)
December 31, 2003				
Fixed Maturities:				
Available for Sale				
U.S. Treasury Securities and Obligations of				
U.S. Government Corporations and Agencies	**$ 51,480**	**$ 456**	**$ 18**	**$ 51,918**
Obligations of States and Political Subdivisions	**476,762**	**12,876**	**662**	**488,976**
Corporate and Bank Debt Securities	**142,264**	**5,558**	**768**	**147,054**
Asset Backed Securities	**183,065**	**2,688**	**8,078**	**177,675**
Mortgage Pass-Through Securities	**159,160**	**3,692**	**323**	**162,529**
Collateralized Mortgage Obligations	**53,792**	**454**	**704**	**53,542**
Total Fixed Maturities Available for Sale	**1,066,523**	**25,724**	**10,553**	**1,081,694**
Equity Securities	**79,813**	**12,148**	**1,603**	**90,358**
Total Investments	**$ 1,146,336**	**$ 37,872**	**$ 12,156**	**$ 1,172,052**
December 31, 2002				
Fixed Maturities:				
Available for Sale				
U.S. Treasury Securities and Obligations of				
U.S. Government Corporations and Agencies	$ 9,754	$ 433	$ 1	$ 10,186
Obligations of States and Political Subdivisions	279,397	10,600	7	289,990
Corporate and Bank Debt Securities	170,222	9,283	1,919	177,586
Asset Backed Securities	202,779	4,234	7,037	199,976
Mortgage Pass-Through Securities	81,360	4,726	-	86,086
Collateralized Mortgage Obligations	89,189	1,771	271	90,689
Total Fixed Maturities Available for Sale	832,701	31,047	9,235	854,513
Equity Securities	51,257	4,679	1,590	54,346
Total Investments	$ 883,958	$ 35,726	$ 10,825	$ 908,859

(1) Original cost of equity securities; original cost of fixed maturities adjusted for amortization of premiums and accretion of discounts. All amounts are shown net of impairment losses.
(2) Estimated market values have been based on quoted market prices or quotes from third party broker-dealers.

The following table identifies the period of time securities with an unrealized loss at December 31, 2003 have continuously been in an unrealized loss position. Included in the amounts displayed in the table are $6.5 million of unrealized losses due to non-investment grade fixed maturity securities having a fair value of $15.6 million. No issuer of securities or industry represents more than 4.4% and 15.5%, respectively, of the total estimated fair value, or 18.1% and 39.7%, respectively, of the total gross unrealized loss included in the table below. As previously discussed, there are certain risks and uncertainties inherent in the Company's impairment methodology, such as the financial condition of specific industry sectors and the resultant effect on underlying security collateral values. Should the Company subsequently determine a decline in the fair value below the cost basis to be other than temporary, the security would be written down to its fair value and the difference would be included in earnings as a realized loss for the period such determination was made.

	Less Than 12 Months		12 Months or More		Total	
(In thousands) **Fixed Maturity Available for Sale:**	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies	$ 1,948	$ 18	$ —	$ —	$ 1,948	$ 18
Obligations of States and Political Subdivisions	71,439	662	—	—	71,439	662
Corporate and Bank Debt Securities	26,781	333	1,670	435	28,451	768
Asset Backed Securities	28,671	494	24,344	7,584	53,015	8,078
Mortgage Pass-Through Securities	13,508	323	—	—	13,508	323
Collateralized Mortgage Obligations	29,467	546	933	158	30,400	704
Total Fixed Maturities Available for Sale	171,814	2,376	26,947	8,177	198,761	10,553
Equity Securities	6,778	1,603	—	—	6,778	1,603
Total Investments	$ 178,592	$ 3,979	$ 26,947	$ 8,177	$ 205,539	$ 12,156

Based upon the Company's impairment evaluation as of December 31, 2003, it was concluded that the remaining unrealized losses in the table above are not other than temporary.

During 2003 the Company's gross loss on the sale of fixed maturity and equity securities amounted to $0.7 million and $0.8 million, respectively. The fair value of the fixed maturity and equity securities at the time of sale was $20.1 million and $4.4 million, respectively. During 2002 the Company's gross loss on the sale of fixed maturity and equity securities amounted to $0.3 million and $3.2 million, respectively. The fair value of the fixed maturity and equity securities at the time of sale was $31.6 million and $14.1 million, respectively. The decision to sell these securities was based upon management's assessment of economic conditions.

The Company had no debt or equity investments in a single issuer totaling in excess of 10% of shareholders' equity at December 31, 2003.

The cost and estimated market value of fixed maturity securities at December 31, 2003, by remaining contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)	Cost[1]	Estimated Market Value[2]
Due in One Year or Less	$ 53,845	$ 54,545
Due After One Year Through Five Years	223,676	229,476
Due After Five Years Through Ten Years	177,412	182,132
Due After Ten Years	215,573	221,795
Asset Backed, Mortgage Pass-Through and Collateralized Mortgage Obligation Securities	396,017	393,746
	$ 1,066,523	$ 1,081,694

(1) Original cost adjusted for amortization of premiums and accretion of discounts. All amounts are shown net of impairment losses.
(2) Estimated market values have been based on quoted market prices or quotes from third party broker-dealers.

The sources of net investment income for the years ended December 31, 2003, 2002, and 2001 are as follows:

(In thousands)	2003	2002	2001
Fixed Maturities	$ 41,393	$ 37,959	$ 30,962
Equity Securities	1,373	706	1,343
Cash and Cash Equivalents	656	1,113	1,908
Total Investment Income	43,422	39,778	34,213
Fund Held Credit	(2,318)	—	—
Investment Expense	(2,298)	(2,262)	(1,787)
Net Investment Income	$ 38,806	$ 37,516	$ 32,426

There was one fixed maturity security with a carrying value of $0.6 million which was non-income producing for the year ended December 31, 2003. Investment expense includes $15,400, $77,000, and $107,000, in investment management fees paid to a director of the Company in 2003, 2002, and 2001, respectively. These transactions are in the ordinary course of business at negotiated prices comparable to those of transactions with other investment advisors.

Realized pre-tax gains (losses) on the sale of investments for the years ended December 31, 2003, 2002, and 2001 are as follows:

(In thousands)	2003	2002	2001
Fixed Maturities			
Gross Realized Gains	$ 7,832	$ 3,771	$ 5,023
Gross Realized Losses	(4,718)	(1,952)	(9,979)
Net Gain (Loss)	3,114	1,819	(4,956)
Equity Securities			
Gross Realized Gains	4,903	177	10,259
Gross Realized Losses	(7,223)	(5,367)	(1,946)
Net Gain (Loss)	(2,320)	(5,190)	8,313
Total Net Realized Investment Gain (Loss)	$ 794	$ (3,371)	$ 3,357

4 Restricted Assets

The Insurance Subsidiaries have investments, principally U.S. Treasury securities, on deposit with the various states in which they are licensed insurers. At December 31, 2003 and 2002, the carrying value of the securities on deposit totaled $15.5 million.

Additionally, the Insurance Subsidiaries have investments, principally asset backed securities, which collateralize the borrowings from the Federal Home Loan Bank of Pittsburgh, see Note 10. The carrying value of these investments was $59.1 million and $49.2 million as of December 31, 2003 and 2002, respectively.

5 Trust Accounts

The Company maintains investments in trust accounts under reinsurance agreements with unrelated insurance companies. These investments collateralize the Company's obligations under the reinsurance agreements. The Company possesses sole responsibility for investment and reinvestment of the trust account assets. All dividends, interest and other income, resulting from investment of these assets are distributed to the Company on a monthly basis. At December 31, 2003 and 2002 the carrying value of these trust fund investments were $1.7 million.

The Company's share of the investments in the trust accounts is included in investments and cash equivalents, as applicable, in the accompanying consolidated balance sheets.

6 Property and Equipment

The following table summarizes property and equipment at December 31, 2003 and 2002:

	December 31,		Estimated Useful
(In thousands)	2003	2002	Lives *(Years)*
Furniture, Fixtures and Automobiles	$ 5,225	$ 4,491	5
Software, Computer Hardware and Telephone Equipment	24,296	18,755	3 – 7
Land and Building	3,598	3,588	40
Leasehold Improvements	2,186	1,881	10 – 12
	35,305	28,715	
Accumulated Depreciation and Amortization	(18,484)	(15,921)	
Property and Equipment	$ 16,821	$ 12,794	

Included in property and equipment are costs incurred in developing or purchasing information systems technology of $13.3 million and $8.2 million in 2003 and 2002, respectively. At December 31, 2003, costs incurred for Property and Equipment not yet placed in service was $4.0 million. Amortization of these costs was $1.1 million, $1.0 million and $0.8 million for the years ended December 31, 2003, 2002 and 2001, respectively. Depreciation expense, excluding amortization of capitalized information systems technology costs, was $1.6 million, $1.5 million and $1.4 million, for the years ended December 31, 2003, 2002, and 2001, respectively.

7 Goodwill

The following table provides a reconciliation of the prior three year's ended December 31 reported net income to adjusted net income had SFAS No. 142 been applied at the beginning of fiscal 2001:

(In thousands, except per share amounts)	For the Years Ended December 31, 2003	2002	2001
Reported net income	$ 60,277	$ 36,005	$ 30,559
Adjustment for goodwill amortization	—	—	1,500
Adjusted net income	$ 60,277	$ 36,005	$ 32,059
Reported basic earnings per share	$ 2.75	$ 1.67	$ 1.85
Adjustment for goodwill amortization	—	—	0.09
Adjusted basic earnings per share	$ 2.75	$ 1.67	$ 1.94
Reported diluted earnings per share	$ 2.66	$ 1.62	$ 1.78
Adjustment for goodwill amortization	—	—	0.09
Adjusted diluted earnings per share	$ 2.66	$ 1.62	$ 1.87

8 Liability for Unpaid Loss and Loss Adjustment Expenses

Activity in the liability for Unpaid Loss and Loss Adjustment Expenses is summarized as follows:

(In thousands)	2003	2002	2001
Balance at January 1,	$ 445,548	$ 302,733	$ 237,494
Less Reinsurance Recoverables	85,837	52,599	42,030
Net Balance at January 1,	359,711	250,134	195,464
Incurred related to:			
Current Year	314,609	239,834	166,220
Prior Years	44,568	27,599	13,435
Total Incurred	359,177	267,433	179,655
Paid related to:			
Current Year	69,905	58,530	54,228
Prior Years	167,488	99,326	70,757
Total Paid	237,393	157,856	124,985
Net Balance at December 31,	481,495	359,711	250,134
Plus Reinsurance Recoverables	145,591	85,837	52,599
Balance at December 31,	$ 627,086	$ 445,548	$ 302,733

During 2003 the Company increased the liability for unpaid loss and loss adjustment expenses by $51.7 million ($44.6 million net of reinsurance recoverables), primarily for accident years 1997 through 2001. This increase in the liability for unpaid loss and loss adjustment expense, net of reinsurance recoverables, was primarily due to the following:

— The Company increased the estimated gross and net loss for unreported claims incurred and related claim adjustment expenses on residual value polices issued during the years 1998 through 2002 by $38.8 million. As of December 31, 2003 the Company's total liability for gross and net unpaid loss and loss adjustment expenses for these policies is estimated to be $30.3 million. The residual value policies provide coverage guaranteeing the value of a leased automobile at the lease termination, which can be up to five years from lease inception. The increase in the estimated gross and net loss was a result of:

- Adverse trends further deteriorating in both claims frequency and severity for leases expiring in 2003. During the second quarter of 2003, the Company engaged a consulting firm to aid in evaluating the ultimate potential loss exposure under these policies. Based upon the study and subsequent evaluation by the Company the Company changed its assumptions relating to future frequency and severity of losses, and increased the estimate for unpaid loss and loss adjustment expenses by $33.0 million. The Company primarily attributes this deterioration to the following factors that led to a softening of prices in the used car market subsequent to the September 11, 2001 terrorist attacks: prolonged 0% new car financing rates and other incentives which increased new car sales and the volume of trade-ins, daily rental units being sold into the market earlier and in greater numbers than expected, further adding to the over supply of used cars and the overall uncertain economic conditions.
- The Company entering into an agreement with U.S. Bank, N.A. d/b/a Firstar Bank ("Firstar") for residual value insurance policies purchased by Firstar. Under the terms of the agreement, the Company paid Firstar $27.5 million in satisfaction of any and all claims made or which could have been made by Firstar under the residual value policies. The Company increased the gross and net reserves for loss and loss adjustment expenses from $21.7 million to $27.5 million.

— The Company increased its estimate for unpaid loss and loss adjustment expenses for non residual value policies by $43.5 million ($30.8 million net of reinsurance recoverables) primarily for accident years 1999 to 2001 and decreased its estimate of the unpaid loss and loss adjustment expenses by $30.6 million ($25.0 million net of reinsurance recoverables) for the 2002 accident year. The increase in accident years 1999 to 2001 is principally attributable to:

- $19.6 million ($13.7 million net of reinsurance recoverables) of development in professional liability products as a result of case reserves developing greater than anticipated from the year-end 2002 ultimate loss estimate; $18.1 million ($11.1 million net of reinsurance recoverables) of development in the automobile and general liability coverages for commercial package products due to losses developing beyond the underlying pricing assumptions; and $5.8 million ($6.0 million net of reinsurance recoverables) of development in the commercial automobile excess liability insurance and GAP commercial automobile products due to losses developing beyond the underlying pricing assumptions.

— The decrease in unpaid loss and loss adjustment expenses in accident year 2002 is principally attributable to:

- $4.2 million ($4.7 million net of reinsurance recoverables) and $26.4 million ($20.3 million net of reinsurance recoverables) of favorable development in professional liability products and commercial package products, respectively, due to conservative initial loss estimates combined with favorable product pricing.

During 2002, the Company increased the estimated loss for unreported claims incurred and related claim adjustment expenses on residual value polices issued during the years 1998 through 2001 by $30.2 million ($20.7 million net of reinsurance). As of December 31, 2001 the Company had estimated a total liability for unpaid loss and loss adjustment expenses for these policies of $14.5 million ($8.7 million net of reinsurance recoverables). During 2002 adverse trends further deteriorated in both frequency and severity on leases expiring in 2002. As part of the Company's monitoring and evaluation process, consulting firms were engaged during the third quarter of 2002 to aid in evaluating this deterioration and the ultimate potential loss exposure under these policies. As a result of the indications and subsequent evaluation by the Company and changes in the Company's assumptions relating to future frequency and severity of losses, the estimate for unpaid loss and loss adjustment expenses was increased. The Company primarily attributes this deterioration to the following factors that led to a softening of prices in the used car market subsequent to the September 11, 2001 terrorist attacks: prolonged 0% new car financing rates and other incentives which increased new car sales and the volume of trade-ins, daily rental units being sold into the market earlier and in greater numbers than expected further adding to the over supply of used cars; and the overall uncertain economic conditions.

The Company also increased the liability for unpaid loss and loss adjustment expenses on the Commercial Automobile Excess Liability Insurance ("Excess Liability") product sold to rental car companies (Commercial Lines Underwriting Segment) primarily for the 2000 and 2001 accident years by $6.9 million ($4.9 million net of reinsurance). As of December 31, 2001 the Company had estimated a total liability for unpaid loss and loss adjustment expenses for the Excess Liability policies issued in these years of $23.0 million ($21.6 million net of reinsurance). Excess Liability provides automobile liability coverage in excess of the state mandated limits which are provided by the rental car company. During the third quarter of 2002, pursuant to a routine underwriting review focusing on price adequacy and loss experience, the Company non-renewed a significant Excess Liability customer as a result of an unacceptable underwriting risk profile. This adverse loss development was primarily due to pricing inadequacy and the adverse loss experience of this customer. Additionally, the Company has experienced a delay in both the reporting of claims and the claim litigation discovery process as a result of this policyholder and another Excess Liability policyholder filing for Chapter 11 during the third quarter 2002 and fourth quarter 2001, respectively.

During 2001, as a result of changes in estimates of insured events in prior years, the Company increased losses and loss adjustment expenses incurred by $13.4 million. Such development was primarily due to losses emerging at a higher rate on automobile leases expiring in 2001 on residual value policies underwritten in prior years than had been originally anticipated when the initial reserves were estimated.

9 Funds Held Payable to Reinsurer

Effective April 1, 2003, the Company entered into a quota share reinsurance agreement covering all of the Company's lines of business. Under this agreement, the Company cedes 22% of its net written premium (including 22% of net unearned premium reserves at April 1, 2003) and loss and loss adjustment expenses. The Company also receives a provisional commission of 33.0% adjusted pro-rata based upon the ratio of losses incurred to premiums earned. Pursuant to this reinsurance agreement the Company withholds the reinsurance premium due the reinsurers reduced by the reinsurers' expense allowance, and the Company's ceding commission allowance in a Funds Held Payable to Reinsurer account. This Funds Held Payable to Reinsurer account is also reduced by ceded paid losses and loss adjustment expenses under this agreement, and increased by an interest credit. The interest credit (expense), which is included in net investment income, was $2.3 million for the year ended December 31, 2003.

10 Loans Payable

The Company had aggregate borrowings of $48.5 million and $39.1 million as of December 31, 2003 and 2002, respectively, from the Federal Home Loan Bank of Pittsburgh. These borrowings bear interest at adjusted LIBOR and mature twelve months from inception. The proceeds from these borrowings were invested in asset backed securities and collateralized mortgage obligations to achieve a positive spread between the rate of interest on these securities and the borrowing rates. The weighted-average interest rate on borrowings outstanding as of December 31, 2003 was 1.23%.

In November 2000 the Company, pursuant to a Board of Directors authorization, entered into an unsecured revolving credit facility for aggregate borrowings of up to $22.0 million at any one time outstanding with a maturity date of 364 days after closing. During 2000, $22.0 million of the facility was utilized by the Company to pay a withholding tax liability as a result of the CEO electing to have shares otherwise issuable withheld in satisfaction of the minimum withholding tax attributable to the exercise of stock options. Borrowings under the facility bore interest at adjusted LIBOR and unused commitments under the facility were subject to a fee of 20 basis points per annum. Interest expense amounted to $0.1 million and $0.2 million for the years ended December 31, 2001 and 2000, respectively. During the first quarter 2001 the Company repaid all aggregate borrowings and cancelled the commitment under this revolving credit facility.

11 Income Taxes

The composition of deferred tax assets and liabilities and the related tax effects as of December 31, 2003 and 2002 are as follows:

(In thousands)	December 31, 2003	2002
Assets:		
Excess of Tax Over Financial Reporting Earned Premium	$ 21,142	$ 18,838
Loss Reserve Discounting	19,868	16,461
Excess of Financial Reporting Over Tax Net Realized Investment Losses	6,720	3,315
Deferred Compensation	471	282
Other Assets	1,695	345
Total Assets	49,896	39,241
Liabilities:		
Deferred Acquisition Costs	19,701	21,445
Unrealized Appreciation of Securities	9,001	8,715
Property and Equipment Basis	985	803
Excess of Financial Reporting Over Tax Net Investment Income	892	624
Other Liabilities	141	113
Total Liabilities	30,720	31,700
Net Deferred Income Tax Asset	$ 19,176	$ 7,541

The following table summarizes the differences between the Company's effective tax rate for financial statement purposes and the federal statutory rate:

(Dollars in thousands)	Amount of Tax	Percent
For the year ended December 31, 2003:		
Federal Tax at Statutory Rate	$ 30,375	35%
Nontaxable Municipal Bond Interest and Dividends Received Exclusion	(4,522)	(5)
Other, Net	657	1
Income Tax Expense	$ 26,510	31%
For the year ended December 31, 2002:		
Federal Tax at Statutory Rate	$ 18,382	35%
Nontaxable Municipal Bond Interest and Dividends Received Exclusion	(2,525)	(5)
Other, Net	657	1
Income Tax Expense	$ 16,514	31%
For the year ended December 31, 2001:		
Federal Tax at Statutory Rate	$ 16,169	35%
Nontaxable Municipal Bond Interest and Dividends Received Exclusion	(1,456)	(3)
Nondeductible Goodwill Amortization	523	1
Other, Net	403	1
Income Tax Expense	$ 15,639	34%

Philadelphia Insurance has entered into tax sharing agreements with each of its subsidiaries. Under the terms of these agreements, the income tax provision is computed as if each subsidiary were filing a separate federal income tax return, including adjustments for the income tax effects of net operating losses and other special tax attributes, regardless of whether those attributes are utilized in the Company's consolidated federal income tax return.

12 Minority Interest in Consolidated Subsidiaries

During 1998, the Company issued 10.350 million FELINE PRIDES℠ at $10.00 per security and PCHC Financing I, the Company's business trust subsidiary, issued 1,000,000 7.0% Trust Originated Preferred Securities with a stated liquidation amount per trust preferred security equal to $10.00. The 10.350 million FELINE PRIDES℠ consisted of 9.350 million units referred to as Income Prides and 1.000 million units referred to as Growth Prides. Each Income Prides consisted of a unit comprised of (a) a purchase contract under which the holder purchased a number of shares of Philadelphia Consolidated Holding Corp. common stock on May 16, 2001 (equal to .3858 shares per FELINE PRIDES℠) under the terms specified in the stock purchase contract and (b) beneficial ownership of a 7.0% Trust Originated Preferred Security issued by PCHC Financing I and representing an undivided beneficial ownership in the assets of PCHC Financing I. Each holder received aggregate cumulative cash distributions at the annual rate of 7.00% of the $10.00 stated amount for the security, payable quarterly in arrears. Each Growth Prides consisted of a unit with a face amount of $10.00 comprised of (a) a purchase contract under which (i) the holder purchased a number of shares of Philadelphia Consolidated Holding Corp. common stock on May 16, 2001 (equal to .3858 shares per FELINE PRIDES℠) under the terms specified in the stock purchase contract and (ii) the Company paid the holder contract adjustment payments at the rate of .50% of the stated amount per annum and (b) a 1/100 undivided beneficial ownership interest in a treasury security having a principal amount at maturity equal to $1,000 and maturing on May 15, 2001.

On May 16, 2001, the Company issued 4.0 million common shares to satisfy the stock purchase contract obligation from the Company's 1998 FELINE PRIDES℠ offering. The issuance of such shares resulted in a $98.9 million increase in Shareholders' Equity and a corresponding decrease in the Minority Interest In Consolidated Subsidiaries balance.

13 Shareholders' Equity

Basic and diluted earnings per share are calculated as follows:

(Dollars and share data in thousands, except per share data)	As of and For the Years Ended December 31, 2003	2002	2001
Weighted-Average Common Shares Outstanding	21,909	21,611	16,529
Weighted-Average Share Equivalents Outstanding	751	682	656
Weighted-Average Shares and Share Equivalents Outstanding	22,660	22,293	17,185
Net Income	$ 60,277	$ 36,005	$ 30,559
Basic Earnings Per Share	$ 2.75	$ 1.67	$ 1.85
Diluted Earnings Per Share	$ 2.66	$ 1.62	$ 1.78

The number of weighted share equivalents not included in the weighted-average share equivalents outstanding calculation amounted to 2,730, 9,620 and 122 for the years ended December 31, 2003, 2002 and 2001, respectively.

During the fourth quarter of 2001, the Company closed on its public offering of an aggregate of 3.6 million shares of its common stock. Proceeds from the offering amounted to $114.5 million (after underwriting and associated costs). The Company contributed $70.0 million of the net proceeds to its subsidiaries in 2001, of which $60.0 million was contributed to the Insurance Subsidiaries. The remaining proceeds are presently being held for general corporate purposes.

Under the Company's stock option plan, stock options may be granted for the purchase of common stock at a price not less than the fair market value on the date of grant. Options are primarily exercisable after the expiration of five years following the grant date. Under this plan, as amended, the Company has reserved 3,500,000 shares of common stock for issuance pursuant to options granted under the plan. As of December 31, 2003, 119,725 shares of common stock remain reserved for future issuance pursuant to options granted under this plan.

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure ("SFAS No. 148") which amends SFAS Statement No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123"). The objective of SFAS No. 148 is to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 does not change the provisions of SFAS No. 123 that permit entities to continue to apply the intrinsic value method of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"). In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company continues to maintain its accounting for stock-based compensation in accordance with APB No. 25, but has adopted the disclosure provisions of SFAS No. 148.

The following table presents certain information regarding the Company's stock option plan.

	2003		2002		2001	
	Options	Exercise Price Per Option(1)	Options	Exercise Price Per Option(1)	Options	Exercise Price Per Option(1)
Outstanding at beginning of year	1,890,075	$ 24.82	1,453,075	$ 19.32	1,330,075	$ 12.68
Granted	484,000	$ 36.60	549,500	$ 36.14	572,500	$ 27.09
Exercised	(106,375)	$ 19.34	(107,000)	$ 8.07	(392,000)	$ 8.09
Canceled	(33,000)	$ 30.68	(5,500)	$ 29.60	(57,500)	$ 19.68
Outstanding at end of year	2,234,700	$ 27.55	1,890,075	$ 24.82	1,453,075	$ 19.32
Exercisable at end of year	323,200		194,950		296,950	
Weighted-average fair value of options granted during the year(2)		$ 11.27		$ 14.46		$ 10.99

Range of Exercise Prices	Outstanding December 31, 2003	Exercise Price Per Option(1)	Remaining Contractual Life *(Years)*(1)	Exercisable at December 31, 2002	Exercise Price Per Option(1)
$8.13 to $9.31	188,450	$ 8.99	2.4	188,450	$ 8.99
$13.88 to $19.75	390,000	$ 15.47	5.6	90,000	$ 18.63
$20.50 to $27.00	531,250	$ 25.23	6.9	3,750	$ 21.96
$27.31 to $34.63	397,500	$ 30.60	8.6	41,000	$ 29.80
$36.05 to $42.49	727,500	$ 39.15	9.0	—	$ —
	2,234,700	$ 27.55		323,200	$ 14.46

(1) Weighted Average.
(2) The Company uses the Black-Scholes pricing model to calculate the fair value of the options awarded as of the date of grant.

The Company has established the following stock purchase plans:

Employee Stock Purchase Plan (the "Stock Purchase Plan"): The aggregate maximum number of shares that may be issued pursuant to the Stock Purchase Plan as amended is 1,000,000. Shares may be purchased under the Stock Purchase Plan by eligible employees during designated one-month offering periods established by the Compensation Committee of the Board of Directors at a purchase price of the lesser of 85% of the fair market value of the shares on the first business day of the offering period or the date the shares are purchased. The purchase price of shares may be paid by the employee over six years pursuant to the execution of a promissory note. The promissory note(s) are collateralized by such shares purchased under the Stock Purchase Plan and are interest free. Under the Stock Purchase Plan, the Company issued 36,265 and 77,730 shares in 2003 and 2002, respectively. The weighted-average fair value of those purchase rights granted in 2003 and 2002 was $6.00 and $4.47, respectively.

The Nonqualified Employee Stock Purchase Plan (the "Nonqualified Stock Plan"): The aggregate maximum number of shares that may be issued pursuant to the Nonqualified Stock Plan is 1,000,000. Shares may be purchased under the Nonqualified Stock Plan by eligible employees during designated one-month offering periods established by the Compensation Committee of the Board of Directors at a purchase price of the lesser of 85% of the fair market value of the shares on the first business day of the offering period or the date the shares are purchased. The purchase price of shares may be paid by the employee over nine years pursuant to the execution of a promissory note. The promissory note(s) are collateralized by such shares purchased under the Nonqualified Stock Plan and are interest free. Under the Nonqualified Stock Plan, the Company issued 5,939 and 242,444 shares in 2003 and 2002, respectively. The weighted-average fair value of those purchase rights granted in 2003 and 2002 was $6.00 and $4.47, respectively.

Directors Stock Purchase Plan ("Directors Plan"): The Directors Plan has been established for the benefit of non-employee Directors. The aggregate maximum number of shares that may be issued pursuant to the Directors Plan is 50,000. Non-employee Directors, during monthly offerings periods, may designate a portion of his or her fees to be used for the purchase of shares under the terms of the Directors Plan at a purchase price of the lesser of 85% of the fair market value of the shares on the first business day of the offering period or the date the shares are purchased. Under the Directors Plan, the Company issued 3,325 and 2,237 shares in 2003 and 2002, respectively. The weighted-average fair value of those purchase rights granted in 2003 and 2002 was $5.96 and $5.63, respectively.

Preferred Agents Stock Purchase Plan ("Preferred Agents Plan"): The Preferred Agents Plan has been established for the benefit of eligible Preferred Agents. The aggregate maximum number of shares that may be issued pursuant to the Preferred Agents Plan is 200,000. Eligible Preferred Agents during designated offering periods may either remit cash or have the Company withhold from commissions or other compensation amounts to be used for the purchase of shares under the terms of the Preferred Agents Plan at a purchase price of the lesser of 85% of the fair market value of the shares on the first business day of the offering period or the date the shares are purchased. Under the Preferred Agents Plan, the Company issued 7,056 and 10,966 shares in 2003 and 2002, respectively. The weighted-average fair value of those purchase rights granted in 2003 and 2002 was $6.00 and $6.07, respectively.

The fair value of options at date of grant was estimated using the Black-Scholes valuation model with the following weighted-average assumptions:

	2003	2002	2001
Expected Stock Volatility	23.2%	33.0%	32.0%
Risk-Free Interest Rate	3.1%	4.1%	4.7%
Expected Option Life (Years)	6.0	6.0	6.0
Expected Dividends	0.0%	0.0%	0.0%

14 Stock Repurchase Authorization

During the three years ended December 31, 2003, the Company repurchased 0.1 million shares for approximately $2.5 million under its stock repurchase authorization. At December 31, 2003, $24.7 million remains under a $55.0 million stock purchase authorization.

15 Reinsurance

In the normal course of business, the Company has entered into various reinsurance contracts with unrelated reinsurers. The Company participates in such agreements for the purpose of limiting loss exposure and diversifying business. Reinsurance contracts do not relieve the Company from its obligation to policyholders.

The loss and loss adjustment expense reserves ceded under such arrangements were $145.6 million and $85.8 million at December 31, 2003 and 2002, respectively. The Company evaluates the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies. The percentage of ceded reinsurance reserves (excluding reserves ceded to voluntary and mandatory pool mechanisms) that are with companies rated "A" (Excellent) or better by A.M. Best Company is 99.3% and 97.0% as of December 31, 2003 and 2002, respectively. Additionally, approximately 1%, 1% and 3% of the Company's net written premiums for the years ended December 31, 2003, 2002, and 2001, respectively, were assumed from an unrelated reinsurance company.

The effect of reinsurance on premiums written and earned is as follows:

(In thousands)	Written	Earned
For the Year Ended December 31, 2003:		
Direct Business	**$ 898,170**	**$ 784,445**
Reinsurance Assumed	**7,823**	**5,053**
Reinsurance Ceded	**306,632**	**217,919**
Net Premiums	**$ 599,361**	**$ 571,579**
Percentage Assumed of Net	**1.3%**	**0.9%**
For the Year Ended December 31, 2002:		
Direct Business	$ 660,789	$ 550,443
Reinsurance Assumed	2,950	5,042
Reinsurance Ceded	140,568	134,299
Net Premiums	$ 523,171	$ 421,186
Percentage Assumed of Net	0.6%	1.2%
For the Year Ended December 31, 2001:		
Direct Business	$ 464,491	$ 409,814
Reinsurance Assumed	9,074	11,249
Reinsurance Ceded	139,748	124,970
Net Premiums	$ 333,817	$ 296,093
Percentage Assumed of Net	2.7%	3.8%

16 Compensation Plans

The Company has a defined contribution Profit Sharing Plan, which includes a 401K feature, covering substantially all employees. Under the plan, employees may contribute up to an annual maximum of the lesser of 15% of eligible compensation or the applicable Internal Revenue Code limit in a calendar year. The Company makes a matching contribution in an amount equal to 75% of the participant's pre-tax contribution, subject to a maximum of 6% of the participant's eligible compensation. The Company may also make annual discretionary profit sharing contributions at each plan year end. Participants are fully vested in the Company's contribution upon completion of four years of service. The Company's total contributions to the plan were $0.9 million, $0.8 million and $0.6 million in 2003, 2002, and 2001, respectively.

The Company sponsors an unfunded nonqualified key employee deferred compensation plan. Under the plan deferred compensation benefits are provided through deferrals of base salary and bonus compensation ("Employee Deferrals") and discretionary contributions by the Company ("Employer Contributions") for a select group of management and highly compensated employees of the Company and its subsidiaries. Each participant is permitted to specify an investment or investments from among permissible investments which shall be the basis for determining the gain or loss adjustment applicable to such participant's plan deferral account. A participant's interest in the portion of his or her plan deferral account that is attributable to Employee Deferrals are fully vested at all times. That portion of a participant's plan deferral account attributable to Employer Contributions generally will vest over the course of a five year period beginning on the last day of the first year after the plan year for which the Employer Contribution was made. The amounts in each participant's plan deferral account represent an obligation of the Company to pay the participant at some time in the future. The Company had a deferred compensation obligation pursuant to the plan amounting to $1.8 million and $0.7 million as of December 31, 2003 and 2002, respectively.

The Company also sponsors an unfunded nonqualified executive deferred compensation plan. Under the plan deferred compensation benefits are provided by the Company through deferrals of base salary and bonus compensation for management and highly compensated executives designated by the Board of Directors. Each participant is permitted to specify an investment or investments from among permissible investments which shall be the basis for determining the gain or loss adjustment applicable to such participant's plan deferral account. A participant's benefit under the plan is the amount of such participant's plan deferral amount. The Company had a deferred compensation obligation pursuant to the plan amounting to $0.8 million and $0.5 million as of December 31, 2003 and 2002, respectively.

17 Commitments and Contingencies

The Company is subject to routine legal proceedings in connection with its property and casualty insurance business. The Company also is not involved in any pending or threatened legal or administrative proceedings which management believes can reasonably be expected to have a material adverse effect on the Company's financial condition or results of operations.

The Company currently leases office space to serve as its headquarters location and 36 field offices for its production underwriters. In addition, the Company leases certain computer equipment. Rental expense for these operating leases was $3.5 million, $3.1 million and $2.6 million for the years ended December 31, 2003, 2002, and 2001, respectively.

The future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2003 were as follows:

(In thousands)	
Year Ending December 31:	
2004	$ 4,611
2005	4,307
2006	3,952
2007	3,494
2008 and Thereafter	1,238
Total Minimum Payments Required	$ 17,602

At December 31, 2003 the Company has open commitments of $2.3 million under certain limited partnership and information technology development agreements.

18 Summary of Quarterly Financial Information — Unaudited

The following quarterly financial information for each of the three months ended March 31, June 30, September 30 and December 31, 2003 and 2002 is unaudited. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the results of operations for such periods, have been made for a fair presentation of the results shown:

in thousands, except share and per share data	Three Months Ended March 31, 2003(1)	June 30, 2003(1)	September 30, 2003(1)	December 31, 2003(1)(2)
Net Earned Premiums	$ 148,362	$ 121,449	$ 142,688	$ 159,080
Net Investment Income	$ 9,805	$ 9,370	$ 9,173	$ 10,458
Net Realized Investment Gain (Loss)	$ (1,133)	$ (650)	$ 474	$ 2,103
Net Loss and Loss Adjustment Expenses	$ 90,360	$ 93,026	$ 79,405	$ 96,386
Acquisition Costs and Other Underwriting Expenses	$ 46,420	$ 32,158	$ 41,542	$ 42,792
Net Income	$ 13,233	$ 3,627	$ 20,983	$ 22,434
Basic Earnings Per Share	$ 0.61	$ 0.17	$ 0.96	$ 1.02
Diluted Earnings Per Share	$ 0.59	$ 0.16	$ 0.92	$ 0.98
Weighted-Average Common Shares Outstanding	21,865,269	21,860,396	21,913,053	21,994,960
Weighted-Average Share Equivalents Outstanding	562,552	706,608	787,627	981,017
Weighted-Average Shares and Share Equivalents Outstanding	22,427,821	22,567,004	22,700,680	22,975,977

	March 31, 2002(4)	June 30, 2002(3)(4)	September 30, 2002(4)	December 31, 2002(4)
Net Earned Premiums	$ 89,244	$ 100,273	$ 106,146	$ 125,523
Net Investment Income	$ 8,855	$ 9,375	$ 9,497	$ 9,789
Net Realized Investment Gain (Loss)	$ 47	$ (3,181)	$ 199	$ (436)
Net Loss and Loss Adjustment Expenses	$ 53,049	$ 60,832	$ 78,349	$ 75,203
Acquisition Costs and Other Underwriting Expenses	$ 27,821	$ 31,057	$ 32,343	$ 38,697
Net Income	$ 10,677	$ 8,953	$ 2,892	$ 13,483
Basic Earnings Per Share	$ 0.50	$ 0.41	$ 0.13	$ 0.62
Diluted Earnings Per Share	$ 0.48	$ 0.40	$ 0.13	$ 0.61
Weighted-Average Common Shares Outstanding	21,528,091	21,578,045	21,625,799	21,710,121
Weighted-Average Share Equivalents Outstanding	724,311	753,575	636,828	558,100
Weighted-Average Shares and Share Equivalents Outstanding	22,252,402	22,331,620	22,262,627	22,268,221

(1) Net Realized Investment (Gain) Loss for the three months ended March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003 includes non-cash realized losses of $1.5 million, $1.7 million, $0.4 million and $6.7 million, respectively, as a result of impairment evaluations.
(2 During the three months ended December 31, 2003, the Company recorded a benefit pursuant to the 2003 accident year quota share reinsurance agreement. Consequently, net earned premiums and net income increased by $7.5 million and $4.9 million, respectively.
(3) During the three months ended June 30, 2002, a 2001 accident year aggregate stop loss reinsurance program was commuted. As a result of this commutation, net earned premiums and net income increased by $3.6 million and $2.3 million, respectively.
(4) Net Realized Investment Gain (Loss) for the three months ended June 30, 2002, September 30, 2002 and December 31, 2002 includes non-cash realized losses of $1.2 million, $0.3 million, and $2.2 million, respectively, as a result of impairment evaluations.

19 Segment Information

The Company's operations are classified into three reportable business segments which are organized around its three underwriting divisions: The Commercial Lines Underwriting Group which has underwriting responsibility for the Commercial Automobile and Commercial Property and Commercial multi-peril package insurance products; The Specialty Lines Underwriting Group which has underwriting responsibility for the professional liability insurance products; and The Personal Lines Group which designs, markets and underwrites personal property and casualty insurance products for the Manufactured Housing and Homeowners markets. Each business segment's responsibilities include: pricing, managing the risk selection process, and monitoring the loss ratios by product and insured. The reportable segments operate solely within the United States and have not been aggregated. The segments follow the same accounting policies used for the Company's consolidated financial statements as described in the summary of significant accounting policies. Management evaluates a segment's performance based upon premium production and the associated loss experience which includes paid losses, an amount determined on the basis of claim adjusters' evaluation with respect to insured events that have occurred and an amount for losses incurred that have not been reported. Investments and investment performance including investment income and net realized investment gain (loss); acquisition costs and other underwriting expenses including commissions, premium taxes and other acquisition costs; and other operating expenses are managed at a corporate level by the corporate accounting function in conjunction with other corporate departments and are included in "Corporate".

Following is a tabulation of business segment information for each of the past three years. Corporate information is included to reconcile segment data to the consolidated financial statements:

(In thousands)	Commercial Lines	Specialty Lines	Personal Lines	Corporate	Total
2003:					
Gross Written Premiums	**$ 662,339**	**$ 154,105**	**$ 89,549**	**$ —**	**$ 905,993**
Net Written Premiums	**$ 460,382**	**$ 108,308**	**$ 30,671**	**$ —**	**$ 599,361**
Revenue:					
Net Earned Premiums	**$ 428,063**	**$ 109,206**	**$ 34,310**	**$ —**	**$ 571,579**
Net Investment Income	**—**	**—**	**—**	**38,806**	**38,806**
Net Realized Investment Gain	**—**	**—**	**—**	**794**	**794**
Other Income	**—**	**—**	**5,092**	**427**	**5,519**
Total Revenue	**428,063**	**109,206**	**39,402**	**40,027**	**616,698**
Losses and Expenses:					
Net Loss and Loss Adjustment Expenses	**273,487**	**65,075**	**20,615**	**—**	**359,177**
Acquisition Costs and Other Underwriting Expenses	**—**	**—**	**—**	**162,912**	**162,912**
Other Operating Expenses	**—**	**—**	**4,050**	**3,772**	**7,822**
Total Losses and Expenses	**273,487**	**65,075**	**24,665**	**166,684**	**529,911**
Income Before Income Taxes	**154,576**	**44,131**	**14,737**	**(126,657)**	**86,787**
Total Income Tax Expense	**—**	**—**	**—**	**26,510**	**26,510**
Net Income	**$ 154,576**	**$ 44,131**	**$ 14,737**	**$ (153,167)**	**$ 60,277**
Total Assets	**$ —**	**$ —**	**$ 148,486**	**$ 1,720,545**	**$ 1,869,031**
2002:					
Gross Written Premiums	$ 473,100	$ 110,176	$ 80,463	$ —	$ 663,739
Net Written Premiums	$ 383,255	$ 102,423	$ 37,493	$ —	$ 523,171
Revenue:					
Net Earned Premiums	$ 299,899	$ 85,830	$ 35,457	$ —	$ 421,186
Net Investment Income	—	—	—	37,516	37,516
Net Realized Investment Loss	—	—	—	(3,371)	(3,371)
Other Income	—	—	645	266	911
Total Revenue	299,899	85,830	36,102	34,411	456,242
Losses and Expenses:					
Net Loss and Loss Adjustment Expenses	202,604	43,310	21,519	—	267,433
Acquisition Costs and Other Underwriting Expenses	—	—	—	129,918	129,918
Other Operating Expenses	—	—	130	6,242	6,372
Total Losses and Expenses	202,604	43,310	21,649	136,160	403,723
Income Before Income Taxes	97,295	42,520	14,453	(101,749)	52,519
Total Income Tax Expense	—	—	—	16,514	16,514
Net Income	$ 97,295	$ 42,520	$ 14,453	$ (118,263)	$ 36,005
Total Assets	$ —	$ —	$ 135,753	$ 1,222,581	$ 1,358,334
2001:					
Gross Written Premiums	$ 315,948	$ 79,317	$ 78,300	$ —	$ 473,565
Net Written Premiums	$ 223,700	$ 69,772	$ 40,345	$ —	$ 333,817
Revenue:					
Net Earned Premiums	$ 189,835	$ 68,156	$ 38,102	$ —	$ 296,093
Net Investment Income	—	—	—	32,426	32,426
Net Realized Investment Gain	—	—	—	3,357	3,357
Other Income	—	—	2,964	(2,377)	587
Total Revenue	189,835	68,156	41,066	33,406	332,463
Losses and Expenses:					
Net Loss and Loss Adjustment Expenses	117,429	42,840	19,386	—	179,655
Acquisition Costs and Other Underwriting Expenses	—	—	—	97,020	97,020
Other Operating Expenses	—	—	1,546	5,295	6,841
Total Losses and Expenses	117,429	42,840	20,932	102,315	283,516
Minority Interest: Distributions on Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust	—	—	—	2,749	2,749
Income Before Income Taxes	72,406	25,316	20,134	(71,658)	46,198
Total Income Tax Expense	—	—	—	15,639	15,639
Net Income	$ 72,406	$ 25,316	$ 20,134	$ (87,297)	$ 30,559
Total Assets	$ —	$ —	$ 167,940	$ 849,782	$ 1,017,722

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Philadelphia Consolidated Holding Corp.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Philadelphia Consolidated Holding Corp. and Subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill to conform with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, PA
February 11, 2004

Market and Dividend Information for Common Stock

The Company's common stock, no par value, trades on The Nasdaq Stock Market under the symbol "PHLY". As of February 24, 2004, there were 482 holders of record and 2,828 beneficial shareholders of the Company's common stock. The high and low sales prices of the common stock, as reported by the National Association of Securities Dealers, were as follows:

	2003		2002	
Quarter	High	Low	High	Low
First	38.700	28.571	42.750	35.230
Second	41.050	35.550	48.150	39.610
Third	46.270	38.000	46.000	29.000
Fourth	52.730	45.000	38.100	26.240

The Company did not declare cash dividends on its common stock in 2003 or 2002, and currently intends to retain its earnings to enhance future growth. Any future payment of dividends by the Company will be determined by the Board of Directors and will be based on general business conditions and legal and regulatory restrictions.

As a holding company, the Company is dependent upon dividends and other permitted payments from its subsidiaries to pay any cash dividends to its shareholders. The ability of the Company's insurance subsidiaries to pay dividends to the Company is subject to regulatory limitations (see Note 2 to the Consolidated Financial Statements).

During the three years ended December 31, 2003, the Company did not sell any of its securities which were not registered under the Securities Act of 1933.

Subsidiaries

Philadelphia Indemnity Insurance Company
Philadelphia Insurance Company
Maguire Insurance Agency, Inc.
PCHC Investment Corp.
Liberty American Insurance Group, Inc.
Mobile USA Insurance Company
Liberty American Insurance Company
Mobile Homeowners Insurance Agencies, Inc.
MHIA Premium Finance Company

Auditors

PricewaterhouseCoopers LLP
Philadelphia, PA

SEC Form 10-K

A copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by written request to:

Joseph J. Barnholt, Assistant Vice President
Philadelphia Consolidated Holding Corp.
One Bala Plaza, Suite 100
Bala Cynwyd, PA 19004

Transfer Agent & Registrar

American Stock Transfer & Trust Co.
6201 15th Avenue
Brooklyn, NY 11219
(718) 921-8275

Common Stock

Listed: NASDAQ
Quoted: (PHLY)
Newspaper: PhilConHldg

Annual Meeting

Thursday, April 29, 2004
10:00 AM

Marriott West
111 West Crawford Avenue
West Conshohocken, PA 19428

B O A R D   O F   D I R E C T O R S

Seated (left to right)

Elizabeth H. Gemmill
Chairman of the Board, Philadelphia University
President, Warwick Foundation

James J. Maguire
Chairman of the Board & Founder, Philadelphia Consolidated Holding Corp.

William J. Henrich, Jr.
Senior Partner, Dilworth Paxson, LLP

Standing (left to right)

Michael J. Morris
Retired Chairman and CEO, Transport International Pooling Corp.

Paul R. Hertel, Jr.
Chairman of the Executive Committee, Paul Hertel & Company, Inc.

Maureen H. McCullough
Chairperson, Healthcare Practice Group, Stradley Ronon Stevens & Young, LLP

Sean S. Sweeney
Executive Vice President & Chief Marketing Officer, Philadelphia Consolidated Holding Corp.

James J. Maguire, Jr.
President & Chief Executive Officer, Philadelphia Consolidated Holding Corp.

J. Eustace Wolfington
President, Cabrini Asset Management

Margaret M. Mattix
Senior Vice President, Exxon Mobile Advanced Elastomer Systems, LP

Dirk A. Stuurop
President, Stuurop & Co.

Michael J. Cascio
Retired President and CEO, OPUS Re

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OFFICERS

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Chairman of the Board and Founder

JAMES J. MAGUIRE, JR.*
President and Chief Executive Officer

SEAN S. SWEENEY*
Executive Vice President and Chief Marketing Officer

CRAIG P. KELLER*
Executive Vice President, Secretary, Treasurer & CFO

CHRISTOPHER J. MAGUIRE*
Executive Vice President and Chief Underwriting Officer

P. DANIEL ELDRIDGE*
President & CEO, Liberty American Insurance Group, Inc.

WILLIAM J. BENECKE
Senior Vice President, Claims

ROBERT O'LEARY, JR.
Senior Vice President, Northeast Region

JAMES F. TYGH
Senior Vice President, Chief Actuarial Officer

CHARLES E. BROGAN
Vice President, Mid-Atlantic Region

FRANK L. GIARDINA
Vice President, Information Technologies

KENNETH C. KLASSY
Vice President, Northwest Region

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Vice President, Sunbelt Region

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Vice President, Metro Region

CHARLES K. PEDONE
Vice President, Western Region

ROBERT M. POTTLE
Vice President, North Central Region

TRENT G. SHARP
Vice President, Southwest Region

STEVEN G. SILVERS
Vice President, Ohio Valley Region

LAWRENCE G. SOLO
Vice President, Rocky Mountain Region

DEBORAH A. SUTTON
Vice President, Operations

STEPHEN E. WESTHEAD
Vice President, Central Region

*Executive Officer

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