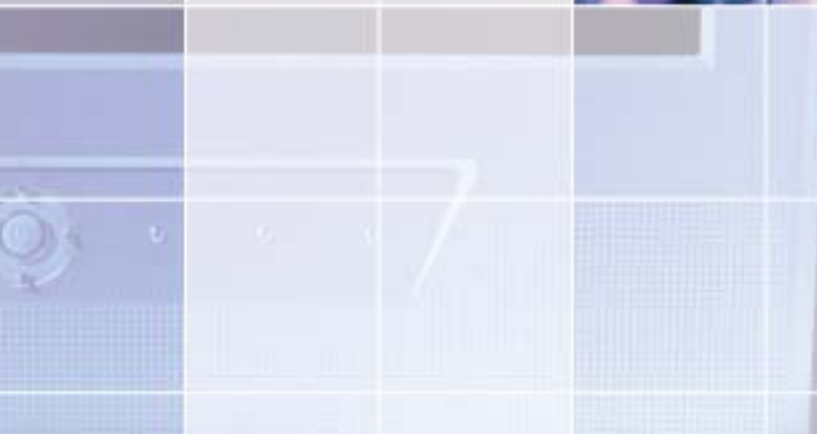


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PARKER | SMITH | FEEK



Dear Clients and Friends-

A challenging insurance industry and the growth and evolution of our business model were the central themes for Parker, Smith & Feek in 2003. This annual review is designed to share with you some of the activities and changes occurring within our firm and reflect on the state of the insurance industry that affects each of us each day.



First and foremost we renewed our commitment to maintain our firm as a privately owned corporation. While last year saw many large regional brokerages throughout the U.S. sell their businesses to larger entities, we continue to believe that we can only sustain a client-driven organization through private ownership. With that belief clearly in mind, we set in motion

the steps that will transition Parker, Smith & Feek to the next generation of private owners.

Our Board of Directors opened the new year with the election of a new President, Greg Collins. Greg

had been our Chief Operating Officer for the past 11 years and is just the fourth President in our firm's 67-year history. Vic Parker became the firm's Chief Executive Officer and Chairman of the Board, following 23 years as President. In the course of the year, the Board also elected seven new shareholders who will assume the leadership roles in the years

to come. With the retirement of two shareholders, our ownership group now stands at 22. We also created new positions within the firm to hone our client service focus and develop new ways to share our experience and communicate our knowledge.

The changes in staffing and responsibility have all been initiated with the purpose of perpetuating Parker, Smith & Feek as a privately owned corporation and positioning our firm as the premier provider of professional insurance and risk management expertise. Each of us at Parker, Smith & Feek is grateful for the opportunity to work with some of the most outstanding businesses on the West Coast, and we are ever mindful of earning your continued respect and trust.

Best regards-

Vic Parker
Chairman & CEO

Greg Collins
President

The good news for all of us in 2003 were the signs of moderation of the hard market cycle in the Property/Casualty insurance industry. As you are well aware, a combination of factors over the last three years, including a stagnant investment market, rising tort liability judgments, failures of a number of Fortune 100 companies, and the terrorist attacks of September 11, 2001, combined to create an extremely volatile marketplace. This led to sharply increased premiums and restriction of policy language. For the first time since late 1999, we see relief in sight for many of our clients.

In the space following, we want to share with you a number of key factors that impact our world and yours.

Business Insurance

Perhaps the best news for the Property/Casualty insurance consumer is that many segments of the marketplace are stabilizing. Rates are actually declining in some property and general liability lines as competition for premium among the insurance companies is returning.

Unfortunately, not everyone is out of the woods. Still hard hit are healthcare related businesses.

Hospitals, clinics, physicians, and assisted living centers are examples of businesses experiencing severe premium increases, and a lack of competitive insurance companies willing to offer coverage. Rapidly rising costs in this sector also have dramatic effects on the costs of workers' compensation and employee benefits.

The construction industry has a host of challenges in their insurance programs. Leading these are losses arising from construction defects, especially in habitational construction. Sick building syndrome, mold and failures of stucco-like Exterior Insulation and Finish Systems (EIFS) have produced enormous losses since the mid 1990's. This creates a serious reduction of market capacity and exorbitant premium increases.

Technology companies' insurance budgets have taken their licks in the past, but we are seeing the cost of Directors and Officers insurance leveling and even decreasing, especially among those companies smaller than the Fortune 250. High profile failures (WorldCom, Enron), and resulting shareholder class action suits, will continue to make D&O insurance problematic for the large publicly traded companies.

Employee Benefits

The turmoil in the healthcare delivery system, mentioned earlier, continues to produce significant increases in the costs of employee benefits coverage. Finding the right balance in breadth of coverage, the employer's direct and administrative costs, and the employee's share of that expense is critical in remaining competitive in the employment marketplace. Federal legislation, such as HIPAA, has also served to complicate communication and delivery of healthcare services. With little end in sight to increases in the basic costs of healthcare, we look for new ways to provide alternatives and streamline the communication and delivery of services to our clients and their employees.

Surety

The surety industry has lost money for three consecutive years. Substantial losses in construction and corporate failures (WorldCom, Enron, etc.) have had a devastating impact on capital. Several sureties have failed, others have merged, and the rest are more cautious. This lack of capital capacity has led to increased rates and unprecedented underwriting scrutiny. Commercial and construction surety credit remains available for clients who can demonstrate strong operational and financial management.

Personal Insurance

Years ago, carriers specializing here viewed homeowners' coverage, not auto, as their leading source of profit and stability. Not any longer. In recent years, losses resulting from earthquake, earth movement (such as landslide), and especially construction defects, have made homeowners coverage problematic. Water intrusion and the exposure to mold are negatively impacting homeowners' coverage. Homes clad in EIFS or Dryvit systems, many built within the last ten years, are especially difficult to insure today.

2004

The "insurance seas" of 2003 were less stormy than past years, but they are not without ripples ahead. For 2004, our mission at Parker, Smith & Feek will remain constant. Focusing on your business objectives, we will continue to provide the latest insurance market intelligence, insurance options, and the highest level of professional service. It is a pleasure serving you and we wish all our clients and friends smooth sailing.



PURPOSE

The guiding purpose of our organization is to provide state-of-the-art insurance, surety and employee benefit services. We are committed to developing a thorough understanding of our clients' objectives, the nature of their business, the applicable concepts of risk management, and then communicating the alternatives available to them in a continuously changing insurance marketplace.

HISTORY

Our firm began in Seattle, Washington as a sole proprietorship founded by Charles Parker in 1937. Parker started his insurance career at the General Insurance Company of America (now Safeco). In 1938, he invited his former Safeco colleague, Graham Smith, to join him and they called their independent insurance agency, Parker & Smith. Together, they helped many regional businesses and industries grow and prosper, fueling the Northwest into an important trade area and Seattle into a major city. Edward Feek, a surety bond specialist, joined the firm in 1955 and the three principals incorporated under the current name.

TODAY

Parker, Smith & Feek is ranked in the top 100 largest risk management and insurance brokerage firms in the United States, from over 50,000 publicly traded and privately held brokers. The firm is owned and managed by 22 shareholders, each one active in the daily operations of the firm.

INSURANCE COMPANIES

We take great pride in our relationships with the insurance markets that we utilize on behalf of our clients. We have earned the reputation in this marketplace as a broker that facilitates quality partnerships between our clients and their insurers. We represent more than 300 of the leading insurance companies, both in the United States and abroad.

EMPLOYEES

Parker, Smith & Feek employs 165 staff members. Employees are recruited for their technical expertise, their desire to work in a team environment, and for their strength in communicating their knowledge to our clients.

OFFICES

We have three offices: Bellevue, Washington; Anchorage, Alaska; and Portland, Oregon. We are also ownership partners in Assurex Global, an international network of large privately held insurance brokerages. There are 130 Assurex Global partners, with offices in major cities around the world.

COMMERCIAL INSURANCE

Our Commercial Insurance Department arranges property, liability, and marine coverage for businesses in a wide range of industries. Our services extend beyond the purchasing of a policy. It is our goal to integrate the analysis and management of risk into our client's strategic business plan.

SURETY

Our Surety Department provides contract bond services for our construction industry and commercial clients. We work closely with our clients to maximize the amount of bond credit available to them. Our long-standing relationships with bond underwriters, allows us to arrange bonding for projects around the world.

EMPLOYEE BENEFITS

Our Employee Benefits Department assists our clients in the design, implementation, communication, and administration of benefit programs. The focus of the Employee Benefits team is the design of health benefit, business succession, and retirement plans. These plans combine multiple elements from among a breadth of options in medical and dental insurance, vision care, and life insurance. We also explore with our clients the options for funding their employee benefits program.

RISK MANAGEMENT

Our Risk Management Group explores methods for our clients to control the frequency of loss and the severity of claims. Our specialists assist in formulating risk management plans, designing safety programs, and developing disaster preparedness strategies. Our staff engineer provides on-site fire protection evaluations and recommendations.

CLAIMS

Our Claims Department includes specialists in each of the three major loss areas: property, liability, and workers' compensation. Our specialists' have experience in claims resolution, the adjusting process, and in working with both claimant and insurance company attorneys. This expertise enables our client's claims to be resolved accurately in a timely manner.

WORKERS' COMPENSATION

Workers' compensation activities are monitored on a state-by-state basis, as each state has its own regulations. We keep our clients informed of legislative developments and insurance company practices which could impact their workers' compensation programs. We collaborate with our clients in weighing the issues involved in selecting self-insured programs, retrospective-rating plans, and the operation of monopolistic state funds.

PERSONAL INSURANCE

Our Personal Insurance Department arranges insurance coverage for our clients' homes, autos, and all other personal exposures.

CONSTRUCTION

This practice is concerned with the issues of all parties to the construction process: architect, owner, lender, general contractor, and subcontractor. We provide advice for insurance program design, OCIP feasibility review, insurance contract language, safety planning, and risk control oversight. The marketing and placement of Builder's Risk insurance is a unique specialty of this group. Our Surety Department is also part of our construction practice.

ENERGY

Power generation is the broad interest of this group. We have developed a particular expertise in the risks associated with co-generation plants. Utility companies are the principal clients served by this group.

ENVIRONMENTAL

Contaminated property is the central issue for this group. We provide risk management strategies for both the transfer/sale of contaminated properties or the remediation of these properties. Our clients include developers, government agencies, remediation contractors, and hazardous waste handling companies. Spill prevention and containment are frequent exposures we address in this practice group.

FOOD RESOURCES

Food processors are the primary focus of this practice. We have developed risk strategies to address industry concerns such as contamination, spoilage, food borne illness and biohazards. Mechanical issues involving machinery breakdown, refrigeration, chemical storage (ammonia in particular) are also areas in which we offer risk management advice.

FOREST PRODUCTS

Our Northwest location has given us a first hand opportunity to develop an understanding of the risk exposures of forest products companies. Our clients include loggers, mills and consumer goods manufacturers, such as cabinet and furniture makers.

HEALTHCARE

Medical facilities risk management is addressed by this practice. Mechanical systems breakdown, facilities maintenance, emergency power and evacuation planning are among the issues of concern for our clients, including hospitals and clinics. We also work with medical center management to provide liability coverage for the officers and medical directors of these facilities.

HOSPITALITY/
ENTERTAINMENT

Managing risks for hotels, resorts, golf courses and country clubs, health clubs, and restaurants. The highly public nature of this industry group creates many unique exposures. Our work is to provide options for reducing or mitigating the frequency of smaller losses and guarding against the catastrophic loss.

LIFE SCIENCES

Highly specialized products require special underwriting. One-of-a-kind manufacturing facilities challenge traditional property markets. We help our clients who are developing products in this industry properly assess their risks and weigh the efficacy of insurance to protect them.

MANUFACTURING

Insurance issues of concern for our manufacturers are the availability of raw materials, storage and handling; seasonal workforce issues, offshore facilities, product liability, and contingent business interruption.

RETAIL
BUSINESSES

Retailers look to us for advice on customer safety, insuring seasonal merchandise, advertising exposure, employee dishonesty, and the insurance requirements of leases.

REAL ESTATE

Our focus is in helping commercial property owners and managers develop risk management strategies for their individual properties. Particularly those properties with significant public traffic that generates a host of liability exposures.

TECHNOLOGY

This practice is centered on the intellectual property issues critical to clients in technology. Fiduciary responsibility of directors and officers contrasted with the expectations of stockholders create the need for sophisticated loss trend projections to identify adequate insurance coverage.

TRANSPORTATION

We serve freight trucking clients with either intrastate or interstate operations. Crime, pollution, and now terrorism are key insurance concerns for this group. This is one of the most difficult business classes to underwrite and obtain insurance coverage.

As a natural outgrowth of providing professional services, our account teams have developed special knowledge of the risk exposures, loss experience, and insurance coverage issues specific to individual industries. In 1998, Parker, Smith & Feek established “Practice Groups” to more effectively cultivate our expertise relative to the business issues our clients were confronting in their respective fields.

Our Practice Groups are cross-disciplinary teams, combining staff expertise in risk management, insurance, bonding, employee benefits and claims management with their focus on clients in the industry groups presented here.



Fifty years ago, the largest regional independent insurance brokerages in this country watched their local clients growing into new trade areas, first nationally, and then internationally. Rather than each broker forming a branch office – the typical model – they instead decided to form a strategic network, with one broker located in each major geographic trade area. The corporation they formed was called Assurex International, with each broker an equal shareholder. In 1999, Assurex International and Synergy Europe joined forces to become the world's largest privately held insurance brokerage group, Assurex Global. Parker, Smith & Feek was selected to join in 1984 and remains the sole brokerage representative in Washington state.

Today, in North America 65 of the largest privately owned property/casualty brokers comprise the Assurex Global partnership. They are headquartered in key cities

across 45 states and provinces. Including branches, more than 200 offices are operated. Outside of North America, Assurex has formal representation in 50 countries, and correspondents in 40 more. Combined, Assurex brokers employ more than 20,000 insurance professionals in 300 offices around the world.

Parker, Smith & Feek's ownership in Assurex Global gives our clients many important support capabilities:

- Assurex controls over \$19 billion a year in insurance premiums. This gives our clients significant leverage in achieving competitive rates from the top insurance companies.

- In locations around the globe we provide knowledge and valuable information on local customs, insurance laws and regulations, and industry-specific business practices from professionals who have lifelong resident experience.

Our Assurex Global partners are equals in the corporation. Our singular goal is to help each others' clients with the same respectful, professional service they would expect from a local neighbor.

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Edmund C. Chapin
Vice President
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Jim Chesemore*
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David L. Eckroth*
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