James River Group, INC
Form S-1/A
August 04, 2005
As filed with the Securities and Exchange Commission on August 4, 2005

Registration No. 333-124605

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Pre-Effective Amendment No. 4

to

FORM S-1
REGISTRATION STATEMENT UNDER THE
SECURITIES ACT OF 1933

JAMES RIVER GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**6331**	**05-0539572**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

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(Address Including Zip Code, and Telephone Number Including Area Code, of Registrant's Principal Executive Offices)

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Approximate date of commencement of proposed sale to public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion
Dated August 3, 2005

PROSPECTUS

4,444,000 Shares

James River Group, Inc.

Common Stock

This is the initial public offering of common stock of James River Group, Inc. We are offering 4,444,000 shares of our common stock.

Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between $16.00 and $18.00 per share. We intend to list our common stock on the Nasdaq National Market under the symbol "JRVR."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 11.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds (before expenses) to James River Group, Inc.	$	$

We have granted the underwriters a 30-day option to purchase up to an additional 666,600 shares of common stock at the public offering price, less the underwriting discount, to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission or regulatory authority has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about , 2005.

Keefe, Bruyette & Woods
Bear, Stearns & Co. Inc.
Friedman Billings Ramsey
Wachovia Securities

The date of this prospectus is , 2005.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus, even if this prospectus is delivered to you after that date or you buy our securities after that date. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus, but may not contain all the information that may be important to you. To understand us and this offering fully, you should read this entire prospectus carefully, especially the "Risk Factors" section beginning on page 9 and our consolidated financial statements and the accompanying notes included elsewhere in this prospectus. References in this prospectus to the "company," "we," "our" and "us" are to James River Group, Inc. and its subsidiaries, unless the context otherwise requires. References to "James River" are to James River Group, Inc., our holding company. References to "James River Insurance" are to our subsidiary James River Insurance Company, and references to "Stonewood Insurance" are to our subsidiary Stonewood Insurance Company. James River Group is our registered service mark. This prospectus also refers to trademarks and trade names of other organizations. This prospectus contains terms that are specific to the insurance industry. A glossary of these terms appears beginning on page G-1 of this prospectus.

James River Group

Who We Are

James River is an insurance holding company that owns and manages specialty property/casualty insurance companies with the objective of consistently earning underwriting profits. We were founded in September 2002 and wrote our first insurance policy in July 2003. We currently underwrite in two specialty areas:

- excess and surplus lines in 48 states and the District of Columbia; and
- workers' compensation primarily for the residential construction industry in North Carolina.

Our underwriters evaluate and price each policy individually, and we do not extend underwriting or claims handling authority to third parties. For the year ended December 31, 2004, our first full year of insurance operations, we wrote $142.5 million in direct written premiums, earned net income of $8.8 million and had a combined ratio (a measure of underwriting profitability calculated by dividing the sum of losses incurred, including loss adjustment expenses, and other operating expenses by net earned premiums) of 90.1%. A combined ratio of less than 100% generally indicates profitable underwriting prior to the consideration of investment income.

The executives and professional investors who founded our company have significant experience managing, acquiring or investing in insurance operations. Key members of our management team, including J. Adam Abram, our President and Chief Executive Officer, five of our directors and a number of the managers in our excess and surplus lines business, were previously involved together at Front Royal, Inc., another insurance holding company with a similar business focus. Because we wrote our first policy in July 2003, we are not burdened by material loss exposures for years prior to 2003. We did not write any insurance during the 1990's when pricing was more competitive and policy terms were less restrictive than in the current environment. We craft our excess and surplus lines policy language to manage our exposure to expanding theories of legal liability like those which have given rise to claims for lead paint, asbestos, mold and construction defects.

Our Products

Our subsidiary James River Insurance Company writes excess and surplus lines insurance. Excess and surplus lines insurance covers risks that do not fit the underwriting criteria of standard carriers due, usually, to the perceived risk associated with aspects of the insured's business. In contrast to standard carriers that are required to be licensed in the state where the insurance is written, James River Insurance has significantly expanded regulatory freedom to craft policy terms and charge negotiated prices. Generally, James River Insurance offers more restrictive coverage at higher prices than would be offered by the standard market, which is necessary because insureds in the excess and surplus market are generally considered higher risk than those in the standard market. For the year ended December 31, 2004, James River Insurance had $133.4 million in direct written premiums.

Our subsidiary Stonewood Insurance Company writes workers' compensation insurance in North Carolina, primarily for the residential construction industry. Workers' compensation insurance provides coverage for the statutory obligations of employers to pay for medical care and lost wages for employees who are injured in the course of their employment. We focus on the residential construction industry because this hazardous class has relatively high premium rates and we believe we can successfully underwrite these accounts through proactive loss control. This approach requires us to rely on our underwriting and loss control staff to assess the risk of potential insureds. Stonewood Insurance was licensed in late 2003 and began writing business in January 2004. For the year ended December 31, 2004, Stonewood Insurance had $9.2 million in direct written premiums.

Both James River Insurance and Stonewood Insurance are rated "A−" (Excellent) by A.M. Best Company, Inc., a

leading insurance rating agency, which we refer to in this prospectus as A.M. Best. "A−" (Excellent) is the fourth highest of 16 A.M. Best ratings. These ratings are based on matters of concern to policyholders but are not designed or intended for use by investors in evaluating our securities.

Our Approach to Our Business

We believe our approach will help us achieve our goal of delivering superior returns to our stockholders. This approach involves the following:

Generate Underwriting Profits. We intend to generate underwriting profits by minimizing our underwriting expenses and focusing on underwriting specialty insurance risks where we can use our expertise to price and structure policies to minimize our claims expenses.

- Operate at a Lower Expense Ratio Than Many of Our Competitors. We believe that we are able to achieve a lower expense ratio than many of our competitors because of our assertive management of costs, including commissions. In 2004, our Excess and Surplus Insurance segment had a statutory expense ratio (a measure of our underwriting profitability calculated by dividing our underwriting expenses by net written premiums, in each case determined on a statutory accounting basis) of 19.95%. According to the 2004 edition of Best's Aggregates & Averages – Property/Casualty, from 1999 through 2003, which we believe is the latest data available, the United States excess and surplus lines sector had an average statutory expense ratio of 30.9%.
- Focus on Specialty Insurance Markets. By focusing on specialty markets in which our underwriters have particular expertise and in which we have fewer competitors than in standard markets, we have greater freedom to price and structure our products and to utilize loss control measures to target maximum profitability. For example, in our Excess and Surplus Insurance segment, we seek an underwriting profit by generally offering a combination of higher prices and more restrictive policy terms than standard carriers. Our insureds, on the other hand, generally present higher risk than that presented by the insureds of standard carriers.
- Underwrite Each Risk Individually. We believe our goal of earning underwriting profits is best accomplished through careful risk selection combined with a thoughtful approach to setting the terms and conditions of the policies for these risks. We individually underwrite each risk and do not extend underwriting authority to brokers, agents or other third parties. Our underwriting team leaders have an average of 27 years of insurance industry experience. A substantial portion of our underwriters' compensation is linked to the underwriting profit produced by the policies they underwrite. This approach has the potential drawback of requiring us to rely heavily on experienced underwriters who can tailor coverages and to be particularly careful in selecting the policies we bind. Our underwriters regularly interact with our claims personnel to aid in underwriting decisions and policy form development. In our Workers' Compensation Insurance segment, we supplement the underwriting process through on-site inspection of insureds and proactive loss control measures.

- Use Timely and Accurate Data. We design our internal processing and data collection systems to provide our management team with accurate and relevant information in real-time. Our data warehouse collects premium, commission and claims data, including detailed information regarding policy price, terms, conditions and the insured's business. This data allows us to analyze trends in our business, including results by individual agent or broker, underwriter and class of business. We rely on our technology systems in this process.

- Actively Manage Claims. We believe that actively managing our claims is an important aspect of keeping loss and loss adjustment expenses low and accurately setting reserves. We promptly and thoroughly investigate all claims, generally through direct contact with the insured and other affected parties. When we believe claims are not validly covered under the policy form, we vigorously contest payment and are willing to pursue prosecution for claims fraud.

Opportunistically Grow Our Business. We plan to opportunistically grow our business in markets where we can use our specialized expertise to generate consistent underwriting profits.

- Expand Existing Operations. We intend to expand our existing insurance operations to increase our market share in our chosen markets. Both our Excess and Surplus Insurance and Workers' Compensation Insurance segments are relatively new, and we believe they can capture more market share. A potential drawback of our specialized approach is that we may be more vulnerable to adverse events that affect the excess and surplus lines and workers' compensation insurance business than companies that have more diversified business.
  - Excess and Surplus Insurance Segment. We seek to grow the business of our Excess and Surplus Insurance segment by taking advantage of opportunities for enhanced product offerings, additional coverages, geographic expansion and increased penetration in our existing markets. We have expanded the Excess and Surplus Insurance segment from seven underwriting divisions at inception to ten divisions at December 31, 2004, added an additional underwriting division in May 2005 and anticipate adding another underwriting division in 2005. We continue to make selective broker appointments which helps drive our market penetration. In 2004, our Excess and Surplus Insurance segment wrote $133.4 million in direct written premiums. A.M. Best estimated total premiums in this market to be $32.8 billion in 2003.
  - Workers' Compensation Insurance Segment. We seek to expand our Workers' Compensation Insurance segment by adding selected agents and achieving greater market penetration. Our Workers' Compensation Insurance segment wrote $9.2 million in direct written premiums in 2004, its first year of operation, and we estimate, based in part on 2001 data (the latest we believe to be available) from the North Carolina Rate Bureau, that the North Carolina workers' compensation market for the portions of the construction industry in which we compete is approximately $450 million in direct written premiums.
- Acquire Additional Specialty Insurance Businesses. We intend to pursue acquisitions of specialty insurance businesses which have particular expertise in operating profitably in their markets. Our management team has significant industry experience in acquisitions of insurance companies and managing general agencies.

Manage Specialized Insurance Operations on a Decentralized Basis. Our holding company structure allows our specialized insurance operations to focus on achieving an underwriting profit in their markets. Our decentralized underwriting and claims handling personnel are able to respond effectively to changing conditions in the particular markets in which they operate. We handle capital raising, mergers and acquisitions, investor and rating agency relations, financial reporting and other support functions at the holding company level. This decentralized approach means our company must make special efforts to ensure the company is coordinated as a whole.

Manage Capital Actively. We intend to expand our business and capital base to capitalize on opportunities to earn an underwriting profit, and reduce our business and capital base if attractive underwriting opportunities are not available. We expect to finance our future operations with a

combination of debt and equity and do not intend to raise or retain more capital than we believe we can profitably deploy in a reasonable time frame. We may not, however, always be able to raise capital when needed. Our ratings from A.M. Best are very important to us, and maintaining them will be a principal consideration in our decisions regarding capital.

Maintain a Strong Balance Sheet. We intend to set reserves conservatively and monitor reinsurance recoverables exposure carefully in order to maintain a strong balance sheet. We focus on making our profits from underwriting and do not expect above-market returns or risks in our investment portfolio. As a consequence, our investment returns may not be as high as those earned by some of our competitors. Our balance sheet is not burdened with material legacy liabilities related to loss exposures for years prior to 2003.

Our Challenges

As part of your evaluation of our business, you should take into account the challenges we face in implementing our strategies, including but not limited to the following:

A Downgrade in Our A.M. Best Rating Would Negatively Affect Our Business. We believe that the A.M. Best rating of "A−" (Excellent) of our insurance subsidiaries has a significant influence on our business and that many brokers, agents and customers would not place business with us if we experienced a downgrade in our rating. As a result, a downgrade in our rating could cause a substantial reduction in the number of policies we write, which would have a material adverse effect on our results of operations and our financial position.

Changes in Our Operating Environment May Adversely Affect Our Performance. Our operating results may fluctuate significantly quarter to quarter and year to year due to various factors generally out of our control, including changes in competition, market conditions, catastrophe losses, severe weather conditions, general economic conditions (including interest rate changes), court decisions, legislative initiatives, frequency of litigation and the size of judgments.

The Failure of Any of Our Loss Limitations or Exclusions Could Harm Our Business. Various provisions of our excess and surplus lines policies, such as limitations or exclusions from coverage, have been negotiated to limit our risks and may not be enforceable in the manner we intend. Court decisions, legislation or regulatory actions could interpret or regulate the use of such endorsements and limitations in a way that would adversely effect our loss experience, which could have a material adverse effect on our financial condition or results of operations.

We Rely on a Select Group of Brokers and Agents To Distribute Our Products. Two brokers accounted for approximately 34.9% of 2004 direct written premiums for James River Insurance, and one agent accounted for approximately 11.0% of 2004 direct written premiums for Stonewood Insurance. These relationships could terminate or fail to be profitable in the future, which could have a material adverse effect on us.

Our Reinsurers May Not Pay Our Claims in a Timely Fashion. We cede a part of the policy risk we assume to reinsurers in exchange for part of the premium we receive in connection with the risk. If our reinsurers do not pay claims made by us on a timely basis, or they fail to pay some or all of these claims, we will be responsible for additional payments to our policyholders. This would increase our costs and could have a material adverse effect on our business.

We Are Dependent on Our Key Employees. Because we are dependent on certain key executives, the loss of any of these executives or our inability to retain other key personnel could adversely affect our business.

Our Premium and Loss Reserves May Be Inadequate to Cover Our Actual Losses. If we fail to accurately assess the risks associated with the business we insure, we may fail to establish appropriate premium rates, and our reserves for unpaid losses and loss adjustment expenses (which we refer to as loss reserves) may be inadequate to cover our actual

losses. Our loss reserves are estimates and are inherently

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uncertain. If our loss reserves are inadequate to cover our actual losses and loss adjustment expenses, any changes in our estimates will be reflected in our results of operations during the period in which the changes are made, with increases in our loss reserves resulting in a reduction to our earnings.

We Have a Short Operating History. We have completed only six quarters of operations and our historical financial results may not accurately indicate our future performance.

Our Business is Subject to Extensive Regulation. Our business is subject to extensive regulation by applicable federal and state agencies in the jurisdictions in which we operate. The extensive regulation or changes in the regulation governing our business may affect the cost or demand for our products and may limit our ability to obtain rate increases or take other actions, including those that relate to the terms of our coverage, that we may wish to take to increase our profitability.

Selected Operating History

The following table shows selected quarterly operating history for our business:

	As of or for the Three Months Ended						
	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003
	($ in thousands)						
Direct written premiums	$ 47,020	$ 50,447	$ 38,511	$ 29,643	$ 23,938	$ 25,097	$ 11,667
Net earned premiums	24,832	28,314	22,113	16,081	9,255	4,164	923
Losses and loss adjustment expenses	13,394	16,789	14,490	10,456	5,853	2,818	554
Other operating expenses	5,693	7,358	5,499	4,395	3,438	2,292	2,092
Income (loss) before taxes	6,922	4,964	2,899	1,947	581	(1,243)	(1,541)
Net income (loss)	4,606	3,259	2,968	1,947	581	(1,243)	(1,541)
Loss ratio	53.9%	59.3%	65.5%	65.0%	63.2%	67.7%	60.0%
Expense ratio	22.9%	26.0%	24.9%	27.3%	37.1%	55.0%	226.7%
Combined ratio	76.9%	85.3%	90.4%	92.4%	100.4%	122.7%	286.7%
Total assets	$ 305,783	$ 266,948	$ 213,092	$ 182,733	$ 143,163	$ 123,561	$ 78,803
Total stockholders' equity	83,101	80,695	77,687	72,480	71,963	70,396	51,352

How to Contact Us

Our headquarters are located at 1414 Raleigh Road, Suite 415, Chapel Hill, North Carolina 27517 and our telephone number is (919) 883-4171. Our website is www.James-River-Group.com. The information on our website should not be construed as part of the prospectus.

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The Offering

Shares of common stock offered by us	4,444,000
Shares of common stock outstanding after the offering	14,293,035
Over-allotment shares offered by us	666,600
Use of Proceeds	We intend to use the proceeds from the offering to make contributions to the capital of our insurance subsidiaries and for other general corporate purposes, including potential acquisitions. See "Use of Proceeds."
Proposed Nasdaq National Market Symbol	JRVR
Dividend Policy	We do not expect to pay cash dividends on our common stock for the foreseeable future. We currently intend to retain any future earnings to finance our operations and growth. Any future determination to pay cash dividends will be at the discretion of our board of directors.

The number of shares of common stock shown to be outstanding after the offering is based upon 9,849,035 shares outstanding as of May 31, 2005 and reflects the 10 for 1 split of our common stock which we intend to effect prior to the completion of this offering and the automatic conversion of all issued and outstanding shares of our preferred stock into an aggregate of 9,849,025 shares of our common stock immediately prior to the effectiveness of this offering, including shares representing accrued dividends on our convertible preferred stock through May 31, 2005 (on a post stock split basis). This number does not include, as of May 31, 2005:

- 666,600 shares that may be issued pursuant to the underwriters' over-allotment option;
- 1,694,090 shares that may be issued pursuant to the exercise of outstanding options, at a weighted average exercise price of $10.07 per share; and
- 149,625 shares that may be issued pursuant to the exercise of outstanding warrants, at a weighted average exercise price of $10.00 per share.

Assumptions in this Prospectus

Except as otherwise indicated, all information in this prospectus:

- assumes no exercise of the underwriters' over-allotment option;
- reflects a 10 for 1 split of our common stock which we intend to effect prior to the completion of this offering;
- reflects the automatic conversion of all issued and outstanding shares of our Series A convertible preferred stock and Series B convertible preferred stock into an aggregate of 9,849,025 shares of common stock immediately prior to the effectiveness of this offering, including shares representing accrued dividends on our convertible preferred stock through May 31, 2005 (on a post stock split basis); and

• reflects amendments to our amended and restated certificate of incorporation and our amended and restated by-laws that we expect to effect prior to the completion of this offering.

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Summary Historical Consolidated Financial and Other Data

The summary historical consolidated financial and other data set forth below as of and for the three months ended March 31, 2005 and 2004 are derived from our unaudited condensed consolidated financial statements. In the opinion of our management, the unaudited condensed consolidated financial data presented in the table below reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our consolidated financial position and results of operations as of the dates and for the periods indicated.

The summary historical consolidated financial and other data set forth below as of and for the years ended December 31, 2004 and 2003, as of December 31, 2002 and for the period from September 25, 2002 (inception) through December 31, 2002 are derived from our consolidated financial statements audited by Ernst & Young LLP, Independent Registered Public Accounting Firm.

These historical results are not necessarily indicative of results to be expected for any future period. You should read the information provided below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Three Months Ended March 31,		Year Ended December 31,		Period from September 25, 2002 (Inception) Through December 31,
	2005	2004	2004	2003	2002
	(Unaudited)				
Operating Data:		**($ in thousands, except for share data)**			
Direct written premiums(1)	$ 47,020	$ 23,938	$ 142,539	$ 36,764	$ —
Net written premiums(2)	30,990	17,714	120,178	27,425	—
Net earned premiums	24,832	9,255	75,763	5,087	—
Net investment income	1,745	588	3,626	407	2
Net realized investment losses	(25)	—	(71)	—	—
Total revenues	26,597	9,872	79,462	5,550	2
Losses and loss adjustment expenses	13,394	5,853	47,588	3,372	—
Other operating expenses	5,693	3,438	20,690	6,842	280
Interest expense	588	—	793	—	—
Compensation expense on common stock warrant issuance	—	—	—	524	—
Total expenses	19,675	9,291	69,071	10,738	280

Income (loss) before tax	6,922	581	10,391	(5,188)	(278)
Income taxes	2,316	—	1,636	—	—
Net income (loss)	$ 4,606	$ 581	$ 8,755	$ (5,188)	$ (278)
Comprehensive income (loss)	$ 2,406	$ 1,557	$ 8,946	$ (5,488)	$ (278)
Balance Sheet Data:					
Cash and cash equivalents and investments	$ 220,318		$ 195,231	$ 79,324	$ 6,783
Reinsurance recoverables on unpaid losses	27,253		15,200	14,234	—
Total assets	305,783		266,948	123,561	6,823
Reserve for losses and loss adjustment expenses	84,374		62,243	17,417	—
Senior debt	15,000		15,000	—	—
Junior subordinated debt	22,681		22,681	—	—
Total stockholders' equity	83,101		80,695	70,396	(278)

	Three Months Ended March 31,		Year Ended December 31,		Period from September 25, 2002 (Inception) Through December 31,
	2005	2004	2004	2003	2002
	(Unaudited)				
Operating Data:	($ in thousands, except for share data)				
Earnings (Loss) per Share:					
Basic — historical	$3,424,852.00	$ (589,653.00)	$3,991,672.00	$ (7,381,060.00)	$ (278,102.00)
Diluted — historical	$ 4.55	$ (589,653.00)	$ 9.28	$ (7,381,060.00)	$ (278,102.00)
Diluted — as adjusted (3)	$ 0.46	$ (58,965.30)	$ 0.93		
Weighted average shares outstanding — basic — historical	1	1	1	1	1
Weighted average shares outstanding — diluted — historical	1,011,323	1	943,330	1	1
Weighted average shares outstanding — diluted — as adjusted(3)	10,113,230	10	9,433,300		
GAAP Underwriting Ratios:					
Loss ratio(4)	53.9%	63.2%	62.8%	66.3%	—
Expense ratio(5)	22.9%	37.1%	27.3%	134.5%	—
Combined ratio(6)	76.9%	100.4%	90.1%	200.8%	—
Other Data:					
Return on average stockholders' equity(7)	22.5%	3.3%	11.6%	(14.8%)	(200.0%)
Debt to total capitalization ratio(8)	31.2%	—	31.8%	—	—

Statutory capital and surplus	$ 86,177	$ 57,358	$ 79,378	$ 58,183	—
Net written premiums to surplus ratio(9)	1.44	1.24	1.51	0.47	—

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(1)The amount received or to be received for insurance policies written by us during a specific period of time without reduction for acquisition costs, reinsurance costs or other deductions.

(2)Net written premiums are direct written premiums less the portion of direct written premiums ceded to (reinsured by) other insurers, which we refer to as ceded written premiums.

(3)Earnings (loss) per share — diluted — as adjusted and earnings (loss) per share — weighted average shares outstanding — diluted — as adjusted give effect to the conversion of all outstanding shares of our convertible preferred stock into common stock, including shares representing accrued but unpaid dividends on our convertible preferred stock through the respective balance sheet date presented and reflect a 10 for 1 split of our common stock each of which will occur after the effectiveness of the Registration Statement of which this prospectus forms a part. Upon the conversion of the preferred stock, the only significant difference between basic and diluted earnings per share will relate to the treatment of warrants and options.

(4)The loss ratio is the ratio, expressed as a percentage, of losses and loss adjustment expenses to net earned premiums, net of the effects of reinsurance.

(5)The expense ratio is the ratio, expressed as a percentage, of other operating expenses to net earned premiums.

(6)The combined ratio is the sum of the loss ratio and the expense ratio.

(7)Return on average stockholders' equity is the ratio, expressed as a percentage, of net income (loss) to the average of the beginning of period and end of period total stockholders' equity. The calculations for the three months ended March 31, 2005 and 2004 use annualized net income as the numerator in the calculation. Annualized results are not necessarily indicative of our actual results for the full year.

(8)The debt to total capitalization ratio is the ratio, expressed as a percentage, of total indebtedness for borrowed money to the sum of total indebtedness for borrowed money and stockholders' equity.

(9)The net written premiums to surplus ratio is the ratio of net written premiums to statutory-basis capital and surplus. We believe this measure is useful in evaluating our insurance subsidiaries' operating leverage. It may not be comparable to the definition of net written premiums to surplus ratio for other companies. The calculations for the three months ended March 31, 2005 and 2004 use annualized net written premiums as the numerator in the calculation. Annualized results are not necessarily indicative of our actual results for the full year.

Recent Developments

Results for the Three and Six Months Ended June 30, 2005 and 2004

The following table sets forth summary unaudited financial and other data as of and for the three and six months ended June 30, 2005 and 2004:

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2005	2004	2005	2004
	($ in thousands)			
Operating Data:				
Direct written premiums	$ 55,576	$ 29,643	$ 102,596	$ 53,581
Net written premiums	36,412	25,114	67,402	42,828
Net earned premiums	29,480	16,081	54,312	25,336
Net realized investment losses	(73)	—	(98)	—
Income before tax	6,816	1,947	13,738	2,528
Net income	4,587	1,947	9,193	2,528
Balance Sheet Data:				
Cash and cash equivalents and investments	250,861	132,261		
Total assets	348,447	182,733		
Reserve for losses and loss adjustment expenses	105,868	29,070		
Senior debt	15,000	15,000		
Junior subordinated debt	22,681	7,217		
Total stockholders' equity	92,111	72,480		
GAAP Underwriting Ratios:				
Loss ratio	60.8%	65.0%	57.7%	64.4%
Expense ratio	20.6%	27.3%	21.7%	30.9%
Combined ratio	81.4%	92.4%	79.3%	95.3%
Other Data:				
Annualized return on average stockholders' equity	20.9%	10.9%	21.3%	7.1%

Income before tax equaled net income for the three and six months ended June 30, 2004 because we used net operating loss carryforwards to fully offset our taxable income for those periods. We did not have net operating loss carryforwards available to offset our taxable income for the three and six months ended June 30, 2005.

We entered into a quota share reinsurance contract effective January 1, 2005 that transfers a portion of the risk related to certain property/casualty business written by James River Insurance in 2005 to reinsurers in exchange for a portion of our direct written premiums on that business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview". For the three months ended June 30, 2005, ceded earned premiums related to this quota share treaty were $8.5 million, ceded losses and loss adjustment expenses were $5.8 million and our reinsurance ceding commission was $2.2 million. For the six months ended June 30, 2005, ceded earned premiums related to this quota share treaty were $16.0 million, ceded losses and loss adjustment expenses were $11.1 million and our reinsurance ceding commission was $4.1 million.

Operating results for the three and six months ended June 30, 2005 benefited from $481,000 and $2.8 million, respectively, of favorable reserve development on prior accident years.

Direct written premiums for the Excess and Surplus Insurance segment were $91.2 million for the six months ended June 30, 2005 compared to $51.1 million for the six months ended June 30, 2004. Direct written premiums for the Workers' Compensation Insurance segment were $11.4 million for the six months ended June 30, 2005 compared to $2.4 million for the six months ended June 30, 2004. The combined ratio for the Excess and Surplus Insurance segment for the six months ended June 30, 2005 was 75.1% compared to 88.6% for the six months ended June 30, 2004. The combined ratio for the Workers' Compensation Insurance segment for the six months ended June 30, 2005 was 93.3% compared to 230% for the six months ended June 30, 2004.

Return on average stockholders' equity is the ratio, expressed as a precentage, of net income (loss) to the average of the beginning of period and end of period total stockholders' equity. The calculations for the three and six month periods ended June 30, 2005 and 2004 use annualized net income as the numerator in the calculation. Annualized results are not necessarily indicative of our actual results for the full year.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you invest in our common stock, you should carefully consider each of the following risks and cautionary statements, together with the other information contained in this prospectus. If any of the events described in the following risks actually occurs, our business, financial condition or results of operations may suffer. As a result, the trading price of our common stock could decline, and you could lose all or a substantial portion of your investment.

Risks Related To Our Business

A decline in our financial strength rating may result in a reduction of new or renewal business.

Each of our insurance subsidiaries currently is rated "A−" (Excellent) by A.M. Best, which is the fourth highest of 16 A.M. Best ratings. A.M. Best assigns ratings that are intended to provide an independent opinion of an insurance company's ability to meet its obligations to policyholders and is not an evaluation directed to investors. A.M. Best focuses on balance sheet strength (including capital adequacy, and loss and loss expense reserve adequacy), operating performance and business profile. A reduction in our performance in these criteria could result in a downgrade of our rating. A downgrade of this rating could cause our current and future brokers and agents, retail brokers and insureds to choose other, more highly rated competitors. A downgrade of this rating could also increase the cost or reduce the availability of reinsurance to us.

The failure of any of the loss limitations or exclusions we employ, or changes in other claim or coverage issues, could have a material adverse effect on our financial condition or our results of operations.

Various provisions of our policies, such as limitations or exclusions from coverage or choice of forum, which have been negotiated to limit our risks, may not be enforceable in the manner we intend. At the present time, we employ a variety of endorsements to our policies that limit exposure to known risks. As industry practices and legal, judicial, social and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by

increasing the size or number of claims.

In addition, we craft our excess and surplus lines policy language to manage our exposure to expanding theories of legal liability like those which have given rise to claims for lead paint, asbestos, mold and construction defects. Many of the policies we issue also include conditions requiring the prompt reporting of claims to us and our right to decline coverage in the event of a violation of that condition, In addition, many of our policies limit the period during which a policyholder may bring a claim under the policy, which in many cases is shorter than the statutory period under which such claims can be brought against our policyholders. While these exclusions and limitations help us assess and reduce our loss exposure and help eliminate known exposures to certain risks, it is possible that a court or regulatory authority could nullify or void an exclusion or legislation could be enacted modifying or barring the use of such endorsements and limitations. This could result in higher than anticipated losses and loss adjustment expenses which could have a material adverse effect on our financial condition or results of operations. In some instances, these changes may not become apparent until some time after we have issued insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued.

We distribute our products through a select group of brokers and agents, three of which account for a significant part of our business, and there can be no assurance that such relationships will continue.

We distribute our products through a select group of brokers and agents. For the year ended December 31, 2004, 34.9% of James River Insurance's direct written premiums were distributed through two brokers, CRC Insurance Services, Inc. and Swett & Crawford, and approximately 11.0% of Stonewood Insurance's direct written premiums were distributed through one agent, SIA Group, Inc. Because our agreements with our agents and brokers do not require mimumum premium volumes and are terminable upon 30 or 60 days notice, we cannot assure you that such relationships will continue. If they do continue, it is possible they may not be profitable for us. The termination of our relationship with one or more of these brokers or agents could result in lower direct written premiums and have a material adverse effect on us.

We may not be successful in reducing our risk through reinsurance arrangements and our reinsurers may not pay claims made by us in a timely fashion.

We purchase reinsurance by transferring part of the risk we have assumed (known as ceding) to reinsurers in exchange for part of the premium we receive in connection with the risk. Ceded premiums amounted to 15.7% of our direct written premiums in 2004. The availability, cost and structure of reinsurance protection are subject to changing market conditions, which are outside our control. If we are not able to obtain reinsurance protection on favorable terms, or at all, our potential losses could exceed our ability to pay and our business, financial condition or results of operations could suffer. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred or ceded to the reinsurer, it does not relieve us (the reinsured) of our liability to our policyholders. Accordingly, we bear risk with respect to our reinsurers. That is, our reinsurers may not pay claims made by us on a timely basis, or they may not pay some or all of these claims. Either of these events would increase our costs and could have a material adverse effect on our business. As of December 31, 2004, we had $15.2 million of reinsurance recoverable on unpaid losses and no reinsurance recoverable on paid losses.

If we lose key personnel or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered.

Our future success will depend, in part, upon the efforts of our executive officers and other key personnel, including J. Adam Abram, President and Chief Executive Officer; Michael T. Oakes, Executive Vice President and Chief

Financial Officer; Michael E. Crow, Senior Vice President—Finance and Chief Accounting Officer; Michael P. Kehoe, President and Chief Executive Officer of James River Management Company, Inc.; and C. Kenneth Mitchell, President and Chief Executive Officer of Stonewood Insurance Management Company, Inc. The loss of any of these officers or other key personnel could prevent us from fully implementing our business strategies and materially and adversely affect our business, financial condition and results of operations. We have employment agreements with four of our executive officers. We do not have key person insurance on the lives of any of our key management personnel. As we continue to grow, we will need to recruit and retain additional qualified management personnel, but we may not be able to do so. Our ability to recruit and retain such personnel will depend upon a number of factors, such as our results of operations, prospects and the level of competition then prevailing in the market for qualified personnel.

Our actual incurred losses may be greater than our loss and loss adjustment expense reserves, which could have a material adverse effect on our financial condition and results of operations.

We are liable for losses and loss adjustment expenses under the terms of the insurance policies we underwrite. In many cases, several years may elapse between the occurrence of an insured loss, the reporting of the loss to us and our payment of the loss. We establish loss and loss adjustment expense reserves for the ultimate payment of all losses and loss adjustment expenses incurred. We estimate the reserve for losses and loss adjustment expenses using individual case-basis valuations of reported claims. We also use statistical analyses to estimate the cost of losses that have been incurred but not reported to us. These estimates are based on historical information and on estimates of future trends that may affect the frequency of claims and changes in the average cost of claims that may arise in the future. They are by their nature imprecise, and our ultimate losses and loss adjustment expenses may vary from established reserves. If any of our reserves should prove to be inadequate, we will be required to increase reserves resulting in a reduction in our net income and stockholders' equity in the period in which the deficiency is identified. Future loss experience substantially in excess of established reserves could also have a material effect on future earnings and liquidity and our financial rating.

Furthermore, factors that are difficult to predict, such as:

- claims inflation,
- claims development patterns,
- legislative activity,
- social and economic patterns and
- litigation and regulatory trends

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may have a substantial impact on our future losses and loss adjustment expenses. As of December 31, 2004, unpaid loss and loss adjustment expense reserves (net of reserves ceded to our reinsurers) were $47.0 million.

Since we have a limited operating history, it is difficult to predict our future performance.

James River was organized in September 2002 and formed or acquired its two insurance subsidiaries in 2003. James River Insurance wrote its first policy effective July 1, 2003. Stonewood Insurance commenced writing insurance as of January 1, 2004. We therefore have limited operating and financial history available to help you evaluate our past performance or to make a decision about an investment in our common stock. In addition, because we focus our efforts on certain specialized sectors of the insurance market, and because we do not have an extensive claims history to date, our limited historical financial results may not accurately predict our future performance. Moreover, companies in their initial stages of development present substantial business and financial risks and may suffer

significant losses. For example, early stage companies must generally develop business relationships, establish operating procedures, hire staff, install information and other management systems, establish facilities and obtain licenses in order to conduct their intended business activities. They are not always able to find the necessary resources at a reasonable cost, or at all. As a result of the risks specific to our business and those associated with new companies in general, it is possible that we may not be successful in implementing our business strategy. You should carefully consider our prospects in light of the risks and difficulties frequently encountered by early stage companies with limited operating histories.

We are subject to extensive regulation, which may adversely affect our ability to achieve our business objectives. In addition, if we fail to comply with these regulations, we may be subject to penalties, including fines and suspensions, which may adversely affect our financial condition and results of operations.

Our subsidiaries are subject to extensive regulation, primarily by Ohio, the domiciliary state for James River Insurance, and North Carolina, the domiciliary state for Stonewood Insurance, and to a lesser degree, the other states in which we operate. Most insurance regulations are designed to protect the interests of insurance policyholders, as opposed to the interests of stockholders. These regulations generally are administered by a department of insurance in each state and relate to, among other things, authorizations to write excess and surplus lines of business, capital and surplus requirements, rate and form approvals, investment, underwriting limitations, affiliate transactions, dividend limitations, changes in control, solvency and a variety of other financial and non-financial aspects of our business. Significant changes in these laws and regulations could further limit our discretion or make it more expensive to conduct our business. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may impose timing and expense constraints that could adversely affect our ability to achieve some or all of our business objectives.

In addition, regulatory authorities have broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, where there is uncertainty as to applicability, we follow practices based on our interpretations of regulations or practices that we believe generally to be followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us. This could adversely affect our ability to operate our business. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could interfere with our operations and require us to bear additional costs of compliance, which could adversely affect our ability to operate our business.

The National Association of Insurance Commissioners has adopted a system to test the adequacy of statutory capital, known as "risk-based capital." This system establishes the minimum amount of risk-based capital necessary for a company to support its overall business operations. It identifies property/casualty insurers that may be inadequately capitalized by looking at certain inherent risks of

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each insurer's assets and liabilities and its mix of net written premiums. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action, including supervision, rehabilitation or liquidation. Failure to maintain our risk-based capital at the required levels could adversely affect the ability of our insurance subsidiaries to maintain regulatory authority to conduct our business.

Stonewood Insurance's business is heavily concentrated in workers' compensation insurance for the residential construction industry in North Carolina.

Stonewood Insurance's business is heavily concentrated in workers' compensation insurance in North Carolina and is further concentrated in the residential construction business. This makes Stonewood Insurance vulnerable to changes affecting the economy of North Carolina and in particular the residential construction business in North Carolina. By concentrating a substantial portion of its business in construction operations, Stonewood Insurance is exposed to substantial losses due to accidents and occupational hazards. We attempt to moderate these risks by the purchase of reinsurance and by underwriting and pricing accounts with these risks in mind. However, there can be no assurance that these precautions are adequate and that we will not be exposed to greater than anticipated losses arising from the hazardous nature of the business conducted by its insureds.

We may require additional capital in the future, which may not be available or only available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that the funds generated by this offering are insufficient to fund future operating requirements and/or cover claim losses, we may need to raise additional funds through financings or curtail our growth. Based on our current operating plan, we believe that the net proceeds to us from this offering, together with our anticipated retained earnings, will support our operations through 2006 without the need to raise additional capital. However, we cannot provide any assurance in that regard, since many factors will affect our capital needs and their amount and timing, including our growth and profitability, our claims experience, and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions and other unforeseeable developments. If we have to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our stockholders could result. In any case, such securities may have rights, preferences and privileges that are senior to those of the shares offered hereby. In the case of debt financings, we may be subject to covenants that restrict our ability to freely operate our business. If we cannot obtain adequate capital on favorable terms or at all, we may not have sufficient funds to implement our operating plans and our business, financial condition or results of operations could be materially adversely affected.

Our investment results and, therefore, our results and operations and financial condition may be impacted by changes in the business, financial condition or operating results of the entities in which we invest, as well as changes in interest rates, government monetary policies, general economic conditions and overall capital market conditions.

Our results of operations depend, in part, on the performance of our invested assets. Fluctuations in interest rates affect our returns on, and the fair value of, fixed-income securities. Unrealized gains and losses on fixed-income securities are recognized in accumulated other comprehensive income, net of taxes and minority interest, and increase or decrease our stockholders' equity. Interest rates in the United States are currently low relative to historical levels. An increase in interest rates could reduce the fair value of our investments in fixed-income securities. In addition, defaults by third parties who fail to pay or perform obligations could reduce our investment income and realized investment gains and could result in investment losses in our portfolio.

We had fixed-income and equity investments (consisting of a bond mutual fund) with a fair value of $175.0 million as of December 31, 2004 that are subject to:

- credit risk, which is the risk that our invested assets will decrease in value due to unfavorable changes in the financial prospects or a downgrade in the credit rating of an entity in which we have invested;

- equity price risk, which is the risk that we will incur economic loss due to a decline in the bond mutual fund share price; and
- interest rate risk, which is the risk that our invested assets may decrease in value due to changes in interest rates.

Our fixed-income investment portfolio includes mortgage-backed securities. As of December 31, 2004, mortgage-backed securities constituted 18.1% of our fixed maturity securities. As with other fixed-income securities, the fair value of these securities fluctuates depending on market and other general economic conditions and the interest rate environment. Changes in interest rates can expose us to prepayment risks on these investments. In periods of declining interest rates, mortgage prepayments generally increase and mortgage-backed securities and other asset-backed securities are paid more quickly, requiring us to reinvest the proceeds at the then current market rates. Conversely, during periods of rising interest rates, the rate of prepayment generally slows. Mortgage-backed securities that have an amortized cost that is less than par (i.e. purchased at a discount) may incur a decrease in yield as a result of a slower rate of prepayment.

Our equity portfolio totaled $2.3 million as of December 31, 2004, which is invested in one bond mutual fund. The bond mutual fund in which we invest is highly diversified, and all of the securities in its portfolio are rated "AAA" by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., which we refer to in this prospectus as Standard & Poor's, or received an equivalent rating from another nationally recognized rating agency. The fund's portfolio has an average duration of less than one year.

Since the end of 2002, the United States financial markets have experienced a high degree of volatility in interest rates, which affect the value of our fixed-income securities. As of December 31, 2004, our investment portfolio had a net unrealized investment loss, before the effect of income taxes, of $168,000.

We rely on our information technology and telecommunication systems, and the failure of these systems could materially and adversely affect our business.

Our business is highly dependent upon the successful and uninterrupted functioning of our information technology and telecommunications systems. We rely on these systems to process new and renewal business, provide customer service, make claims payments and facilitate collections and cancellations. These systems also enable us to perform actuarial and other modeling functions necessary for underwriting and rate development. The failure of these systems, or the termination of a third-party software license upon which any of these systems is based, could interrupt our operations or materially impact our ability to evaluate and write new business. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to write and process new and renewal business and provide customer service or compromise our ability to pay claims in a timely manner. This could result in a material adverse effect on our business.

Our growth may be dependent upon our successful acquisitions of other insurance businesses.

Following the offering, we will continue to pursue acquisitions of specialty insurance businesses that can be acquired on acceptable terms. Some of these acquisitions could be material in size and scope. Our future growth may depend, in part, upon the successful implementation of this strategy. While we will continually be searching for acquisition opportunities, there can be no assurance that we will be successful in identifying suitable acquisitions. If any potential acquisition opportunities are identified, there can be no assurance that we will consummate such acquisitions, or, if any such acquisition does occur, that it will be successful in enhancing our business, be accretive to either our profitability or book value or generate an underwriting profit. We may in the future face increased competition for acquisition opportunities which may inhibit our ability to consummate suitable acquisitions. In addition, to the extent that our acquisition strategy results in the acquisition of businesses, such acquisitions could pose a number of special

risks, including the diversion of management's attention, the unsuccessful integration of the operations and personnel of the acquired companies, adverse short-term effects on reported operating results, the impairment of acquired intangible assets and the loss of key employees.

We may, in the future, issue additional common stock in connection with one or more acquisitions, which may dilute our stockholders, including the investors in this offering. Alternatively, we may issue debt, which could limit our future financial flexibility. Additionally, with respect to future acquisitions, our stockholders may not have an opportunity to review the financial statements of the entity being acquired or to vote on such acquisitions.

If North Carolina drastically increases the assessments Stonewood Insurance is required to pay, our results of operations and financial condition will suffer.

Stonewood Insurance, our admitted insurance subsidiary, is subject to assessments in North Carolina, its domiciliary state, for various purposes, including the provision of funds necessary to fund the operations of the North Carolina insurance department and the state fund that pays covered claims under certain policies provided by impaired, insolvent or failed insurance companies. These assessments are generally set based on an insurer's percentage of the total premiums written in the insurer's state within a particular line of business. As Stonewood Insurance grows, our share of any assessments may increase. However, we cannot predict with certainty the amount of future assessments because they depend on factors outside our control, such as insolvencies of other insurance companies. Significant assessments could result in higher than expected operating expenses and have a material adverse effect on our financial condition or results of operations.

Our reliance on brokers and agents subjects us to their credit risk.

With respect to the premiums produced by our brokers and agents, certain premiums from the policyholders are collected directly by the brokers or agents and forwarded to our insurance subsidiaries. In certain jurisdictions, when the insured pays premiums for these policies to brokers or agents for payment over to our insurance subsidiaries, the premiums might be considered to have been paid under applicable insurance laws and regulations and the insured will no longer be liable to us for those amounts, whether or not we have actually received the premiums from the broker or agent. Consequently, we assume a degree of credit risk associated with brokers and agents. Although brokers' and agents' failures to remit premiums to us have not had a material adverse effect on us to date, there may be instances where brokers and agents collect premium but do not remit it to us and we may be nonetheless required under applicable law to provide the coverage set forth in the policy despite the absence of premium. Because the possibility of these events is dependent in large part upon the financial condition and internal operations of our brokers and agents, which in most cases are not public information, we are not able to quantify the exposure presented by this risk. If we are unable to collect premiums from our brokers and agents in the future, our underwriting profits may decline and our financial condition and results of operations could be materially and adversely affected.

Risks Related to Our Industry

Our business is cyclical in nature, which may affect our financial performance.

Historically, the financial performance of the property/casualty insurance industry has tended to fluctuate in cyclical periods of price competition and excess capacity (known as a soft market) followed by periods of high premium rates and shortages of underwriting capacity (known as a hard market). Although an individual insurance company's financial performance is dependent on its own specific business characteristics, the profitability of most property/casualty insurance companies tends to follow this cyclical market pattern. Further, this cyclical market

pattern can be more pronounced in the excess and surplus market than in the standard insurance market. When the standard insurance market hardens, the excess and surplus market hardens, and growth in the excess and surplus market can be significantly more rapid than growth in the standard insurance market. Similarly, when conditions begin to soften, many customers that were previously driven into the excess and surplus market may return to the admitted market, exacerbating the effects of rate decreases. Beginning in 2000 and accelerating in 2001, the property/casualty insurance industry has been experiencing a market reflecting increasing rates, more restrictive coverage terms and more conservative risk selection. We believe these trends slowed beginning in 2004 and that the current insurance market is becoming generally more competitive in terms of pricing, policy terms and conditions. Since this cyclicality is due in large part to the actions of our competitors and

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general economic factors, we cannot predict the timing or duration of changes in the market cycle. These cyclical patterns cause our revenues and net income to fluctuate, which may cause the price of our common stock to be volatile.

If we are not able to renew our existing reinsurance or obtain new reinsurance, either our net exposure would increase or we would have to reduce the level of our underwriting commitment.

We currently purchase excess of loss reinsurance to stop our loss from a single occurrence on any one coverage part from any one policy. For our excess casualty and workers' compensation lines of business, we retain $500,000 of loss. For our workers' compensation line, we also retain the risk of loss for claims above a $20.0 million limit and $10.0 million for any one life. For our property and primary casualty lines of business, we retain $1.0 million in loss. Further, we purchase catastrophe reinsurance to cover losses arising from any single occurrence, regardless of how many policyholders are involved or the extent of their loss, from $2.0 million per occurrence up to $7.0 million per occurrence. However, we may choose in the future to re-evaluate the use of reinsurance to increase, decrease or eliminate the amount of liability we cede to reinsurers, depending upon the cost and availability of reinsurance.

Market conditions beyond our control determine the availability and cost of the reinsurance protection that we purchase. The reinsurance market has changed dramatically over the past few years as a result of inadequate pricing, poor underwriting and the significant losses incurred as a consequence of the terrorist attacks on September 11, 2001. As a result, reinsurers have exited some lines of business, reduced available capacity and implemented provisions in their contracts designed to reduce their exposure to loss. In addition, the historical results of reinsurance programs and the availability of capital also affect the availability of reinsurance. Our reinsurance facilities generally are subject to annual renewal. We cannot provide any assurance that we will be able to maintain our current reinsurance facilities or that we will be able to obtain other reinsurance facilities in adequate amounts and at favorable rates. If we are unable to renew our expiring contracts or to make new arrangements, either our net exposures would increase, which could increase our costs, or, if we were unwilling to bear an increase in net exposures, we would have to reduce the level of our underwriting commitments, especially catastrophe exposed risks, which would reduce our revenues.

We compete with a large number of companies in the insurance industry for underwriting revenues.

We compete with a large number of other companies in our selected lines of business. Our principal competitors in the excess and surplus lines sector are Scottsdale Insurance Company (Nationwide Mutual Insurance Company), Markel Corporation, Burlington Insurance Group, Admiral Insurance Company (W. R. Berkley Corporation), Colony Insurance Company (The Argonaut Group) and RLI Corp., and in the workers' compensation insurance sector are Builders Mutual Insurance Company, Key Risk (W. R. Berkley Corporation) and Amerisure. We face competition both from specialty insurance companies, underwriting agencies and intermediaries, as well as diversified financial

services companies that are significantly larger than we are and that have significantly greater financial, marketing, management and other resources than we do. Some of these competitors also have significantly greater experience and market recognition than we do. Larger carriers may have lower expense ratios, allowing them to price their products more competitively than us. We may incur increased costs in competing for underwriting revenues. If we are unable to compete effectively in the markets in which we operate or to expand our operations into new markets, our underwriting revenues and net income may decline.

A number of new, proposed or potential legislative and industry developments could further increase competition in our industry. These developments include:

- an increase in capital-raising by companies in our lines of business, which could result in new entrants to our markets and an excess of capital in the industry;
- programs in which state-sponsored entities provide property insurance in catastrophe prone areas or other "alternative markets" types of coverage;
- changing practices caused by the internet, which may lead to greater competition in the insurance business; and
- consolidation in the insurance industry, which could lead to lower margins for us.

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New competition from these developments could cause the supply and/or demand for insurance or reinsurance to change, which could affect our ability to price our products at attractive rates and thereby affect our underwriting results. In addition, deregulation of commercial lines insurance has been adopted in many states and may be adopted in others. In some states, the deregulation of commercial lines generally enables admitted insurers to underwrite certain commercial property/casualty risks without the necessity of obtaining prior approval for rates and/or forms, although the content of policy forms is still regulated. In others states, the terms and conditions of commercial insurance policy forms have been deregulated. The deregulation of commercial lines may permit risks that would not otherwise be considered attractive by standard market carriers to be underwritten by such carriers using forms and rates that are attractive to them. Although no assurance can be given that further deregulation will occur, the extent to which it may occur or the form it will take, it is possible that deregulation of commercial lines insurance will increase competition in our markets, which could reduce our written premiums or make our products less profitable to us and adversely affect our results of operations and financial position.

We also may compete with new entrants in the future. Competition is based on many factors, including:

- the perceived market strength of the insurer;
- pricing and other terms and conditions;
- services provided;
- the speed of claims payment;
- the reputation and experience of the insurer; and
- ratings assigned by independent rating organizations such as A.M. Best.

Ultimately, this competition could affect our ability to attract business at premium rates that are likely to generate underwriting profits.

As a holding company, we are dependent on the results of operations of our insurance subsidiaries and are likely to rely on the regulatory and financial capacity of our subsidiaries to pay dividends to us. The domiciliary states of our insurance subsidiaries limit the aggregate amount of dividends our

subsidiaries may pay to us in any twelve-month period, thereby limiting our funds to pay expenses and dividends.

We are an insurance holding company and our principal asset is the shares we hold in our subsidiaries. Payments from our insurance company subsidiaries pursuant to management agreements and tax sharing agreements are our primary source of funds to pay holding company expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will be the primary source of funds for our holding company following this offering. The payment of dividends by our subsidiaries to us is limited by statute. In general, these restrictions limit the aggregate amount of dividends or other distributions that our subsidiaries may declare or pay within any 12 month period without advance regulatory approval. In Ohio, the domiciliary state of James River Insurance, this limitation is the greater of statutory net income for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year, and dividends may be paid only out of James River Insurance's earned surplus. In North Carolina, the domiciliary state of Stonewood Insurance, this limitation is the lesser of statutory net income for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year. For Stonewood Insurance, pursuant to the dividend limitations under North Carolina law, we are not currently allowed to pay dividends without the prior permission of the North Carolina Department of Insurance. In addition, insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels and could refuse to permit the payment of dividends calculated under any applicable formula. As a result, we may not be able to receive dividends from our subsidiaries at times and in amounts necessary to pay corporate expenses or meet other obligations. Subject to the foregoing, the maximum amount of dividends available to us from our insurance subsidiaries during 2005 without regulatory approval is $5.8 million.

Litigation and legal proceedings against our insurance subsidiaries could have an adverse effect on our business, results of operations and/or financial condition.

Our insurance subsidiaries have been named as defendants in various legal actions in the course of their insurance operations. Our subsidiaries have responded to the lawsuits, and we believe that there are meritorious defenses and intend to vigorously contest these claims. Adverse judgments in one or more of such lawsuits could require us to pay significant damage amounts or to change aspects of our operations, which could have a material adverse effect on our financial results.

Severe weather conditions and other catastrophes may result in an increase in the number and amount of claims filed against us.

Our business is exposed to the risk of severe weather conditions and other catastrophes. Catastrophes can be caused by various events, including natural events such as severe winter weather, tornadoes, windstorms, earthquakes, hailstorms, severe thunderstorms and fires, and other events such as explosions, terrorist attacks and riots. The incidence and severity of catastrophes and severe weather conditions are inherently unpredictable. Severe weather conditions and catastrophes can cause losses in a variety of our property/casualty lines and generally result in an increase in the number of claims filed as well as the amount of compensation sought by claimants. It is possible that a catastrophic event or multiple catastrophic events could have a material adverse effect on our results of operations, liquidity and financial condition. It is possible that losses could exceed our catastrophe reinsurance coverage.

Risks Related to This Offering

Applicable insurance laws and certain provisions in our amended and restated certificate of incorporation make it difficult to effect a change of control.

Under applicable Ohio and North Carolina insurance laws and regulations, no person may acquire control of our

company unless that person has filed a statement containing specified information with both the Ohio Department of Insurance and North Carolina Department of Insurance and obtains advance approval for such acquisition. Under applicable laws and regulations, any person acquiring, directly or indirectly (by revocable proxy or otherwise), 10% or more of the voting shares of any other person is presumed to have acquired control of such person, and a person who beneficially acquires 10% or more of our common shares without obtaining advance approval would be in violation of Ohio and North Carolina insurance laws and may be subject to injunctive action enjoining the acquisition and the voting of such shares, and seizure of the shares, as well as other action as determined by the Director of the Ohio Department of Insurance and the Commissioner of the North Carolina Department of Insurance.

In addition, many state insurance laws require prior notification to the state insurance department of a change of control of a non-domiciliary insurance company licensed to transact insurance in that state. While these pre-notification statutes do not authorize the state insurance departments to disapprove the change of control, they authorize regulatory action (including a possible revocation of our authority to do business) in the affected state if particular conditions exist, such as undue market concentration. Any future transactions that would constitute a change of control of us may require prior notification in the states that have pre-acquisition notification laws.

Certain provisions of Delaware law and our certificate of incorporation as it will be amended and restated prior to the effectiveness of this offering make it more difficult to effect the acquisition of control of our company by means of a tender offer, open market purchase, proxy fight or otherwise. The provisions in our certificate of incorporation that will make it difficult to effect a change of control include the authority of our board of directors to issue series of preferred shares with such voting rights and other powers as the board of directors may determine and notice requirements in our by-laws relating to nominations to the board of directors and to the raising of business matters at stockholders' meetings. See "Description of Capital Stock."

Future sales of our common stock by our existing stockholders in the public market, or the possibility or perception of such future sales, could adversely affect the market price of our common stock.

After giving effect to this offering, our existing stockholders will beneficially own 68.9% of our outstanding common stock (approximately 65.8% if the underwriters' over-allotment option is exercised

in full), not including any common stock they or related parties may purchase in this offering. Of these shares, 64.6% are subject to lock-up agreements that prohibit the owners from disposing of our shares for 180 days after the date of this prospectus. See "Shares Eligible for Future Sale." We cannot predict what effect, if any, future sales of shares by these persons, their affiliates or our other stockholders, or the availability of shares for future sale, may have on the prevailing market price of our common stock from time to time. Sales of substantial amounts of our common stock in the public market by these persons, their affiliates or our other stockholders, or the possibility or perception that such sales could occur, could adversely affect prevailing market prices for our common stock. See "Shares Eligible for Future Sale." If such sales reduce the market price of our common stock, our ability to raise additional capital in the equity markets may be adversely affected, and it may be difficult for you to sell your shares at a time and price which you deem appropriate.

Our directors, executive officers and principal stockholders will own a large percentage of our common stock after this offering, which will allow them to control substantially all matters requiring stockholder approval.

Our directors, executive officers and principal stockholders will beneficially own approximately 37.8% of our

outstanding common stock (after giving effect to the conversion of all of our outstanding convertible preferred stock, including shares representing accrued dividends, warrants and options exercisable within 60 days as of May 31, 2005) immediately following completion of this offering. This does not take into account shares of common stock that may be purchased by certain of our directors, executive officers and principal stockholders or related parties in this offering. See "Management—Management and Principal Stockholder Participation in this Offering." Accordingly, these directors, executive officers and principal stockholders will have substantial influence, if they act as a group, over the election of directors and the outcome of other corporate actions requiring stockholder approval or may seek to arrange a sale of our company at a time or under conditions that are not favorable to our other stockholders. These stockholders may also delay or prevent a change of control, even if such a change of control would benefit our other stockholders, if they act as a group. This significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

Being a public company will increase our administrative costs and may add other burdens.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, rules implemented by the Securities and Exchange Commission and new listing requirements of the Nasdaq National Market have required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some activities more time consuming and costly. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee.

You will experience immediate and substantial dilution upon your purchase of our common stock.

Based on an assumed initial offering price of $17.00 per share (the mid-point of the range set forth on the cover page of this prospectus) and after deducting the estimated underwriting discount and estimated offering expenses we must pay in connection with this offering, our adjusted pro forma net tangible book value per share as of March 31, 2005, after giving effect to this offering and the conversion of all of our outstanding convertible preferred stock into common stock, would be $10.58. Accordingly, purchasers of our common stock through this offering will suffer immediate dilution in pro forma net tangible book value per share of $6.42. In the event that we issue additional shares of common stock in the future, including shares that may be issued upon exercise of options and other rights granted under our employee benefit plans, purchasers of our common stock in this offering may experience future dilution. See "Dilution."

We cannot assure you that a public market for our common stock will develop, and our share price may be volatile.

Prior to this offering, there has been no public market for our common stock, and we cannot provide you with any assurance that an active trading market will develop and continue upon the closing of this offering or that the market price for our common stock will not decline below the initial public offering price. The initial public offering price will be determined through negotiations between us and the underwriters. The initial public offering price of our common stock will be based on numerous factors and may not be indicative of the market price for our common stock after the initial public offering. Factors such as variations in our actual or anticipated operating results, changes in or failure to meet earnings estimates of securities analysts, market conditions in the insurance industry, regulatory actions and general economic and securities market conditions, among other factors, could cause the market price of our common stock to decline below the initial public offering price.

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FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus are forward-looking statements. Forward-looking statements are derived from information that we currently have and assumptions that we make. Anticipated results may not be achieved, and actual results may differ materially, because of both known and unknown risks and uncertainties we face. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Forward-looking statements are identified by words such as "expect," "intend," "plan," "believe," "anticipate," "seek" and similar words of a future or forward-looking nature. These statements relate to, among other things:

- statements relating to our business and growth strategies, including plans for generating underwriting profits and to opportunistically grow our business;
- expectations regarding the payment of cash dividends;
- anticipated estimated use of proceeds from this offering;
- expectations regarding cash flows related to the regulatory approvals required to transact insurance business;
- expectations regarding future results at Stonewood Insurance due to increases in premiums and claims activity;
- expectations regarding the adequacy of our loss and loss adjustment expense reserves;
- statements and assumptions under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Outlook," including those relating to expected return on equity, growth of direct written premiums, market shares of our segments; adding underwriting divisions, cessions under our quota share reinsurance agreement and combined ratio;
- belief that we are not exposed to any environmental liability claims other than those which we have specifically underwritten and priced as an environmental exposure;
- belief that we can successfully underwrite workers' compensation accounts in the residential construction industry;
- belief that there is not widespread pressure to lower prices in order to retain insurance business;
- expectation that our data warehouse will prove to be a competitive advantage for us;
- expectation that no material regulatory action will result due to our unusual IRIS ratios;
- belief that we will be able to manage our capital actively in response to changing market conditions;
- belief that provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated by-laws will discourage coercive takeover practices and inadequate takeover bids; and
- any other statements or assumptions that are not historical facts.

Factors that could cause actual results to differ materially from our forward-looking statements include, but are not limited to, those described under "Risk Factors" and the following:

- increased competition on the basis of pricing, coverage or other factors may affect financial performance;
- the cyclical nature of our business may affect our financial performance;
-

developments in the financial or capital markets may adversely affect the performance of our investments or our ability to raise capital;

- the loss of key personnel or the inability to recruit qualified personnel may adversely affect our ability to implement our business strategies;

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- changes in the availability, cost or quality of reinsurance or failure of our reinsurers to pay claims timely or at all may adversely affect our financial performance;
- severe weather conditions and other catastrophes may result in greater frequency or severity of claims than our underwriting, reserving or investment practices anticipate;
- the effects of war or terrorism could adversely affect our business;
- changes in our relationships with the agencies and agents that distribute our products or our inability to recruit new agencies, brokers or agents may affect our ability to execute our business strategies;
- changes in rating agency policies or practices could result in changes in the way we conduct our business that adversely affect our financial condition and results of operations;
- a decline in our financial ratings may result in a reduction in new and renewal business;
- changes in regulations or laws applicable to our insurance subsidiaries could hinder our ability to execute our business strategies or result in penalties or suspensions that adversely affect our financial condition and results of operations; and
- changes in legal theories of liability under our insurance policies could adversely affect our financial position and results of operations.

The foregoing should not be considered an exhaustive list and should be read in conjunction with the other cautionary statements that are included in this prospectus. Before making an investment decision, you should specifically consider all of the factors identified in this prospectus that could cause actual results to differ. Neither the Private Securities Litigation Reform Act of 1995 nor Section 27A of the Securities Act of 1933 provides any protection to us for statements made in this prospectus.

SOURCES OF CERTAIN STATISTICAL AND OTHER INFORMATION

This prospectus includes certain statistical and other data with respect to us, our products and our industry, derived from publicly available reports and other publications of:

- A.M. Best;
- North Carolina Rate Bureau; and
- National Council on Compensation Insurance, Inc.

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USE OF PROCEEDS

We estimate the net proceeds from this offering will be approximately $69.4 million, based on an assumed initial public offering price of $17.00 per share of common stock (the mid-point of the estimated range set forth on the cover page of this prospectus), and after deducting the underwriting discount and our estimated net offering expenses of $6.2

million. If the underwriters exercise their over-allotment option in full, we estimate our net proceeds will be approximately $79.9 million.

We intend to use the net proceeds from our sale of common shares in this offering to make contributions to the capital of our insurance subsidiaries and for other general corporate purposes, which may include potential acquisitions of companies in the specialty insurance business. We anticipate that we will contribute $60.0 to $65.0 million of the net proceeds to the capital of our insurance subsidiaries in 2005. We do not intend to use these proceeds to discontinue our quota share reinsurance agreement in 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Outlook" for our future plans with respect to this agreement. We are not currently engaged in discussions regarding any potential acquisition.

DIVIDEND POLICY

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We cannot assure you that we will declare and pay dividends in the future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, cash requirements, business prospects, regulatory and contractual restrictions on the payment of dividends by our subsidiaries and other factors our board of directors deems relevant. We currently intend to retain any future earnings to fund the development and growth of our business. For a discussion of our cash resources and needs, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

Our status as a holding company and a legal entity separate and distinct from our subsidiaries affects our ability to pay dividends and make other payments. As a holding company without significant operations of our own, the principal sources of our funds are dividends and other payments from our subsidiaries. The ability of our insurance subsidiaries to pay dividends to us is subject to limits under insurance laws of the states in which our insurance subsidiaries are domiciled. Furthermore, dividends from our subsidiaries are limited to minimum capital requirements in state regulations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" and "Regulation."

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2005:

- on an actual basis; and
- as adjusted to give effect to:
  - the sale of 4,444,000 shares of common stock in this offering at an assumed initial public offering price of $17.00 per share (the mid-point of the range set forth on the cover page of this prospectus), after the deduction of the underwriting discount and our net estimated offering expenses;
  - the conversion of all of the outstanding shares of Series A convertible preferred stock into 1,923,280 shares of our common stock immediately prior to the effectiveness of this offering, including shares representing accrued but unpaid dividends as of March 31, 2005;
  -

the conversion of all of the outstanding shares of Series B convertible preferred stock into 7,837,160 shares of common stock immediately prior to the effectiveness of this offering, including shares representing accrued but unpaid dividends as of March 31, 2005;

- a 10 for 1 split of our common stock which we intend to effect prior to the completion of this offering;
- repayment of $2.02 million of purchase money loans by the Company's directors, director affiliates and executive officers in April 2005; and
- amendments to our amended and restated certificate of incorporation that we expect to effect prior to completion of this offering.

You should read this table in conjunction with the sections of this prospectus entitled "Selected Historical Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited condensed consolidated financial statements and related notes included elsewhere in this prospectus.

	As of March 31, 2005 (unaudited)	
	Actual	As Adjusted
	($ in thousands)	
Debt:		
Senior debt	$ 15,000	$ 15,000
Junior subordinated debt	22,681	22,681
Total debt	$ 37,681	$ 37,681
Stockholders' equity		
Convertible preferred stock, $0.01 par value per share, 1,500,000 shares authorized; 5,000,000 shares – as adjusted:		
Series A – stated value $100 per share; 85,000 shares authorized, issued and outstanding; no shares outstanding – as adjusted	8,439	—
Series B – stated value $100 per share; 713,500 shares authorized, issued and outstanding; no shares outstanding – as adjusted	71,117	—
Common stock, $0.01 par value per share, 2,000,000 shares authorized; 1 share issued and outstanding; 100,000,000 shares authorized and 14,204,450 shares issued and outstanding – as adjusted	—	142
Paid in capital	—	156,669
Common stock warrants	524	524
Notes receivable from employees and directors	(2,565)	(545)
Retained earnings	7,895	—
Accumulated other comprehensive loss	(2,309)	(2,309)
Total stockholders' equity	83,101	154,481
Total capitalization	$ 120,782	$ 192,162

The table above does not include:

- 666,600 shares that may be issued pursuant to the underwriters' over-allotment option;

- 88,585 shares that will be issued upon conversion of the issued and outstanding shares of Series A convertible preferred stock and Series B convertible preferred stock, representing accrued but unpaid dividends on our convertible preferred stock for the period from April 1, 2005 to May 31, 2005; and
- 1,694,090 shares that may be issued pursuant to the exercise of outstanding employee stock options, at a weighted average exercise price of $10.07 per share as of May 31, 2005.

DILUTION

Our net tangible book value — historical and net tangible book value per share — historical as of March 31, 2005 was approximately $78.9 million, prior to the effect of the 10 for 1 split of our common stock which we intend to effect prior to the completion of this offering. Our pro forma net tangible book value as of March 31, 2005 was approximately $78.9 million, or $8.09 per share of common stock, based on 9,760,450 shares of common stock outstanding after giving effect to the conversion of all outstanding shares of our convertible preferred stock into common stock, including shares representing accrued dividends, immediately prior to the effectiveness of this offering and the 10 for 1 split of our common stock which we intend to effect prior to the completion of this offering. Pro forma net tangible book value per share is determined by dividing our net tangible book value (total tangible assets less total liabilities) by the pro forma number of shares of common stock outstanding before giving effect to this offering.

After giving effect to the sale of 4,444,000 shares of common stock offered by us at an assumed initial public offering price of $17.00 per share (the mid-point of the range set forth on the cover page of this prospectus) and after deducting the estimated underwriting discount and offering expenses, our pro forma adjusted net tangible book value as of March 31, 2005 would have been $150.3 million, or $10.58 per share. This represents an immediate increase in the net tangible book value of $2.49 per share to existing stockholders, and an immediate dilution of $6.42 per share to new investors. The following table illustrates the per share dilution:

Net tangible book value per share as of March 31, 2005 — historical	$	78,917,634.00
Pro forma net tangible book value per share as of March 31, 2005		8.09
Increase per share attributable to new investors		2.49
Adjusted pro forma net tangible book value per share after this offering	$	10.58
Dilution per share to new investors	$	6.42

The following table summarizes, as of March 31, 2005, the difference between the number of shares of common stock purchased from us (including shares issuable upon conversion of all outstanding shares of our convertible preferred stock into common stock, including shares representing accrued dividends), the total consideration paid to us and the average price per share paid by the existing stockholders and by the new investors, at an assumed initial public offering price of $17.00 per share (the mid-point of the range set forth on the cover page of this prospectus) before the deduction of the estimated underwriting discount and net offering expenses.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	9,760,450	68.7%	$ 79,850,001	51.4%	$ 8.18
New investors	4,444,000	31.3	75,548,000	48.6	17.00
Total	14,204,450	100%	$155,398,001	100%	$ 10.94

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The selected historical consolidated financial and other data set forth below as of and for the three months ended March 31, 2005 and 2004 are derived from our unaudited condensed consolidated financial statements included in this prospectus. In the opinion of our management, the unaudited condensed consolidated financial data presented in the table below reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our consolidated financial position and results of operations as of the dates and for the periods indicated.

The selected historical consolidated financial and other data set forth below as of and for the years ended December 31, 2004 and December 31, 2003, as of December 31, 2002 and for the period from September 25, 2002 (inception) through December 31, 2002 are derived from our consolidated financial statements audited by Ernst & Young LLP, Independent Registered Public Accounting Firm.

These historical results are not necessarily indicative of results to be expected from any future period. You should read the information provided below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Three Months Ended March 31,		Year Ended December 31,		Period from September 25, 2002 (Inception) Through December 31, 2002
	2005	2004	2004	2003	2002
	(Unaudited)				
Operating Data:	($ in thousands, except for share data)				
Direct written premiums (1)	$ 47,020	$ 23,938	$ 142,539	$ 36,764	$ —
Net written premiums (2)	30,990	17,714	120,178	27,425	—
Net earned premiums	24,832	9,255	75,763	5,087	—
Net investment income	1,745	588	3,626	407	2
Net realized investment losses	(25)	—	(71)	—	—
Total revenues	26,597	9,872	79,462	5,550	2
Losses and loss adjustment expenses	13,394	5,853	47,588	3,372	—
Other operating expenses	5,693	3,438	20,690	6,842	280
Interest expense	588	—	793	—	—
Compensation expense on common stock warrant issuance	—	—	—	524	—
Total expenses	19,675	9,291	69,071	10,738	280
Income (loss) before tax	6,922	581	10,391	(5,188)	(278)

Income taxes	2,316	—	1,636	—	—
Net income (loss)	$ 4,606	$ 581	$ 8,755	$ (5,188)	$ (278)
Comprehensive income (loss)	$ 2,406	$ 1,557	$ 8,946	$ (5,488)	$ (278)
Balance Sheet Data:					
Cash and cash equivalents and investments	$ 220,318		$ 195,231	$ 79,324	$ 6,783
Reinsurance recoverables on unpaid losses	27,253		15,200	14,234	—
Total assets	305,783		266,948	123,561	6,823
Reserve for losses and loss adjustment expenses	84,374		62,243	17,417	—
Senior debt	15,000		15,000	—	—
Junior subordinated debt	22,681		22,681	—	—
Total stockholders' equity	83,101		80,695	70,396	(278)

	Three Months Ended March 31,		Year Ended December 31,		
	2005	2004	2004	2003	Period from September 25, 2002 (Inception) Through December 31, 2002
	(Unaudited)				
Operating Data:	($ in thousands, except for share data)				
Earnings (Loss) per Share:					
Basic – historical	$3,424,852.00	$ (589,653.00)	$3,991,672.00	$ (7,381,060.00)	$ (278,102.00)
Diluted – historical	$ 4.55	$ (589,653.00)	$ 9.28	$ (7,381,060.00)	$ (278,102.00)
Diluted – as adjusted (3)	$ 0.46	$ (58,965.30)	$ 0.93		
Weighted average shares outstanding – basic – historical	1	1	1	1	1
Weighted average shares outstanding – diluted – historical	1,011,323	1	943,330	1	1
Weighted average shares outstanding – diluted – as adjusted (3)	10,113,230	10	9,433,300		
GAAP Underwriting Ratios:					
Loss ratio (4)	53.9%	63.2%	62.8%	66.3%	—
Expense ratio (5)	22.9%	37.1%	27.3%	134.5%	—
Combined ratio (6)	76.9%	100.4%	90.1%	200.8%	—
Other Data:					

Return on average stockholders' equity (7)	22.5%	3.3%	11.6%	(14.8%)	(200.0%)
Debt to total capitalization ratio (8)	31.2%	—	31.8%	—	—
Statutory capital and surplus	$ 86,177	$ 57,358	$ 79,378	$ 58,183	—
Net written premiums to surplus ratio (9)	1.44	1.24	1.51	0.47	—

(1)The amount received or to be received for insurance policies written by us during a specific period of time without reduction for acquisition costs, reinsurance costs or other deductions.

(2)Net written premiums are direct written premiums less the portion of direct written premiums ceded to (reinsured by) other insurers, which we refer to as ceded written premiums.

(3)Earnings (loss) per share — diluted — as adjusted and earnings (loss) per share — weighted average shares outstanding — diluted — as adjusted give effect to the conversion of all outstanding shares of our convertible preferred stock into common stock, including shares representing accrued but unpaid dividends on our convertible preferred stock through the respective balance sheet date presented and reflect a 10 for 1 split of our common stock, each of which will occur after the effectiveness of the Registration Statement of which this prospectus forms a part. Upon the conversion of the preferred stock, the only significant difference between basic and dilluted earnings per share will relate to the treatment of warrants and options.

(4)The loss ratio is the ratio, expressed as a percentage, of losses and loss expenses to net earned premiums, net of the effects of reinsurance.

(5)The expense ratio is the ratio, expressed as a percentage, of other operating expenses to net earned premiums.

(6)The combined ratio is the sum of the loss ratio and the expense ratio.

(7)Return on average stockholders' equity is the ratio, expressed as a percentage, of net income (loss) to the average of the beginning of period and end of period total stockholders' equity. The calculations for the three months ended March 31, 2005 and 2004 use annualized net income as the numerator in the calculation. Annualized results are not necessarily indicative of our actual results for the full year.

(8)The debt to total capitalization ratio is the ratio, expressed as a percentage, of total indebtedness for borrowed money to the sum of total indebtedness for borrowed money and stockholders' equity.

(9)The net written premiums to surplus ratio is the ratio of net written premiums to statutory-basis capital and surplus. We believe this measure is useful in evaluating our insurance subsidiaries' operating leverage. It may not be comparable to the definition of net written premiums to surplus ratio for other companies. The calculations for the three months ended March 31, 2005 and 2004 use annualized net written premiums as the numerator in the calculation. Annualized results are not necessarily indicative of our actual results for the full year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus. The discussion and analysis below includes certain forward-looking statements that are subject to risks, uncertainties and other factors described in "Risk Factors" beginning on page 9 and elsewhere in this prospectus that could cause

actual results to differ materially from those expressed in, or implied by, those forward-looking statements. See "Forward-Looking Statements".

Overview

James River Group, Inc. is a holding company that owns and manages property/casualty insurance companies focused on specialty insurance niches. We were organized in September 2002. We seek to earn a profit from underwriting. This means that we intend for the premiums we earn in any period to be sufficient to pay all of the losses and loss adjustment expenses we incur during the period as well as all of the expenses associated with our operations. Our insurance companies individually underwrite each risk that we issue a policy for, and our companies do not grant any underwriting authority to our insurance agents and brokers.

Our consolidated results include the results for our holding company and five wholly-owned subsidiaries:

James River Insurance Company (formerly Fidelity Excess and Surplus Insurance Company) underwrites property/casualty insurance on an excess and surplus lines basis in 48 states and the District of Columbia. James River Insurance sells its policies through a network of independent wholesale and retail brokers throughout the United States.

James River Management Company, Inc. employs professionals with experience operating a property/casualty insurance company writing business on an excess and surplus basis to manage James River Insurance.

Stonewood Insurance Company underwrites workers' compensation insurance for the construction industry in North Carolina. Stonewood Insurance was licensed to write insurance in North Carolina in November 2003, and its first insurance policies were written effective January 1, 2004. Stonewood Insurance sells its policies through a retail network of independent insurance agencies.

Stonewood Insurance Management Company, Inc. employs professionals with experience operating a workers' compensation insurance company to manage Stonewood Insurance.

Potomac Risk Services, Inc. was formed in 2004 to provide surplus lines brokerage services. Potomac had no operating activities in 2004 or in the first quarter of 2005.

A summary of quarterly operating results and financial position is presented below, starting with July 1, 2003, the date we commenced insurance operations:

	As of or for the Three Months Ended						
	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003
	($ in thousands)						
Direct written premiums	$47,020	$50,447	$38,511	$29,643	$23,938	$25,097	$11,667
Net written premiums	30,990	42,373	34,977	25,114	17,714	18,839	8,586
Net earned premiums	24,832	28,314	22,113	16,081	9,255	4,164	923
Income (loss) before tax	6,922	4,964	2,899	1,947	581	(1,243)	(1,541)

Net income (loss)	4,606	3,259	2,968	1,947	581	(1,243)	(1,541)
Loss ratio	53.9%	59.3%	65.5%	65.0%	63.2%	67.7%	60.0%
Expense ratio	22.9%	26.0%	24.9%	27.3%	37.1%	55.0%	226.7%
Combined ratio	76.9%	85.3%	90.4%	92.4%	100.4%	122.7%	286.7%
Total stockholders' equity	$83,101	$80,695	$77,687	$72,480	$71,963	$70,396	$51,352

The table shows an increase in our net income and stockholders' equity and a reduction in our combined ratio for each quarter over the period shown. Our combined ratios declined over the period shown principally because of reductions in our expense ratios. The expense ratios declined primarily due to the fact that the infrastructure that we built to process our insurance business in 2003 and early 2004 allowed us to increase production throughout 2004 and the first quarter of 2005 without experiencing a proportional increase in expenses.

Our loss ratio improved for the three months ended March 31, 2005 primarily due to $2.3 million of favorable loss and loss adjustment expense reserve development that we experienced for the quarter. The majority of this favorable reserve development, approximately $1.7 million, was reported on James River Insurance's property lines related to the 2004 accident year. This favorable development on the property lines resulted from reductions in our estimates of incurred but not reported losses and loss adjustment expenses. Excluding the effects of the $2.3 million of favorable reserve development from our results, our loss ratio for the three months ended March 31, 2005 was 63.3%.

We entered into a quota share reinsurance contract effective January 1, 2005 that transfers a portion of the risk related to certain property/casualty business written by James River Insurance in 2005 to reinsurers in exchange for a portion of our direct written premiums on that business. Under terms of the agreement, James River Insurance cedes a portion of its other liability occurrence and primary property business, which includes business written by the General Casualty, Manufacturers and Contractors and Primary Property divisions. By transferring risk to the reinsurers, we also reduced the amount of capital required to support the insurance operations of James River Insurance.

James River Insurance receives a ceding commission equal to 25% of ceded earned premium and pays a reinsurer margin equal to 4.5% of ceded earned premium. The ceding commission cannot be reduced, although under certain circumstances, based on underwriting results, James River Insurance is entitled to an additional profit contingent commission up to an amount equal to all of the reinsurer's profits above the margin. James River Insurance maintains a funds-held account which is credited interest at a fixed rate of 3.75% annually. The funds-held account balance is recorded as a liability on our balance sheet, and at March 31, 2005 the balance of the account was $5.2 million. Assets supporting the funds-held liability are not segregated or restricted. The contract has a loss ratio cap of 115%, which means that we cannot cede any losses in excess of a 115% loss ratio to the reinsurer. For the three months ended March 31, 2005, ceded earned premiums related to this quota share treaty were $7.6 million, ceded loss and loss adjustment expenses were $5.3 million and our reinsurance ceding commission was $1.9 million.

During 2004, our agency network grew significantly. James River Insurance added two new underwriting divisions, and Stonewood Insurance initiated its insurance operations. The addition of renewal premiums at James River Insurance starting July 1, 2004 as the first policies issued July 1, 2003 came up for renewal contributed to the growth in direct written premiums, net written premiums and net earned premiums in the quarters ended September 30, 2004 and December 31, 2004.

We issued 13,500 shares of Series B convertible preferred stock during the second quarter of 2004, with proceeds of $1.3 million.

We issued 200,000 shares of Series B convertible preferred stock during the fourth quarter of 2003, with proceeds, net of notes receivable from employees and directors, of $19.7 million. This transaction was the primary reason for the increase in stockholders' equity from September 30, 2003 to December 31, 2003.

Critical Accounting Policies

We have identified the accounting policies below as critical to the understanding of our results of operations and financial position. We use significant judgments and estimates concerning future results and developments in applying these accounting policies and in preparing our financial statements. Actual results may differ from these estimates. We evaluate our estimates on a continual basis using information that we believe to be relevant. For a detailed discussion of our significant accounting policies, see Note 1 to the 2004 audited consolidated financial statements included in this prospectus.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents our estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. We do not discount the reserve for losses and loss adjustment expenses. We estimate the reserve for losses and loss adjustment expenses using individual case-basis valuations of reported claims. We also use statistical analyses to estimate the cost of losses that have been incurred but not reported to us. Those estimates are based on historical information and on estimates of future trends that may affect the frequency of claims and changes in the average cost of claims that may arise in the future. As a relatively new company, our historical loss experience is limited.

We utilize two primary actuarial methods to arrive at our loss reserve estimates for each line of business. One of the primary methods, the incurred Bornhuetter-Ferguson method, utilizes our initial expected loss ratio (the ratio of losses and loss adjustment expenses incurred to net earned premiums), expected reporting patterns for losses based on industry data and our actual reported losses and loss adjustment expenses to estimate the reserve. The other primary method, the loss ratio method, estimates the reserve by applying an expected loss ratio to net earned premiums by line of business. For both methods, the expected loss ratio is established using judgment, and is based primarily on industry data and the experience of our management team in writing similar insurance coverages. The expected loss ratio used in the loss ratio method is judgmentally adjusted up or down when the level of reported losses for a specific accident year for a line of business leads us to conclude that the ultimate loss ratio will differ from our initial expected loss ratio. The expected loss ratio used in the incurred Bornhuetter-Ferguson method is typically not adjusted after it is initially set, because the mechanics of that method already incorporate departures from expected reported losses into the reserve calculations. We did not change our actuarial methods during the three months ended March 31, 2005. We have generally selected the method that yields the highest reserve for each line of business. At March 31, 2005, our aggregate reserve is the sum of the selected estimates for each line of business. This aggregate reserve reflects our best estimate. Since we have selected the higher of the two methods at each financial statement date, the aggregate reserve includes components calculated using the incurred Bornhuetter-Ferguson method and components calculated using the loss ratio method. This combination of methods varies by line of business and period. The primary factor contributing to the difference between the methods is that the incurred Bornhuetter-Ferguson method incorporates assumptions regarding industry reporting patterns for losses and our reported loss and loss adjustment expenses which are not reflected in the loss ratio method. This means that the incurred Bornhuetter-Ferguson method is more sensitive to our level of reported losses than the loss ratio method.

The estimated net reserve at March 31, 2005 using the incurred Bornhuetter-Ferguson method was $48.2 million, and the estimated net reserve at March 31, 2005 using the loss ratio method was $55.6 million. Each of these reserve estimates are individual point estimates and do not constitute an actuarial range. Given that our insurance companies

have limited historical experience and that our two primary actuarial methods utilize industry data, that losses on our casualty business often take a number of years to develop and that we write difficult classes of business which typically do not meet the risk criteria of standard carriers, we believe that we do not have sufficient evidence at this time to conclude that our ultimate loss ratios will be significantly better than our expected loss ratios. In most instances we have

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recorded the reserve estimate derived using the loss ratio method as our best reserve estimate because the expected loss ratio used in this method is derived from our management's experience in the lines of business that we write and our current underwriting criteria. We record the reserve estimate derived from the incurred Bornhuetter-Ferguson method as our best estimate when the level of actual reported losses provides sufficient evidence that the ultimate loss ratio will exceed our expected loss ratio. When the level of actual reported losses provides sufficient evidence that the ultimate loss ratio will be less than our expected loss ratio, we generally reduce the expected loss ratio used in the loss ratio method. We believe that generally selecting the higher of our two primary methods by line of business as the basis for our best reserve estimates at this early stage in our history is appropriate because more evidence is needed before we can reasonably conclude that our loss ratios will be significantly better than our expectations. In the future as more information becomes available to us and we develop more experience in our casualty business, we may adjust or change our actuarial methods. Such future methods may not necessarily result in selecting the highest estimate of our actuarial methods.

Reserve estimates derived using the incurred Bornhuetter-Ferguson method are driven by our assumptions related to the expected loss ratio and the expected reporting pattern for losses, while reserve estimates derived using the loss ratio method are driven by our assumptions related to the expected loss ratio and are not sensitive to reporting patterns. Reporting pattern means the estimated percentage of the ultimate losses for a particular line of business that have been reported at the valuation date. The table below quantifies the impact that reasonably likely changes in these two variables, the expected loss ratio and the expected reporting pattern for losses, would have on the recorded reserve for losses and loss adjustment expenses at March 31, 2005. The reporting pattern scenarios below only apply to the incurred Bornhuetter-Ferguson analysis. In the table below, the expected loss ratio and the expected reporting pattern refer to assumptions related to those two variables that we made in calculating the net reserves that we recorded at March 31, 2005.

Loss Ratio	Reporting Pattern	Impact on Net Recorded Reserves (in thousands)	Change from Recorded Net Reserves
Increase expected loss ratio by 5%	Slower reporting	$ 5,586	9.8%
Increase expected loss ratio by 5%	Expected reporting pattern	5,144	9.0%
Increase expected loss ratio by 5%	Faster reporting	5,076	8.9%
Expected loss ratio	Slower reporting	623	1.1%
Expected loss ratio	Expected reporting pattern	0	0.0%
Expected loss ratio	Faster reporting	-396	-0.7%
Reduce expected loss ratio by 5%	Slower reporting	-4,238	-7.4%

Reduce expected loss ratio by 5%	Expected reporting pattern	-4,880	-8.6%
Reduce expected loss ratio by 5%	Faster reporting	-5,498	-9.7%

The sensitivity analysis above was based on the weighted-average assumptions presented in the table below. For the expected loss ratio assumptions, the expected loss ratio represents a weighted average of the expected loss ratios used for each of our lines of business, with the expected loss ratio for each line weighted based on net earned premiums. For the expected reporting pattern assumptions, the expected reporting pattern represents a weighted average of the percentage of ultimate losses assumed to be reported to us at March 31, 2005 for each of our lines of business weighted based on net earned premiums.

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Loss Ratio Method

Scenario	Weighted-Average Assumption
Expected loss ratio	58.2%
Increase expected loss ratio by 5%	63.2%
Reduce expected loss ratio by 5%	53.2%

Incurred Bornhuetter-Ferguson Method

Scenario	Weighted-Average Assumption
Expected reporting pattern	35.8% of losses reported
Slower reporting	32.8% of losses reported
Faster reporting	39.2% of losses reported
Expected loss ratio	60.6%
Increase expected loss ratio by 5%	65.6%
Reduce expected loss ratio by 5%	55.6%

We believe that loss ratios 5% above or below our expected loss ratio constitute a reasonable range of expectations for each major line of business. In addition, we believe that the adjustments that we made to speed up or slow down the reporting patterns in the sensitivity analysis above are reasonably likely outcomes. Under the incurred Bornhuetter-Ferguson method, slowing the reporting pattern results in an increase in the estimate of reserves, because reported losses are seen as a smaller percentage of the ultimate reported losses, resulting in an increase in estimated unreported losses. Similarly, using a faster reporting pattern results in a decrease in the estimate of reserves. In determining the amounts by which to slow or accelerate the reporting patterns for the sensitivity analysis presented above, we applied judgment to reflect the fact that the variability of reasonably likely reporting pattern outcomes varies by major line of business. There is very little variability around our expected reporting patterns for our excess and surplus insurance property lines, because property claims are typically reported relatively quickly. Conversely, there is considerably more variability around our expected reporting patterns for our excess and surplus insurance casualty lines, because losses on casualty business often take a number of years to develop. Reporting patterns for workers' compensation insurance are generally slower than reporting patterns for our excess and surplus insurance

property lines and generally faster than reporting patterns for our excess and surplus insurance casualty lines. Accordingly, the variability around our expected reporting patterns for workers' compensation insurance is greater than it is for our excess and surplus insurance property lines and less than it is for our excess and surplus insurance casualty lines. The impact of recording the net reserve for losses at the highest value from the sensitivity analysis above would be to reduce net income by $3.6 million and to reduce stockholders' equity at March 31, 2005 by 4.4%. The impact of recording the net reserve for losses at the lowest value from the sensitivity analysis above would be to increase net income by $3.6 million and increase stockholders' equity at March 31, 2005 by 4.3%. Such changes in the net reserve for losses and loss adjustment expenses would not have an immediate impact on our liquidity, but would affect cash flow in future periods as the incremental or reduced amount of losses are paid.

Our reserves are driven by a number of important assumptions including litigation and regulatory trends, legislative activity, social and economic patterns and claims inflation assumptions. Our reserve estimates reflect current inflation in legal claims settlements and assume we will not be subject to losses from significant new legal liability theories. Our reserve estimates also assume that we will not experience significant losses from mass torts and that we will not incur losses from future mass torts not known to us today. While it is not possible to predict the impact of changes in this environment, if new mass torts or expanded legal theories of liability emerge, our incurred but not reported, commonly referred to as IBNR, claims may differ substantially from our IBNR reserves. Our reserve estimates assume that there will not be significant changes in the regulatory and legislative environment. The impact of potential changes in the regulatory or legislative environment is difficult to quantify in the absence of specific, significant new regulation or legislation. In the event of significant new regulation or legislation, we will attempt to quantify its impact on our business.

Our reserve estimates assume that the inflation assumption implicitly built into our expected loss ratio will continue into the future. Unexpected changes in loss cost inflation can occur through changes in general inflationary trends, changes in medical technology and procedures and changes in legal theories of liability. The estimated impact of an additional one percent increase in loss cost inflation as of March

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31, 2005 is to increase loss and loss adjustment expense reserves by approximately $500,000, decrease net income by $325,000 and reduce stockholders' equity by 0.4%. Such an increase in reserves would not have an immediate impact on our liquidity, but would reduce cash flow over time as those incremental losses are paid. IBNR reserve estimates are inherently less precise than case reserve estimates. A 5% change in net IBNR reserves at March 31, 2005 would equate to a $2.5 million change in the reserve for losses and loss adjustment expenses, which we sometimes refer to as LAE, a $1.6 million change in net income and a 1.9% change in stockholders' equity at March 31, 2005. Although we believe that our reserve estimates are reasonable, it is possible that our actual loss experience may not conform to our assumptions. Specifically, our actual ultimate loss ratio could differ from our initial expected loss ratio or our actual reporting patterns for losses could differ from the expected reporting patterns based on industry data. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimates included in our financial statements. We continually review our estimates and adjust them as necessary as experience develops or new information becomes known to us. Such adjustments are included in current operations.

Losses and loss adjustment expenses for 2004 reflect $156,000 of favorable development on the reserve for losses and loss adjustment expenses at December 31, 2003. Losses and loss adjustment expenses for the three months ended March 31, 2005 reflect $2.3 million of favorable development on the reserve for losses and loss adjustment expenses at December 31, 2004. The majority of this favorable development, approximately $1.7 million, was reported for James River Insurance's property lines and related to the 2004 accident year. Losses and loss adjustment expenses for

the three months ended March 31, 2004 reflect $93,000 of favorable development on the reserve for losses and loss adjustment expenses at December 31, 2003.

Investments

We evaluate our investments regularly to determine whether there are declines in value that are other-than-temporary. When we determine that a security has experienced an other-than-temporary impairment, the impairment is recognized as a realized investment loss. We consider a number of factors in assessing whether an impairment is other-than-temporary, including the amount and percentage that fair value is below amortized cost, the length of time that fair value has been below amortized cost and the credit quality ratings for the securities, with a special emphasis on securities downgraded below investment grade.

We carry securities classified as "available-for-sale" at fair value and unrealized gains and losses on such securities, net of deferred taxes, are reported as a separate component of accumulated other comprehensive income. We do not have any securities classified as "held-to-maturity" or "trading."

We report short-term investments at cost. Short-term investments include investments both readily convertible to known amounts of cash and having maturities of 12 months or less upon our acquisition of the investment.

Income Taxes

We review the need for a valuation allowance related to our deferred tax assets each quarter. We reduce our deferred tax assets by a valuation allowance when we determine that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The assessment of whether or not a valuation allowance is needed requires us to use significant judgment. Our assessment includes consideration of the amount of taxable income generated since we were formed in 2002, trends in earnings and future expectations. Income tax expense for 2004 reflects a reduction in the deferred tax valuation allowance of $1.9 million.

The effective tax rate for the three months ended March 31, 2005 is 33.5%. Income tax expense for the three months ended March 31, 2005 differs from the amount computed by applying the Federal statutory income tax rate to income before income taxes primarily due to interest on tax-advantaged state and municipal securities. There was no income tax expense for the three months ended March 31, 2004 because taxable income for the quarter was fully offset by net operating loss carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to our taxable income in the years in which temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases are expected to be recovered or settled.

Reinsurance

Some of the reinsurance treaties of James River Insurance contain retrospective experience rated provisions in which the cost of reinsurance purchased by James River Insurance or the amount of ceding commission James River Insurance receives from its reinsurers varies based on the level of incurred losses ceded to the reinsurers, subject to a maximum and a minimum specified in the reinsurance contract. We estimate the ultimate loss experience in determining the amounts to record in the financial statements for premiums ceded to reinsurers and ceding

commissions earned by James River Insurance. As loss experience develops, we adjust the ceded premium rates and ceding commission rates to reflect the loss experience. Although we believe that our estimates are reasonable, it is possible that our actual loss experience may not conform to our assumptions. We continually review our estimates and adjust them as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The impact of these adjustments in 2004 was to increase net earned premiums for 2004 by $484,000 for the true-up of premiums earned in 2003 and to increase losses and loss adjustment expenses by approximately $290,000. There were no adjustments to our assumptions related to retrospective experience rated reinsurance provisions for the three month periods ended March 31, 2005 and 2004.

Reinsurance premiums, commissions, losses and loss adjustment expenses on reinsured business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance recoverables and prepaid reinsurance premiums are reported as assets. Other amounts payable to reinsurers or receivable from reinsurers are netted where the right of offset exists.

We receive ceding commissions in connection with certain ceded reinsurance. The ceding commissions are recorded as a reduction of other operating expenses.

Intangible Insurance Assets

We possess intangible insurance assets with an indefinite life. Financial Accounting Standards Board (FASB) Statement No. 142, Goodwill and Other Intangible Assets, prescribes that an intangible asset with an indefinite useful life should not be amortized but instead should be tested for impairment on at least an annual basis, based on a comparison of its fair value and its carrying value. In performing the impairment evaluation for these intangible assets, we first determine that the intangible assets purchased continue to have an indefinite life. Next, we determine the fair value of the intangible assets and compare this fair value to the carrying value. If the carrying value exceeds the fair value, we recognize an impairment writedown to fair value on the intangible asset, and the impairment is reported through earnings. We have had no such impairment writedowns for the years ended December 31, 2004 and December 31, 2003 or for the three month periods ended March 31, 2005 and 2004.

See Note 1 to our audited consolidated financial statements included elsewhere in this prospectus for a discussion of our other significant accounting policies.

Acquisition Summary

On June 30, 2003, we acquired Fidelity Excess and Surplus Insurance Company (Fidelity), which we renamed James River Insurance Company, from American Empire Surplus Lines Insurance Company (American Empire), a member of the American Financial Group. The purchase price totaled $28.9 million, including $84,000 of acquisition expenses.

Our goal in making this acquisition was to acquire a company having regulatory approvals to write business on an excess and surplus lines basis in as many states as possible. With the purchase of Fidelity, we acquired surplus lines approval in 40 states and the District of Columbia and insurance licenses in four states. We recorded intangible insurance assets of $4.2 million in connection with the purchase. The

intangible insurance assets arise from regulatory approvals granted by the various state insurance departments to write insurance business on an excess and surplus lines basis in their states. Once these regulatory approvals are granted, we can routinely renew them at little cost provided that we have complied with rules and regulations. We expect cash flows related to the regulatory approvals to transact insurance business to continue indefinitely, so we have concluded that these intangible assets have indefinite lives.

At the time of our acquisition of Fidelity, Fidelity had a reinsurance agreement with its parent, American Empire. Under this reinsurance agreement, Fidelity ceded all of its liabilities on all insurance business it wrote or assumed through June 30, 2003 to American Empire. American Empire and Fidelity also entered into a trust agreement under which American Empire established a trust account with Fidelity as the beneficiary. Under the trust agreement, American Empire must maintain assets with a current fair value greater than or equal to the ultimate net aggregate losses recoverable under the reinsurance agreement. At March 31, 2005 and December 31, 2004, we had $2.8 million and $2.6 million, respectively, of reinsurance recoverables from American Empire related to the reinsurance agreement. Cessions under the reinsurance agreement are net of third party reinsurance. As of March 31, 2005 and December 31, 2004, there were $2.3 million and $1.9 million, respectively, of recoverables from third party reinsurers associated with the business that Fidelity wrote before we acquired it. In the event that these third party reinsurers default on their obligations, the recoverables would become subject to our reinsurance agreement with American Empire and, accordingly, American Empire will indemnify us for any such uncollectible third party reinsurance recoverables. At March 31, 2005 and December 31, 2004, trust assets had a fair value of $7.6 million and $7.7 million, respectively, which exceeded the ultimate net aggregate losses recoverable under the reinsurance agreement as required by the trust agreement. The trust assets are limited to cash and investments permitted by Ohio insurance laws. None of the trust assets can be in capital stock or in fixed income securities that are below investment grade. As additional security, Great American Insurance Company, an affiliate of American Empire, has irrevocably and unconditionally guaranteed the performance by American Empire of all of its obligations under the reinsurance agreement and trust agreement. Great American Insurance Company and American Empire have financial strength ratings of "A" (Excellent) from A.M. Best. We remain liable for the liabilities ceded under the reinsurance agreement in the event that the trust assets are insufficient to cover the ultimate net aggregate losses recoverable under the reinsurance agreement and American Empire and Great American Insurance Company default on their respective obligations.

Results of Operations

Net income was $4.6 million for the three months ended March 31, 2005 and $581,000 for the three months ended March 31, 2004. Net income for 2004 totaled $8.8 million compared to a net loss of $5.2 million for 2003 and a net loss of $278,000 for the period from September 25, 2002 (inception) through December 31, 2002. Prior to the third quarter of 2003, we were a development stage company with no insurance operations.

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Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

The following table summarizes our results for the three months ended March 31, 2005 and 2004:

	Three Months Ended March 31,	Percentage Change

	2005	2004	
	($ in thousands)		
Direct written premiums	$ 47,020	$ 23,938	96.4%
Net written premiums	$ 30,990	$ 17,714	74.9%
Net earned premiums	$ 24,832	$ 9,255	168%
Net investment income	1,745	588	197%
Realized investment losses	(25)	—	—
Other income	45	29	55.2%
Total revenues	26,597	9,872	169%
Losses and loss adjustment expenses	13,394	5,853	129%
Other operating expenses	5,693	3,438	65.6%
Interest expense	588	—	—
Total expenses	19,675	9,291	112%
Income before taxes	6,922	581	1,091%
Income tax expense	2,316	—	—
Net income	$ 4,606	$ 581	693%

Direct written premiums increased 96.4% from $23.9 million for the three months ended March 31, 2004 to $47.0 million for the three months ended March 31, 2005. Growth in the broker network at James River Insurance and the agency network at Stonewood Insurance were key drivers for the increase in direct written premiums. James River Insurance produced $41.8 million of direct written premiums in the three months ended March 31, 2005 compared to $23.2 million in the three months ended March 31, 2004. Because James River Insurance wrote its first insurance policy effective July 1, 2003, results for the three months ended March 31, 2004 did not include any renewal premiums, while direct written premiums for the three months ended March 31, 2005 include $11.9 million of renewal premiums. Stonewood Insurance produced $5.3 million of direct written premiums in the three months ended March 31, 2005 compared to $705,000 in the three months ended March 31, 2004. Because Stonewood Insurance wrote its first insurance policy effective January 1, 2004, results for the three months ended March 31, 2004 did not include any renewal premiums, while direct written premiums for the three months ended March 31, 2005 included renewal premiums. Stonewood Insurance did not receive its "A−" (Excellent) rating from A.M. Best until April 2004, and the lack of a rating in the first quarter of 2004 limited direct written premium production in that quarter.

Net written premiums were $31.0 million for the three months ended March 31, 2005, a 74.9% increase compared to $17.7 million for the three months ended March 31, 2004. The written premium ceding ratio (ratio of ceded written premiums to direct written premiums) increased to 34.1% for the three months ended March 31, 2005 from 26.0% for the three months ended March 31, 2004. Net written premiums grew by a smaller percentage than direct written premiums because we entered into a quota share reinsurance contract effective January 1, 2005 that transfers a portion of the risk related to certain lines of business to reinsurers in exchange for a portion of our direct written premiums on those lines of business. Ceded written premiums related to this quota share treaty for the three months ended March 31, 2005 totaled $7.6 million. The effects of this quota share contract on our written premium ceding ratio for the three months ended March 31, 2005 were partially offset by the reduction in the written premium ceding ratio resulting from our decision to increase the amount of risk we retain before reinsurance on the primary casualty policies sold by James River Insurance from $405,000 to $1.0 million per risk effective July 1, 2004.

Net earned premiums grew 168% from $9.3 million for the three months ended March 31, 2004 to $24.8 million for the three months ended March 31, 2005. Premiums are earned ratably over the terms of our insurance policies,

generally 12 months. We commenced our insurance operations on July 1, 2003. As a result, our net earned premiums for the three months ended March 31, 2004 were low relative to our net written premiums in that quarter, because premiums earned in that quarter were only a ratable portion of business written in the nine-month period from the inception of our insurance operations through March 31, 2004. In contrast, net earned premiums for the three months ended March 31, 2005 were a ratable portion of business written in the twelve-month period from April 1, 2004 through March 31, 2005.

Net investment income for the three months ended March 31, 2005 was $1.7 million, up 197% from $588,000 for the three months ended March 31, 2004, reflecting the significant growth in our cash and invested assets from $96.3 million at March 31, 2004 to $220.3 million at March 31, 2005. The growth in our cash and invested assets came from net written premiums and our offerings of debt and equity securities. The annualized gross investment yield (before investment expenses) on average cash and invested assets for the three months ended March 31, 2005 was 3.7%. The annualized gross investment yield on our average fixed maturity security balance for the three months ended March 31, 2005 was 3.9%. We significantly increased our holdings of tax-advantaged state and municipal fixed maturity securities in 2004. We believe that after considering their tax-advantaged characteristics, these state and municipal securities represent a good value relative to other market segments. Our annualized tax equivalent yield on our average fixed maturity security balance was 4.3% for the three months ended March 31, 2005. The annualized gross investment yield on average cash and invested assets for the three months ended March 31, 2004 was 3.0%.

The largest component of other income for the three months ended March 31, 2005 and 2004 was the interest we earned on notes receivable from employees and directors. The notes have an annual interest rate of 4.5%. Interest on the notes was $29,000 in both the three months ended March 31, 2005 and the three months ended March 31, 2004. In April 2005, the notes receivable from our executive officers and directors totaling $2.0 million were paid off by the borrowers, leaving $545,000 of notes receivable from our employees who are not executive officers.

Realized investment losses were $25,000 in the three months ended March 31, 2005. There were no realized gains or losses in the three months ended March 31, 2004.

Losses and LAE totaled $13.4 million for the three months ended March 31, 2005 representing a 129% increase compared to losses and LAE of $5.9 million for the three months ended March 31, 2004. The loss ratio improved to 53.9% for the three months ended March 31, 2005 from 63.2% for the three months ended March 31, 2004. Our loss ratio for the three months ended March 31, 2005 benefited from $2.3 million of favorable loss and loss adjustment expense reserve development that our insurance subsidiaries experienced in the quarter. The loss ratio for the three months ended March 31, 2005 excluding the effects of this favorable development was 63.3%.

A rollforward of the reserve for losses and LAE, net of reinsurance, is presented below:

	Three Months Ended March 31,	
	2005	2004
	(in thousands)	
Reserve for losses and LAE net of reinsurance recoverables at beginning of period	$ 47,043	$ 3,183
Add: Incurred losses and LAE net of reinsurance:		

Current year	15,711	5,946
Prior years	(2,317)	(93)
Total incurred losses and LAE	13,394	5,853
Deduct: Loss and LAE payments net of reinsurance:		
Current year	1,039	365
Prior years	2,277	228
Total loss and LAE payments	3,316	593
Reserve for losses and LAE net of reinsurance recoverables at end of period	57,121	8,443
Add: Reinsurance recoverables on unpaid losses and LAE at end of period	27,253	13,167
Reserve for losses and LAE gross of reinsurance recoverables on unpaid losses and LAE at end of period	$ 84,374	$ 21,610

The foregoing reconciliation shows a $2.3 million redundancy developed in the three months ended March 31, 2005 on the reserve for losses and LAE held at December 31, 2004. Of this favorable development, $1.7 million occurred in the James River Insurance property lines for the 2004 accident year. Also, a $93,000 redundancy developed in the three months ended March 31, 2004 on the reserve for losses and LAE held at December 31, 2003.

An analysis of the gross reserve and the net reserve for losses and LAE by major line of business at March 31, 2005 is presented below:

Gross Reserve for Losses and LAE	Case Reserves	IBNR Reserves	Total Reserves
		(in thousands)	
Excess and Surplus Insurance Casualty Lines	$ 14,259	$ 60,116	$ 74,375
Excess and Surplus Insurance Property Lines	530	4,390	4,920
Workers' Compensation Insurance	1,307	3,772	5,079
Total	$ 16,096	$ 68,278	$ 84,374

Net Reserve for Losses and LAE	Case Reserves	IBNR Reserves	Total Reserves
		(in thousands)	
Excess and Surplus Insurance Casualty Lines	$ 5,992	$ 44,846	$ 50,838
Excess and Surplus Insurance Property Lines	318	1,586	1,904
Workers' Compensation Insurance	1,307	3,072	4,379
Total	$ 7,617	$ 49,504	$ 57,121

We have not provided insurance coverage that could reasonably be expected to produce material levels of asbestos claims activity. In addition, we believe we are not exposed to any environmental liability claims other than those which we have specifically underwritten and priced as an environmental exposure. No environmental or asbestos claims have been reported on insurance coverages effective July 1, 2003 or later. Any asbestos or environmental exposure on policies issued by Fidelity prior to July 1, 2003 are subject to the reinsurance agreement and the trust agreement with American Empire. At this time, we are not aware of any emerging trends that may result in material future reserve adjustments.

Net losses paid during the three months ended March 31, 2005 totaled $1.8 million, while net loss adjustment expenses paid totaled $1.5 million, for total net losses and loss adjustment expenses paid of $3.3 million. Net losses paid during the three months ended March 31, 2004 totaled $219,000 and net loss adjustment expenses paid totaled $374,000, for total paid net losses and loss adjustment expenses of $593,000. The increase in net losses and loss adjustment expenses paid is consistent with the significant growth in our insurance operations.

Other operating expenses for the three months ended March 31, 2005 totaled $5.7 million, up 65.6% from other operating expenses incurred during the three months ended March 31, 2004 of $3.4 million. Other operating expenses for the three months ended March 31, 2005 consisted of commissions and other underwriting expenses (net of deferred policy acquisition costs) of $1.6 million, amortization of deferred policy acquisition costs of $3.7 million and other costs of $398,000. A portion of the costs of acquiring insurance business, principally commissions and certain policy underwriting and issuance costs, which vary with and are primarily related to the production of insurance business, is deferred. For the three months ended March 31, 2005, $5.0 million of costs were deferred, $2.8 million of which related to commissions and $2.2 million of which related to other acquisition expenses. Deferred policy acquisition costs are charged to other operating expenses in proportion to premiums earned over the estimated policy term, generally 12 months. The expense ratio, which is the ratio, expressed as a percentage, of other operating expenses to net earned premiums, was 22.9% for three months ended March 31, 2005 compared to the expense ratio of 37.1% for the three months ended March 31, 2004. Our expense ratio for the three months ended March 31, 2004 was negatively impacted by the 270.1% expense ratio for our Workers' Compensation Insurance segment in Stonewood Insurance's first quarter of insurance operations.

Interest expense totaled $588,000 for the three months ended March 31, 2005. Interest expense related to $15.0 million of senior notes and $22.7 million of junior subordinated notes that we issued in May and December of 2004. There was no interest expense for the three months ended March 31, 2004.

The effective tax rate for the three months ended March 31, 2005 is 33.5%. Income tax expense for the three months ended March 31, 2005 differs from the amount computed by applying the Federal statutory income tax rate to income before income taxes primarily due to interest on tax-advantaged state and municipal securities. There was no income tax expense for the three months ended March 31, 2004 because taxable income for the quarter was fully offset by net operating loss carryforwards.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

The following table summarizes our results for the years ended December 31, 2004 and 2003:

	Year Ended December 31,		Percentage
	2004	2003	Change
	($ in thousands)		
Direct written premiums	$ 142,539	$ 36,764	288%

Net written premiums	$ 120,178	$ 27,425	338%
Net earned premiums	$ 75,763	$ 5,087	1,389%
Net investment income	3,626	407	791%
Realized investment losses	(71)	—	—
Other income	144	56	157%
Total revenues	79,462	5,550	1,332%
Losses and loss adjustment expenses	47,588	3,372	1,311%
Other operating expenses	20,690	6,842	202%
Interest expense	793	—	—
Compensation expense on common stock warrant issuance	—	524	(100%)
Total expenses	69,071	10,738	543%
Income (loss) before taxes	10,391	(5,188)	—
Income tax expense	1,636	—	—
Net income (loss)	$ 8,755	$ (5,188)	—

Direct written premiums increased 288% from $36.8 million in 2003 to $142.5 million in 2004. Since James River Insurance wrote its first insurance policy effective July 1, 2003 and Stonewood Insurance wrote its first insurance policy effective January 1, 2004, our 2004 results reflect a full year of insurance operations for both of our insurance subsidiaries, while 2003 results reflect only six months of James River Insurance operations. Our 2003 results do not include any revenues from Stonewood Insurance but our expenses in 2003 do include start-up costs associated with Stonewood Insurance. Growth in our agency network and the addition of new underwriting divisions at James River Insurance also contributed to our growth in 2004.

Net written premiums were $120.2 million in 2004, a 338% increase compared to $27.4 million in 2003. Net written premiums grew from 2003 by a larger percentage than direct written premiums grew because we purchased less reinsurance in 2004 than in 2003. The written premium ceding ratio (ratio of ceded written premiums to direct written premiums) declined to 15.7% for 2004 from 25.4% for 2003. This was primarily the result of our decision to increase the amount of risk we retain before reinsurance on our primary casualty policies sold by James River Insurance from $405,000 to $1.0 million effective July 1, 2004. Also contributing to the decline in the written premium ceding ratio were lower overall reinsurance costs in 2004 compared to 2003; the addition of Stonewood Insurance operations in 2004, since the written premium ceding ratio at Stonewood Insurance of 15.6% for 2004 is below the 25.4% ratio we experienced for our company as a whole in 2003; and an adjustment to the estimated ceding rate on one of our retrospective experience rated reinsurance treaties.

Net earned premiums grew 1,389% from $5.1 million in 2003 to $75.8 million in 2004. Premiums are earned ratably over the terms of our insurance policies, generally 12 months. As a result, net earned premiums in our first six months of insurance operations in 2003 were very low relative to our net written premiums in that period, because premiums earned in 2003 were only a ratable portion of business written in the last six months of that year with no benefit from business written in prior periods.

Net investment income for 2004 was $3.6 million, up 791% from $407,000 in 2003, reflecting the significant growth in our cash and invested assets from $79.3 million at December 31, 2003 to $195.2 million at December 31, 2004. The growth in our cash and invested assets came from net premiums written and our offerings of debt and equity securities. The gross investment yield (before investment expenses) on average cash and invested assets for 2004 was 3.1%. The gross investment yield on our average fixed maturity security balance in 2004 was 3.5%. We significantly increased our holdings of tax-advantaged state and municipal fixed maturity securities in 2004. We believe that after considering their tax-advantaged characteristics, these state and municipal securities represent a good value relative to other market segments. Our tax equivalent yield on our average fixed maturity security balance was 3.6% for 2004. The gross investment yield on average cash and invested assets for 2003 was 1.3%. The low investment yield in 2003 reflected the low interest rate environment in that period, particularly on short-term investments. The majority of our assets were invested in short-term investments during 2003. We hired investment managers to invest our available funds in high-quality fixed maturity securities in the fourth quarter of 2003, but because these fixed maturity securities were purchased late in the year, they had a minimal impact on our investment yield for the year.

The largest component of other income in 2004 and 2003 was the interest we earned on notes receivable from employees and directors. The notes have an annual interest rate of 4.5%. Interest on the notes was $117,000 in 2004 and $55,000 in 2003. The increase in 2004 was due to the fact that the notes were outstanding for the entire year in 2004 but for only a portion of 2003. In April 2005, the notes receivable from our executive officers and directors totaling $2.0 million were paid off by the borrowers, leaving $545,000 of notes receivable from our employees who are not executive officers.

Realized investment losses were $71,000 in 2004. We believe that the sales that generated these losses resulted in improved positioning of our portfolio and improved credit quality. There were no realized gains or losses in 2003.

Losses and LAE totaled $47.6 million for 2004 representing a 1,311% increase compared to losses and LAE of $3.4 million for 2003. The loss ratio improved to 62.8% in 2004 from 66.3% in 2003. Our loss ratio in 2003 was negatively impacted by fixed costs related to claims administration expenses that were high relative to our low volume of claims activity during the first six months of our insurance operations.

A rollforward of the reserve for losses and LAE, net of reinsurance, is presented below:

	Year Ended December 31,	
	2004	2003
	(in thousands)	
Reserve for losses and LAE net of reinsurance recoverables at beginning of year	$ 3,183	$ —
Add: Incurred losses and LAE net of reinsurance:		
Current year	47,744	3,372
Prior years	(156)	—
Total incurred losses and LAE	47,588	3,372
Deduct: Loss and LAE payments net of reinsurance:		
Current year	3,402	189
Prior years	326	—
Total loss and LAE payments	3,728	189
Reserve for losses and LAE net of reinsurance recoverables at end of year	47,043	3,183
Add: Reinsurance recoverables on unpaid losses and LAE at end of year	15,200	14,234
	$ 62,243	$ 17,417

Reserve for losses and LAE gross of reinsurance recoverables on unpaid losses and LAE at end of year

The foregoing reconciliation shows a $156,000 redundancy developed in 2004 on the reserve for losses and LAE held at December 31, 2003.

Net losses paid during 2004 totaled $1.7 million, while net loss adjustment expenses paid totaled $2.0 million, for total net losses and loss adjustment expenses paid of $3.7 million. Net losses paid during 2003 totaled $9,000 and net loss adjustment expenses paid totaled $180,000, for total paid net losses and loss adjustment expenses of $189,000.

Other operating expenses for 2004 totaled $20.7 million, up 202% from other operating expenses incurred during 2003 of $6.8 million. Other operating expenses for 2004 consisted of commissions and other underwriting expenses (net of deferred policy acquisition costs) of $6.9 million, amortization of deferred policy acquisition costs of $12.9 million and other costs of $933,000. A portion of the costs of acquiring insurance business, principally commissions and certain policy underwriting and issuance costs, which vary with and are primarily related to the production of insurance business, are deferred. For 2004, $20.1 million of costs were deferred, $13.4 million of which related to commissions and $6.7 million of which related to other acquisition expenses. Deferred policy acquisition costs are charged to other operating expenses in proportion to premiums earned over the estimated policy term, generally 12 months. The expense ratio was 27.3% for 2004 compared to the expense ratio of 134.5% for 2003. Our expense ratio for 2004 was negatively impacted by the 76.5% expense ratio for our Workers' Compensation Insurance segment in Stonewood Insurance's first year of insurance operations. Other operating expenses in 2003 included $3.2 million of start-up expenses associated with building the infrastructure necessary to allow our insurance subsidiaries to commence insurance operations.

Interest expense totaled $793,000 in 2004. Interest expense related to $15.0 million of senior notes and $22.7 million of junior subordinated notes that we issued during 2004. There was no interest expense in 2003.

During the quarter ended September 30, 2004, we concluded that it was more likely than not that we would realize our entire deferred tax asset. We based this conclusion primarily on:

- our three consecutive profitable quarters and our favorable trend in quarterly earnings over the past five quarters;
- our generation of taxable income on an inception-to-date basis sufficient to exhaust all of our net operating loss carryforwards created in our start-up phase; and
- our $2.6 million cumulative pre-tax income from July 1, 2003, the date we commenced our insurance operations, through September 30, 2004.

Accordingly, no valuation allowance was established against our deferred tax assets at December 31, 2004. Income tax expense of $1.6 million was recognized in 2004, representing the excess of the tax expense on our taxable income earned during the year over the reduction in our tax valuation allowance during the year.

No income tax expense or benefit was recognized on our income statement in 2003 or for the first six months of 2004 because our deferred tax assets were offset by a deferred tax valuation allowance.

Year Ended December 31, 2003 Compared to the Period From September 25, 2002 (Inception) Through December 31, 2002

The following table summarizes our results for the year ended December 31, 2003 and the period from September 25, 2002 (inception) through December 31, 2002:

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	Year Ended December 31, 2003	Period From September 25, 2002 (Inception) Through December 31, 2002
	(in thousands)	
Direct written premiums	$ 36,764	$ —
Net written premiums	$ 27,425	$ —
Net earned premiums	$ 5,087	$ —
Net investment income	407	2
Realized investment losses	—	—
Other income	56	—
Total revenues	5,550	2
Losses and loss adjustment expenses	3,372	—
Other operating expenses	6,842	280
Interest expense	—	—
Compensation expense on common stock warrant issuance	524	—
Total expenses	10,738	280
Loss before taxes	(5,188)	(278)
Income tax expense	—	—
Net loss	$ (5,188)	$ (278)

Prior to the third quarter of 2003, we were a development stage company with no insurance operations. Insurance results for 2003 reflect the insurance business produced by James River Insurance during the period from July 1, 2003, the date we started our insurance operations, through December 31, 2003.

Operating results for the period from September 25, 2002 (inception) through December 31, 2002 consisted solely of other operating expenses of $280,000, including $275,000 of start-up expenses, and investment income on cash and short-term investments of $2,000.

Results by Business Segment

We evaluate performance and allocate resources based on premium volume and net income generated by three reportable segments which are separately managed business units:

- The Excess and Surplus Insurance segment offers commercial excess and surplus lines liability and property products;
- The Workers' Compensation Insurance segment offers workers' compensation insurance coverages; and
- The Corporate and Other segment consists of certain management and treasury activities of our holding company and interest expense associated with our debt.

There is an intercompany reinsurance pooling agreement in place between James River Insurance and Stonewood Insurance. This intercompany reinsurance pooling agreement became effective on January 1, 2004. For 2004, the agreement called for a pooling of all business written by the companies on or after January 1, 2004 and an allocation of 70% of the pooled premiums, losses and loss adjustment expenses and operating expenses to James River Insurance and 30% to Stonewood Insurance. Development on the December 31, 2003 reserve for losses and loss adjustment expenses was also allocated 70% to James River Insurance and 30% to Stonewood Insurance. For 2005, James River Insurance has an 80% share and Stonewood Insurance has a 20% share of the intercompany pool. We report all information in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" prior to

the effects of the intercompany reinsurance pooling agreement because we evaluate the operating performance of our reportable segments on a pre-pooling basis.

We assess the profitability of our business segments and measure other operating statistics related to those segments. We determine reportable segments in a manner consistent with the way we make operating decisions and assess performance. Sales, represented by direct written premiums, are one of the measures that we use to track performance.

Premium activity by reportable segment is as follows:

	Three Months Ended March 31,					
	2005			2004		
	Excess and Surplus Insurance	Workers' Compensation Insurance	Total	Excess and Surplus Insurance	Workers' Compensation Insurance	Total
	(in thousands)					
Direct written premiums	$ 41,769	$ 5,251	$ 47,020	$ 23,233	$ 705	$ 23,938
Ceded written premiums	(14,867)	(1,163)	(16,030)	(6,113)	(111)	(6,224)
Net written premiums	26,902	4,088	30,990	17,120	594	17,714
Change in net unearned premiums	(6,070)	(88)	(6,158)	(8,176)	(283)	(8,459)
Net earned premiums	$ 20,832	$ 4,000	$ 24,832	$ 8,944	$ 311	$ 9,255

	Year Ended December 31,					
	2004			2003		
			Total			Total

	Excess and Surplus Insurance	Workers' Compensation Insurance		Excess and Surplus Insurance	Workers' Compensation Insurance	
			(in thousands)			
Direct written premiums	$ 133,354	$ 9,185	$ 142,539	$ 36,764	$ —	$ 36,764
Ceded written premiums	(20,927)	(1,434)	(22,361)	(9,339)	—	(9,339)
Net written premiums	112,427	7,751	120,178	27,425	—	27,425
Change in net unearned premiums	(41,897)	(2,518)	(44,415)	(22,338)	—	(22,338)
Net earned premiums	$ 70,530	$ 5,233	$ 75,763	$ 5,087	$ —	$ 5,087

We had no Excess and Surplus Insurance operations prior to July 1, 2003 and no Workers' Compensation Insurance operations prior to January 1, 2004.

Underwriting results by major line of business for the three months ended March 31, 2005 are as follows:

	Excess and Surplus Insurance			
	Casualty Lines	Property Lines	Workers' Compensation Insurance	Total
		($ in thousands)		
Net earned premiums	$ 19,675	$ 1,157	$ 4,000	$ 24,832
Losses and loss adjustment expenses	$ 12,390	$ (1,073)	$ 2,077	$ 13,394
Loss ratio	63.0%	(92.7%)	51.9%	53.9%

The loss ratio for the property lines for the three months ended March 31, 2005 was significantly impacted by $1.7 million of favorable reserve development in the quarter related to the 2004 accident year. Property insurance business is short-tailed in that losses are reported relatively quickly compared to most casualty insurance business and workers' compensation insurance business. The low volume of reported losses in the first quarter of 2005 related to the 2004 accident year compared to the IBNR established for the property book's 2004 accident year at December 31, 2004 indicated that ultimate incurred losses on the 2004 accident year for the property lines would be less than the amount estimated at December 31, 2004. The loss ratio for the property lines excluding this favorable reserve development was 55.7% for the three months ended March 31, 2005. The loss ratio for the workers' compensation insurance lines for the three months ended March 31, 2005 was significantly impacted by $296,000 of favorable reserve development in the quarter related to the 2004 accident year. The loss ratio for the workers' compensation lines excluding this favorable reserve development was 59.3% for the three months ended March 31, 2005. The casualty lines experienced $303,000 of favorable reserve development for the three months ended March 31, 2005, $261,000 of which related to the 2003 accident year and $42,000 of which related to the 2004 accident year. The favorable development in the workers' compensation and casualty lines resulted from lower than expected increases in reported cases and case reserves in the three months ended March 31, 2005.

Underwriting results by major line of business for the three months ended March 31, 2004 are as follows:

	Excess and Surplus Insurance		Workers' Compensation Insurance	Total
	Casualty Lines	Property Lines		
	($ in thousands)			
Net earned premiums	$ 8,138	$ 806	$ 311	$ 9,255
Losses and loss adjustment expenses	$ 5,100	$ 502	$ 251	$ 5,853
Loss ratio	62.7%	62.3%	80.9%	63.2%

The loss ratio for the workers' compensation insurance lines for the three months ended March 31, 2004 was adversely affected by claims administration expenses that were high relative to the low volume of claims activity at Stonewood Insurance during its first quarter of insurance operations. These claims administration expenses, referred to as adjusting and other expenses, represented 21.7% of net earned premiums for the workers' compensation insurance line in the first quarter of 2004.

Underwriting results by major line of business for the year ended December 31, 2004 are as follows:

	Excess and Surplus Insurance		Workers' Compensation Insurance	Total
	Casualty Lines	Property Lines		
	($ in thousands)			
Net earned premiums	$ 63,883	$ 6,647	$ 5,233	$ 75,763
Losses and loss adjustment expenses	$ 39,686	$ 4,054	$ 3,848	$ 47,588
Loss ratio	62.1%	61.0%	73.5%	62.8%

Overall, underwriting results for 2004 and the first quarter of 2005 are consistent with our goal of making an underwriting profit. Results for the Workers' Compensation Insurance segment are affected by fixed costs related to claims administration which were high relative to the low volume of claims activity at Stonewood Insurance during its first year of insurance operations. We expect that as premiums and claims activity at Stonewood Insurance increases, the ratio of claims administration costs to net earned premiums will decline.

Excess and Surplus Insurance

Results for the Excess and Surplus Insurance segment are as follows:

Year Ended December 31,

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Percentage Change	2004	2003	Percentage Change
	($ in thousands)					
Direct written premiums	$ 41,769	$ 23,233	79.8%	$ 133,354	$ 36,764	263%
Net written premiums	$ 26,902	$ 17,120	57.1%	$ 112,427	$ 27,425	310%
Net earned premiums	$ 20,832	$ 8,945	133%	$ 70,530	$ 5,087	1,286%
Losses and loss adjustment expenses	11,317	5,602	102%	43,740	3,372	1,197%
Underwriting expenses	3,873	2,661	45.5%	15,810	3,328	375%
Underwriting profit (loss) (1)	5,642	682	727%	10,980	(1,613)	—
Net investment income	1,346	439	207%	2,873	346	730%
Realized investment losses	—	—	—	(71)	—	—
Other income	—	—	—	7	—	—
Start-up expenses	—	—	—	—	2,529	(100%)
Income (loss) before taxes	$ 6,988	$ 1,121	523%	$ 13,789	$ (3,796)	—
Ratios:						
Loss ratio	54.3%	62.6%	—	62.0%	66.3%	—
Expense ratio	18.6%	29.7%	—	22.4%	65.4%	—
Combined ratio	72.9%	92.4%	—	84.4%	131.7%	—

(1)See "— Reconciliation of Non-GAAP Measure."

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We wrote our first excess and surplus insurance policy effective July 1, 2003. The following analysis shows the quarterly premiums of the Excess and Surplus Insurance segment during the seven quarters since we commenced excess and surplus insurance operations:

	Three Months Ended						
	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003
	(in thousands)						
Direct written premiums	$ 41,769	$ 46,507	$ 35,711	$ 27,903	$ 23,233	$ 25,097	$ 11,667
Net written premiums	$ 26,902	$ 39,041	$ 32,618	$ 23,648	$ 17,120	$ 18,838	$ 8,586
Net earned premiums	$ 20,832	$ 25,849	$ 20,522	$ 15,214	$ 8,945	$ 4,164	$ 922

Direct written premiums for the three months ended March 31, 2005 increased 79.8% to $41.8 million from $23.2 million for the three months ended March 31, 2004. Since James River Insurance wrote its first insurance policy effective July 1, 2003, results for the three months ended March 31, 2004 did not include any renewal premiums, while direct written premiums for the three months ended March 31, 2005 include $11.9 million of renewal premiums. The increase in direct written premiums in the three months ended March 31, 2005 is also driven by an increase in the number of brokers submitting insurance business to James River Insurance from 86 for the three months ended March 31, 2004 to 158 for the three months ended March 31, 2005.

Direct written premiums for 2004 increased 263% to $133.4 million from $36.8 million in 2003. Since James River Insurance wrote its first insurance policy effective July 1, 2003, results for 2004 reflect a full year of insurance operations, while 2003 results reflect only six months of insurance operations. The increase in direct written premiums in 2004 is also driven by an increase in brokers submitting business from 66 in December 2003 to 139 in December 2004 and, to a lesser extent, from the introduction of the energy underwriting division in November 2003 and two new underwriting divisions in 2004, healthcare and environmental, bringing the total number of the Excess and Surplus Insurance segment underwriting divisions to ten at December 31, 2004. These three new underwriting divisions contributed $8.4 million of direct written premiums in 2004. Also, beginning in the third quarter of 2004, renewal premiums started to contribute to our direct written premium totals, since the excess and surplus insurance policies that we wrote in our initial six months of insurance operations in the second half of 2003 were up for renewal in the second half of 2004. Renewal premiums contributed $20.8 million to direct written premiums in 2004.

The written premium ceding ratio for the Excess and Surplus Insurance segment was 35.6% for the three months ended March 31, 2005 and 26.3% for the three months ended March 31, 2004. The increase in the written premium ceding ratio for the three months ended March 31, 2005 was driven by the impact of a new quota share reinsurance contract effective January 1, 2005. Ceded written premiums related to this quota share treaty for the three months ended March 31, 2005 totaled $7.6 million. Excluding the effects of this quota share treaty, the written premium ceding ratio was 17.4% for the three months ended March 31, 2005. The effects of this quota share contract on our written premium ceding ratio for the three months ended March 31, 2005 were partially offset by the reduction in the written premium ceding ratio resulting from our decision to increase the amount of risk we retain before reinsurance on our primary casualty policies sold by James River Insurance from $405,000 to $1.0 million effective July 1, 2004.

The written premium ceding ratio for the Excess and Surplus Insurance segment was 15.7% for 2004 and 25.4% for 2003. The decline in the written premium ceding ratio in 2004 was driven by our decision to increase the amount of risk we retain before reinsurance on our primary casualty policies from $405,000 to $1.0 million effective July 1, 2004. The written premium ceding ratio for 2004 also declined due to an adjustment to the estimated ceding rate on one of our retrospective experience rated reinsurance treaties. Ceded premiums and ceding commissions for our retrospective experience rated reinsurance treaties are based on the loss experience of the reinsured book of business, subject to a maximum and a minimum. As loss experience develops, we adjust the ceded premium rates and ceding commission rates to reflect the loss experience. In 2004, we adjusted the estimated reinsurance premium ceding rate on one of our retrospective experience rated reinsurance treaties based on the loss experience of the reinsured book of

business. The impact of this adjustment was to increase net earned premiums for 2004 by $484,000 for the true-up of premiums earned in 2003 and to increase losses and loss adjustment expenses by approximately $290,000.

The loss ratio for the Excess and Surplus Insurance segment improved to 54.3% for the three months ended March 31, 2005 from 62.6% for the three months ended March 31, 2004. The loss ratio for the three months ended March 31,

2005 was impacted by $2.0 million of favorable loss and loss adjustment expense reserve development that our Excess and Surplus Insurance segment experienced in the quarter. Of this favorable development, $1.7 million occurred in the James River Insurance property line related to the 2004 accident year. The Excess and Surplus Insurance segment's loss ratio for the three months ended March 31, 2005 excluding favorable reserve development was 64.0%.

The loss ratio for the Excess and Surplus Insurance segment improved to 62.0% in 2004 from 66.3% in 2003. The loss ratio for 2003 was affected by fixed costs associated with claims administration expenses (adjusting and other expenses) which were high relative to the low volume of claims activity at James River Insurance during its first six months of insurance operations.

There were five storms classified as catastrophes that affected our results during 2004. These storms resulted in 16 claims and $184,000 of reported losses and loss adjustment expenses. We had minimal losses from the 2004 hurricane season, largely due to the small percentage of property insurance in our overall insurance book. Our favorable experience was also due to our strategy of writing hurricane exposed business mainly on an excess basis over another insurance carrier's primary policy, allowing us to avoid the high frequency of losses that do not exceed the primary policies' insurance limits. We use catastrophe modeling software to individually review each property insurance policy to determine its impact on the risk of our overall portfolio. We model our portfolio of insurance policies in force each month and track our accumulations of exposed values geographically to manage our concentration in any one area.

The expense ratio for the Excess and Surplus Insurance segment improved significantly to 18.6% for the three months ended March 31, 2005 from 29.7% for the three months ended March 31, 2004. Our expense ratio for the three months ended March 31, 2005 reflected strong expense management of commission expenses and other operating expenses and our use of technology to process and administer our insurance business. The expense ratio for the three months ended March 31, 2005 also benefited from the ceding commission that James River Insurance receives on the quota share reinsurance contract. Excluding the impact of the quota share reinsurance contract, the Excess and Surplus Insurance segment's expense ratio for the three months ended March 31, 2005 was 20.4%.

The expense ratio for the Excess and Surplus Insurance segment improved significantly in 2004, going from 65.4% in 2003 to 22.4% in 2004. Our 2004 expense ratio reflected strong expense management of commission expenses and other operating expenses and our effective use of technology to process and administer our insurance business in a cost efficient manner. The analysis below shows the quarterly expense ratios for the Excess and Surplus Insurance segment during 2004 and the three months ended March 31, 2005:

	Three Months Ended				
	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Expense ratio	18.6%	22.1%	20.1%	21.8%	29.7%

Workers' Compensation Insurance

Results for the Workers' Compensation Insurance segment are as follows:

	Three Months Ended March 31,		Percentage Change	Year Ended December 31,	
	2005	2004		2004	2003
	($ in thousands)				
Direct written premiums	$ 5,251	$ 705	645%	$ 9,185	$ —
Net written premiums	$ 4,088	$ 594	588%	$ 7,751	$ —
Net earned premiums	$ 4,000	$ 311	1,186%	$ 5,233	$ —
Losses loss adjustment expenses	2,077	251	727%	3,848	—
Underwriting expenses	1,422	839	69.5%	4,001	—
Underwriting profit (loss) (1)	501	(779)	—	(2,616)	—
Net investment income	247	148	66.9%	620	5
Realized investment losses	—	—	—	—	—
Other income	5	—	—	11	—
Other expenses, including start-up expenses	—	—	—	—	1,174
Income (loss) before taxes	$ 753	$ (631)	—	$ (1,985)	$ (1,169)
Ratios:					
Loss ratio	51.9%	80.9%	—	73.5%	—
Expense ratio	35.6%	270.1%	—	76.5%	—
Combined ratio	87.5%	351.0%	—	150.0%	—

(1)See "— Reconciliation of Non-GAAP Measure."

We wrote our first workers' compensation insurance policy effective January 1, 2004, and accordingly, the Workers' Compensation Insurance segment had no underwriting results in 2003. The analysis below shows the quarterly premiums of the Workers' Compensation Insurance segment during 2004 and the three months ended March 31, 2005:

	Three Months Ended					Year Ended
	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2004
	(in thousands)					
Direct written premiums	$ 5,251	$ 3,940	$ 2,800	$ 1,740	$ 705	$ 9,185
Net written premiums	$ 4,088	$ 3,332	$ 2,359	$ 1,466	$ 594	$ 7,751
Net earned premiums	$ 4,000	$ 2,465	$ 1,591	$ 866	$ 311	$ 5,233

Since Stonewood Insurance wrote its first insurance policy effective January 1, 2004, results for the three months ended March 31, 2004 did not include any renewal premiums, while direct written premiums for the three months ended March 31, 2005 include $453,000 of renewal premiums. Stonewood Insurance did not receive its "A-"

(Excellent) rating from A.M. Best until April 2004, and the lack of a rating in the first quarter of 2004 limited direct written premium production in that quarter. At March 31, 2005, there

were 116 agents in the Workers' Compensation Insurance segment network compared to 110 agents at December 31, 2004 and 59 at March 31, 2004.

The written premium ceding ratio for the three months ended March 31, 2005 was 22.1% for the Workers' Compensation Insurance segment compared to 15.8% for the three months ended March 31, 2004. The written premium ceding ratio for 2004 was 15.6% for the Workers' Compensation Insurance segment. We retain $500,000 of risk per occurrence on workers' compensation insurance policies, with the risk in excess of $500,000 up to $20 million being ceded to reinsurers. We retain risk of loss for claims above the $20 million limit ceded to reinsurers or above $10 million for any one life.

The loss ratio for the Workers' Compensation Insurance segment was 51.9% for the three months ended March 31, 2005 compared to 80.9% for the three months ended March 31, 2004. The loss ratio for the three months ended March 31, 2005 was impacted by $296,000 of favorable loss and loss adjustment expense reserve development that Stonewood Insurance experienced in the quarter related to the 2004 accident year. This favorable development primarily resulted from reductions in our estimates of incurred but not reported losses and loss adjustment expenses. The loss ratio for the three months ended March 31, 2005 excluding the effects of this favorable reserve development was 59.3%. The loss ratio for the three months ended March 31, 2004 was negatively impacted by claims administration expenses that were high relative to our low volume of claims activity during our first quarter of workers' compensation insurance operations. For the three months ended March 31, 2004, adjusting and other expenses were 21.7% of net earned premiums for the Workers' Compensation Insurance segment. The 73.5% loss ratio in 2004 for the Workers' Compensation Insurance segment was negatively impacted by claims administration expenses that were high relative to our low volume of claims activity during our first year of workers' compensation insurance operations. For 2004, adjusting and other expenses were 8.6% of net earned premiums for the Workers' Compensation Insurance segment.

The expense ratio for the Workers' Compensation Insurance segment in 2004 was impacted by the costs required to establish the infrastructure to handle a high volume of insurance activity. The expense ratio for the Workers' Compensation Insurance segment improved each quarter in 2004 and in the first quarter of 2005, as the infrastructure built to process the business in 2003 and early 2004 allowed us to increase production without experiencing a proportional increase in expenses. The analysis below shows the quarterly expense ratios for the Workers' Compensation Insurance segment during 2004 and for the three months ended March 31, 2005:

	Three Months Ended				
	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Expense ratio	35.6%	49.7%	59.5%	114.3%	270.1%

Corporate and Other

Results for the Corporate and Other segment are as follows:

	Three Months Ended March 31,		Year Ended December 31,	
	2005	2004	2004	2003
	(in thousands)			
Net investment income	$ 152	$ 1	$ 133	$ 56
Realized investment losses	(25)	—	—	—
Other income	40	29	126	57
Other expenses, including start-up expenses	(398)	61	(879)	(336)
Interest expense	(588)	—	(793)	—
Income (loss) before taxes	$ (819)	$ 91	$ (1,413)	$ (223)

Net investment income for the Corporate and Other segment increased from $1,000 for the three months ended March 31, 2004 to $152,000 for the three months ended March 31, 2005. Net investment income was $133,000 in 2004 compared to $56,000 in 2003, an increase of 137%. The increases reflect the

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use of a portion of the proceeds from our offerings of senior notes and junior subordinated notes in 2004 to create a bond portfolio and an investment in a bond mutual fund (classified as an equity security in the financial statements) at the James River Group, Inc. holding company. These funds are invested at the holding company until the insurance subsidiaries require additional capital contributions or until they are needed for other corporate purposes.

The largest component of other income for the Corporate and Other segment was the interest we earned on notes receivable from employees and directors. The notes have an annual interest rate of 4.5%. Interest on the notes was $29,000 in both the three months ended March 31, 2005 and the three months ended March 31, 2004. Interest on the notes was $117,000 in 2004 and $55,000 in 2003. The increase in 2004 was due to the fact that the notes were outstanding for the entire year in 2004 but for only a portion of 2003. In April 2005, the notes receivable from our executive officers and directors totaling $2.0 million were paid off by the borrowers, leaving $545,000 of notes receivable from our employees who are not executive officers.

Other expenses of the Corporate and Other segment were $398,000 for the three months ended March 31, 2005 and ($61,000) for the three months ended March 31, 2004. The other expenses for the three months ended March 31, 2004 reflect reimbursements of expenses from our subsidiaries during the quarter in excess of expenses incurred by the holding company during that quarter. The expense reimbursements from subsidiaries are based on budgeted expenses for each calendar year, and the reimbursements are the same monthly amount throughout the year. As a result, the timing of when the holding company incurs expenses can result in reimbursements from subsidiaries in excess of actual expenses incurred by the holding company for a particular quarter. The timing of the reimbursements from our subsidiaries has no impact on our consolidated operating results. Other expenses of the Corporate and Other segment increased 162% to $879,000 in 2004, compared to $336,000 in 2003. These costs include personnel costs associated with the holding company employees, directors' fees, professional fees and various other corporate expenses. A majority of these costs are reimbursed by our subsidiaries and the amount of the reimbursement is included as other underwriting expenses in the 2004 results of our Excess and Surplus Insurance and Workers' Compensation Insurance segments and as other underwriting expenses, other expenses or start-up expenses in the 2003 results of our Excess

and Surplus Insurance and Workers' Compensation Insurance segments. The amounts of other expenses of the Corporate and Other segment presented above represent the expenses of the holding company that were not reimbursed by our subsidiaries.

Interest expense totaled $588,000 for the three months ended March 31, 2005 and $793,000 in 2004. Interest expense related to our senior notes and our junior subordinated notes that we issued in May and December 2004. There was no interest expense for the three months ended March 31, 2004 or in 2003.

Liquidity and Capital Resources

Sources and Uses of Funds

We are organized as a holding company with all of our operations being conducted by our wholly-owned insurance company subsidiaries. Accordingly, James River receives cash through loans from banks, issuance of equity and debt securities, corporate service fees or dividends received from our insurance subsidiaries, payments from our subsidiaries pursuant to our consolidated tax allocation agreement and other transactions. We receive corporate service fees from our subsidiaries to reimburse us for most of the other operating expenses that we incur. Reimbursement of expenses through the corporate service fees is based on the budgeted costs that we expect to incur with no mark up above our expected costs. We file a consolidated federal income tax return with our subsidiaries, and under our corporate tax allocation agreement, each participant gets a tax charge or tax refund for the amount that the participant would have paid or received if it had filed on a separate return basis with the Internal Revenue Service. We may use the proceeds from these sources to contribute to the capital of our insurance subsidiaries in order to support premium growth, to repurchase our common stock, to retire our outstanding indebtedness, to pay interest, dividends and taxes and for other business purposes.

The payment of dividends by our subsidiaries to us is limited by statute. In general, these restrictions require that dividends be paid out of earned surplus and limit the aggregate amount of dividends or other

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distributions that our subsidiaries may declare or pay within any 12 month period without advance regulatory approval. In Ohio, the domiciliary state of James River Insurance, this limitation is the greater of the statutory net income for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year. In North Carolina, the domiciliary state of Stonewood Insurance, this limitation is the lesser of the statutory net income for the preceding calendar year or 10% of the statutory surplus at the end of the preceding calendar year. In addition, insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels and could refuse to permit the payment of dividends of the maximum amounts calculated under any applicable formula. For Stonewood Insurance, pursuant to the dividend limitations under North Carolina law, we are not currently allowed to pay dividends without the prior permission of the North Carolina Department of Insurance. The maximum amount of dividends available to us from James River Insurance during 2005 without regulatory approval is $5.8 million.

Cash Flows

Our sources of operating funds consist primarily of written premiums, investment income and proceeds from offerings of our preferred shares and debt. We use operating cash flows primarily to pay operating expenses and losses and loss adjustment expenses.

A summary of our cash flows is as follows:

	Three Months Ended March 31,		Year Ended December 31,		Period from September 25, 2002 (Inception) Through December 31,
	2005	2004	2004	2003	2002
			(in thousands)		
Cash and cash equivalents provided by (used in):					
Operating activities	$ 27,659	$ 16,202	$ 80,455	$ 10,974	$ (46)
Investing activities	(30,005)	(12,967)	(111,537)	(77,178)	(36)
Financing activities	—	10	37,301	68,773	6,865
Change in cash and cash equivalents	$ (2,346)	$ 3,245	$ 6,219	$ 2,569	$ 6,783

Net cash provided by operating activities for the three months ended March 31, 2005 totaled $27.7 million compared to cash provided by operating activities of $16.2 million for the three months ended March 31, 2004. The increase in net cash provided by operating activities reflects the significant growth in our premium cash receipts in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. For 2004, net cash provided by operating activities totaled $80.5 million, which was primarily attributable to cash received on written premiums exceeding cash disbursed for operating expenses and losses and loss adjustment expenses. Net cash provided by operating activities in 2003 totaled $11.0 million, reflecting the start-up nature of our operations in that period and the absence of insurance operations in the first six months of 2003.

There were no financing transactions during the three month periods ended March 31, 2005 or 2004. During 2004, net cash provided by financing activities was $37.3 million and included $1.3 million net proceeds from the issuance of shares of Series B convertible preferred stock, which we refer to in this prospectus as Series B shares, $14.5 million net proceeds from the issuance of unsecured, floating rate senior debentures, which we refer to in this prospectus as senior notes, and $21.4 million net proceeds from the issuance of junior subordinated debentures, which we refer to in this prospectus as junior subordinated notes. These transactions are described below.

Capital Transactions

In May 2004, we increased the number of authorized Series B shares from 700,000 to 713,500. In May 2004, we issued 13,500 Series B shares, with proceeds, net of issuance costs, totaling $1.3 million.

In May 2004, we issued $15.0 million of senior notes due April 29, 2034. The senior notes are not redeemable by the holder or subject to sinking fund requirements. Net proceeds totaled $14.5 million and

were used to provide additional capital to our insurance subsidiaries and working capital for us. Interest accrues quarterly and is payable in arrears at a floating rate per annum equal to three-month LIBOR plus 3.85%. The senior notes are redeemable prior to their stated maturity at our option in whole or in part, on or after May 15, 2009. Among other things, the terms of the indenture for the senior notes prohibit our subsidiaries and us from:

- assuming or permitting any indebtedness that is secured by any encumbrance on our capital stock or on our subsidiaries' capital stock which is senior to the senior notes; or
- issuing, selling, transferring or disposing of any shares of the capital stock of our subsidiaries or any securities convertible into capital stock of our subsidiaries.

We are in compliance with all covenants in the indenture at December 31, 2004.

In May and December of 2004, we arranged for the sale of trust preferred securities through James River Capital Trust I and James River Capital Trust II, which are Delaware statutory trusts sponsored and wholly-owned by us, and which we refer to in this prospectus as the trusts. Each trust was created solely for the purpose of issuing the trust preferred securities. Each trust used the net proceeds from the sale of its trust preferred securities to purchase our floating rate junior subordinated notes. The junior subordinated notes are the sole assets of the respective trust and the trust preferred securities are the sole liabilities of each respective trust. We purchased all of the outstanding common stock of the trusts. In accordance with FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, the trusts have not been consolidated with James River in our financial statements.

The following table summarizes the nature and terms of the junior subordinated notes and trust preferred securities:

	James River Capital Trust I	James River Capital Trust II
	($ in thousands)	
Issue date	May 26, 2004	December 15, 2004
Principal amount of trust preferred securities	$7,000	$15,000
Principal amount of junior subordinated notes	$7,217	$15,464
Maturity date of junior subordinated notes, unless accelerated earlier	May 24, 2034	December 15, 2034
Trust common stock	$217	$464
Interest rate, per annum	Three-Month LIBOR plus 4.0%	Three-Month LIBOR plus 3.4%
Redeemable at 100% of principal amount at our option on or after	May 24, 2009	December 15, 2009

Interest on the trust preferred securities and interest paid by us to the trusts on the junior subordinated notes is payable quarterly in arrears. We have the right to defer interest payments on the junior subordinated notes for up to five years without triggering an event of default.

The trust preferred securities are subject to mandatory redemption in a like amount:

- upon repayment of all of the junior subordinated notes on the stated maturity date;
- contemporaneously with the optional prepayment of all of the junior subordinated notes by us in conjunction with a special event (as defined); and
- five years or more after the issue date, contemporaneously with the optional prepayment, in whole or in part, of the junior subordinated notes.

We have provided a full, irrevocable and unconditional guarantee of payment of the obligations of each of the trusts under the trust preferred securities.

The indentures for the junior subordinated notes contain certain organizational covenants with which we are in compliance as of December 31, 2004.

Net proceeds from the issuance of our senior notes and our junior subordinated notes totaled $36.0 million. We contributed $15.0 million of these proceeds to James River Insurance, $3.0 million to Stonewood Insurance and retained the remainder at the holding company for working capital.

At March 31, 2005 and December 31, 2004, the ratio of total debt outstanding to total capitalization (defined as total debt outstanding plus total stockholders' equity) was 31.2% and 31.8%, respectively. We use capital to support our premium growth and having debt as part of our capital structure allows us to generate higher earnings per share and book value per share results than we could by using entirely equity capital to support our premium growth. Our target debt to total capitalization ratio is 35.0% or less.

During 2003, we issued 85,000 shares of Series A convertible preferred stock, which we refer to in this prospectus as Series A shares, with proceeds, net of issuance costs, totaling $8.4 million. Of the net proceeds from the sale of the Series A shares, $6.9 million was received in 2002. We also issued 700,000 Series B shares during 2003, with proceeds, net of issuance costs and notes receivable from employees and directors, of $67.2 million. As a result of these transactions, net cash provided by financing activities for 2003 totaled $68.8 million.

At March 31, 2005 and December 31, 2004, we had notes receivable from employees and directors totaling $2.6 million, which were issued in connection with the sale of our Series B shares. These notes receivable are due in 2013. The borrowers must prepay the notes to us concurrently with any sale or other disposition of the borrower's Series B shares and in certain other circumstances outlined in the underlying promissory notes. These notes are classified as a reduction in stockholders' equity on our balance sheet. In April 2005, the notes receivable from our executive officers and directors totaling $2.0 million were paid off by the borrowers, leaving $545,000 of notes receivable from our employees who are not executive officers.

Return on Equity

One of the key financial measures that we use to evaluate our operating performance is return on equity. We calculate return on equity by dividing net income by average stockholders' equity. Our overall financial goal is to produce a return on equity of at least 15.0% over the long-term. See "— Outlook." Our return on equity for 2004 was 11.6%. Our return on equity for the three months ended March 31, 2005, using annualized net income for that period as the numerator, was 22.5%, up from 3.3% for the three months ended March 31, 2004. Interim results are not necessarily indicative of results of operations for the full year.

Contractual Obligations and Commitments

The following table illustrates our contractual obligations and commercial commitments by due date as of December 31, 2004:

	Payments Due by Period				
	Total	Less Than One Year	One Year to Less Than Three Years	Three Years to Less Than Five Years	More Than Five Years
			(in thousands)		
Reserve for losses and loss adjustment expenses	$ 62,243	$ 14,995	$ 21,113	$ 10,600	$ 15,535
Long term debt:					
Senior notes	15,000	—	—	—	15,000
Junior subordinated notes	22,681	—	—	—	22,681
Operating lease obligations	2,681	667	1,390	624	—
Other liabilities	900	150	300	300	150
Total	$ 103,505	$ 15,812	$ 22,803	$ 11,524	$ 53,366

The reserve for losses and loss adjustment expenses payments due by period in the table above are based upon the reserve for losses and loss adjustment expenses as of December 31, 2004 and actuarial estimates of expected payout patterns by type of business. As a result, our calculation of the reserve for losses and loss adjustment expenses payments due by period is subject to the same uncertainties associated with determining the level of the reserve for losses and loss adjustment expenses and to the additional uncertainties arising from the difficulty of predicting when claims, including claims that have not yet been reported to us, will be paid. For a discussion of our reserving process, see "Our Business — Reserves." Actual payments of losses and loss adjustment expenses by period will vary, perhaps materially, from the above table to the extent that current estimates of the reserve for losses and loss adjustment expenses vary from actual ultimate claims amounts and as a result of variations between expected and actual payout patterns. See "Risk Factors — Our actual incurred losses may be greater than our loss and loss adjustment expense reserves, which could have a material adverse effect on our financial condition and results of operations" for a discussion of the uncertainties associated with estimating the reserve for losses and loss adjustment expenses.

At our option, we may redeem our senior notes and our junior subordinated notes in 2009 at 100% of the principal amount (see "— Capital Transactions"). However, the senior notes and junior subordinated notes do not mature until 2034.

Cash and Invested Assets

Our cash and invested assets consist of fixed maturity securities, short-term investments, cash and cash equivalents and a bond mutual fund (classified as an equity security on the balance sheet). At March 31, 2005 and December 31, 2004, our investments in fixed maturity securities had carrying values (which were the same as their fair values) of $201.5 million and $172.7 million, respectively. Our fixed maturity securities and equity securities are classified as

available-for-sale and are carried at fair value with unrealized gains and losses on these securities reported, net of tax, as a separate component of accumulated other comprehensive income (loss). The duration of our fixed maturity security portfolio at March 31, 2005 is approximately 4.4 years.

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The amortized cost and fair value of our investments in fixed maturity securities were as follows:

	March 31, 2005			December 31, 2004		
	Amortized Cost	Fair Value	Percentage of Total Fair Value	Amortized Cost	Fair Value	Percentage of Total Fair Value
	($ in thousands)					
Corporate	$ 61,612	$ 60,498	30.0%	$ 55,709	$ 55,710	32.2%
U. S. treasury securities and obligations of U.S. government agencies	36,952	36,117	17.9%	37,856	37,647	21.8%
State and municipal	50,868	50,010	24.8%	33,068	33,064	19.1%
Mortgage-backed	39,054	38,579	19.2%	31,091	31,189	18.1%
Asset-backed	16,510	16,261	8.1%	15,165	15,121	8.8%
Total	$ 204,996	$ 201,465	100.0%	$ 172,889	$ 172,731	100.0%

The amortized cost and fair value of our investments in fixed maturity securities summarized by contractual maturity were as follows:

	March 31, 2005			December 31, 2004		
	Amortized Cost	Fair Value	Percentage of Total Fair Value	Amortized Cost	Fair Value	Percentage of Total Fair Value
	($ in thousands)					
Due in one year or less	$ 671	$ 662	0.3%	$ 2,149	$ 2,149	1.2%
Due after one year through five years	63,567	62,323	30.9%	63,861	63,608	36.8%
Due after five years through ten years	49,487	48,004	23.8%	41,605	41,596	24.1%
Due after ten years	35,707	35,636	17.7%	19,018	19,068	11.0%
Mortgage-backed	39,054	38,579	19.2%	31,091	31,189	18.1%
Asset-backed	16,510	16,261	8.1%	15,165	15,121	8.8%
Total	$ 204,996	$ 201,465	100.0%	$ 172,889	$ 172,731	100.0%

The majority of the unrealized losses on fixed maturity securities and equity securities are interest rate related. Each of the fixed maturity securities with an unrealized loss at December 31, 2004 has a fair value that is greater than 93.0% of its carrying value. Of the nine securities at December 31, 2004 that had been in an unrealized loss position for 12

months or longer, six securities are United States treasury securities and each of the remaining three securities has a fair value that is greater than 97.0% of its carrying value. All but one of the fixed maturity securities with an unrealized loss at March 31, 2005 had a fair value greater than 90.0% of its carrying value. That security, a bond issued by GMAC, had a fair value of $429,799, a book value of $508,086 and an unrealized loss of $78,287. None of the fixed maturity securities with unrealized losses, including the GMAC bond, has ever missed, or been delinquent on, a scheduled principal or interest payment, and none was rated below investment grade at March 31, 2005. In May 2005, Standard & Poor's downgraded two bonds in our portfolio. The GMAC bond was downgraded from "BBB−" to "BB" and our Ford Motor Credit bond, which had a fair value at March 31, 2005 of $471,931, a book value of $512,185 and an unrealized loss of $40,254, was downgraded from "BBB−" to "BB+". As a result, these two bonds are no longer considered to be investment grade. Both the GMAC bond and the Ford Motor Credit bond mature in 2011. None of the fixed maturity securities with unrealized losses have ever missed, or been delinquent on, a scheduled principal or interest payment.

At March 31, 2005 and December 31, 2004, all of our fixed maturity security portfolio was rated investment grade. At December 31, 2004, 98.6% of the portfolio was rated "A−" or better by Standard & Poor's or received an equivalent rating from another nationally recognized rating agency. At March 31, 2005, 98.7% of our fixed maturity security portfolio was rated "A−" or better by Standard & Poor's or received an equivalent rating from another nationally recognized rating agency, while the remaining fixed maturity securities with a fair value of $2.7 million were rated "BBB+", "BBB" or "BBB−" by Standard & Poor's or received an equivalent rating from another nationally recognized rating agency. We have

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concluded that none of the available-for-sale securities with unrealized losses at March 31, 2005 or December 31, 2004 experienced an other-than-temporary impairment.

Our short-term investments were $3.7 million and our cash and cash equivalents were $13.2 million at March 31, 2005. Our short-term investments were $4.6 million and our cash and cash equivalents were $15.6 million at December 31, 2004. The percentage of our cash and invested assets in cash and short-term investments was 7.7% at March 31, 2005 compared to 10.4% at December 31, 2004 and 25.5% at December 31, 2003. Because we appointed our investment managers late in 2003, short-term investments and cash and cash equivalents at December 31, 2003 represented a larger percentage of total cash and invested assets than we currently maintain.

Deferred Policy Acquisition Costs

A portion of the costs of acquiring insurance business, principally commissions and certain policy underwriting and issuance costs, which vary with and are primarily related to the production of insurance business, are deferred. For the three months ended March 31, 2005, $5.0 million of costs were deferred, $2.8 million of which related to commissions and $2.2 million of which related to other acquisition expenses. Deferred policy acquisition costs totaled $12.7 million, or 17.4% of unearned premiums (net of reinsurance) at March 31, 2005. For 2004, $20.1 million of costs were deferred, $13.4 million related to commissions and $6.7 million related to other acquisition expenses. Deferred policy acquisition costs totaled $11.3 million, or 17.0%, of unearned premiums (net of reinsurance) at December 31, 2004.

Reinsurance

We enter into reinsurance contracts to limit our exposure to potential losses arising from large risks and to provide additional capacity for growth. Reinsurance refers to an arrangement in which a company called a reinsurer agrees in a contract (often referred to as a treaty) to assume specified risks written by an insurance company (known as a ceding company) by paying the insurance company all or a portion of the insurance company's losses arising under specified classes of insurance policies.

Our reinsurance is contracted under excess of loss and quota-share reinsurance contracts. In quota share reinsurance, the reinsurer agrees to assume a specified percentage of the ceding company's losses arising out of a defined class of business in exchange for a corresponding percentage of premium. In excess of loss reinsurance, the reinsurer agrees to assume all or a portion of the ceding company's losses, in excess of a specified amount. In excess of loss reinsurance, the premium payable to the reinsurer is negotiated by the parties based on their assessment of the amount of risk being ceded to the reinsurer because the reinsurer does not share proportionately in the ceding company's losses.

Through June 30, 2004, we retained approximately $500,000 per risk for all coverages except for primary casualty coverages, for which we retained $405,000 per risk. Effective July 1, 2004, we increased the retention on our primary casualty reinsurance treaty at James River Insurance to $1.0 million. The retentions remained at approximately $500,000 on the other reinsurance treaties at James River Insurance that we renewed effective July 1, 2004 and on all business written by Stonewood Insurance. Reinsurance contracts do not relieve us from our obligations to policyholders. Failure of the reinsurer to honor its obligations could result in losses to us, and therefore, we establish allowances for amounts considered uncollectible. At December 31, 2004, there was no allowance for uncollectible reinsurance. James River Insurance and Stonewood Insurance generally target reinsurers with A.M. Best financial strength ratings of "A" (Excellent) or better for liability coverages and "A-" (Excellent) or better for property coverages.

At December 31, 2004, we had reinsurance recoverables on unpaid losses of $15.2 million. There were no recoverables on paid losses at December 31, 2004. At December 31, 2004, reinsurance recoverables from three reinsurers represented 52.4% of the total reinsurance recoverable balance. Of this amount, approximately $2.6 million, or 17.2%, of our reinsurance recoverables are from American Empire. These recoverables are secured by trust assets of $7.7 million and by the guarantee from Great American Insurance Company. See "— Acquisition Summary."

At March 31, 2005, we had reinsurance recoverables on unpaid losses of $27.3 million. Recoverables on paid losses at March 31, 2005 were less than $1,000 in the aggregate. At March 31, 2005, reinsurance recoverables from American Empire were $2.8 million and reinsurance recoverables from third party

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reinsurers associated with the business that Fidelity wrote before we acquired it were $2.3 million. These recoverables are secured by trust assets of $7.6 million and by the guarantee from Great American Insurance Company. See "—Acquisition Summary."