JAMES RIVER GROUP, INC
Form PREM14A
August 03, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant To Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed By a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

JAMES RIVER GROUP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the Appropriate Box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

common stock, par value $0.01 per share, of James River Group, Inc.

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(2) Aggregate number of securities to which transaction applies:

(a) 15,138,708 shares of common stock, (b) options to purchase 2,133,787 shares of common stock and (c) warrants to purchase 149,625 shares of common stock.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The maximum aggregate value was determined based upon the sum of: (a) 15,138,708 shares of common stock multiplied by the merger consideration of $34.50 per share, (b) options to purchase 2,133,787 shares of common stock multiplied by $22.12 (which is the difference between the merger consideration of $34.50 per share and the weighted average exercise price of $12.38 per share), and (c) warrants to purchase 149,625 shares of common stock multiplied by $24.50 (which is the difference between the merger consideration of $34.50 per share and the exercise price of $10.00 per share). In accordance with Section 14(g) of the Exchange Act, the filing fee was determined by multiplying 0.00003070 by the sum of the preceding sentence.

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(4) Proposed maximum aggregate value of transaction:

$573,150,606.94

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(5) Total fee paid:

$18,000.00

Fee paid previously with preliminary materials.
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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PRELIMINARY DRAFT, DATED AUGUST 3, 2007-SUBJECT TO COMPLETION

James River Group, Inc.
300 Meadowmont Village Circle, Suite 333
Chapel Hill, North Carolina 27517

[•], 2007

Dear Stockholder:

You are cordially invited to attend a special meeting of stockholders of James River Group, Inc., which we refer to as James River, to be held at the offices of Bryan Cave LLP, 1290 Avenue of the Americas, 35th Floor, New York, New York 10104, on [•], 2007 at [•]:00 a.m. local time.

At the special meeting, we will ask you to (a) approve the adoption of the Agreement and Plan of Merger, dated as of June 11, 2007, which we refer to as the merger agreement, among Franklin Holdings (Bermuda), Ltd., a Bermuda company, which we refer to as Buyer, Franklin Acquisition Corp., a Delaware corporation and a direct, wholly owned

subsidiary of Buyer, and James River, and (b) approve the adjournment of the special meeting, if deemed necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the adoption of the merger agreement. Buyer is a Bermuda-based holding company and member of the D. E. Shaw group, a global investment management firm.

If the merger is completed, each share of common stock of James River, other than treasury shares and shares as to which appraisal rights have been perfected under Delaware law, will be converted into the right to receive $34.50 in cash, without interest and less any applicable withholding tax, as more fully described in the accompanying proxy statement.

A committee of our board of directors formed to evaluate, among other things, the merger, and consisting entirely of non-management directors, developed the material terms of the merger agreement with the assistance of the board committee's financial and legal advisors for consideration by our board of directors. Our board of directors has unanimously determined that it is in the best interests of James River and our stockholders to enter into, and approved and declared the advisability of, the merger agreement. Our board of directors unanimously recommends that you vote ''FOR'' the proposal to approve the adoption of the merger agreement and ''FOR'' the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes in favor of the adoption of the merger agreement at the time of the special meeting.

The merger may not be completed unless the merger agreement is approved by a majority of the votes entitled to be cast by the holders of the outstanding shares of our common stock, voting together as a single class. Stockholders holding approximately 45% of the outstanding shares of our common stock have agreed to vote in favor of the adoption of the merger agreement. The proxy statement accompanying this letter provides you with more specific information concerning the special meeting, the merger agreement and the transactions contemplated by the merger agreement. We encourage you to carefully read the accompanying proxy statement, including the annexes.

Your vote is very important. If you fail to vote by proxy or in person, or fail to instruct your broker on how to vote, it will have the same effect as a vote against the proposal to adopt the merger agreement.

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Whether or not you plan to attend the special meeting, please complete, date, sign and return, as promptly as possible, the enclosed proxy in the accompanying reply envelope, or submit your proxy by telephone or via the Internet. If you have Internet access, we encourage you to record your vote via the Internet. If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted. If your shares are held in an account at a broker, bank or other nominee, you should instruct your broker, bank or other nominee how to vote your shares using the separate voting instruction form furnished by your broker, bank or other nominee. The enclosed proxy card contains instructions regarding voting.

Thank you for your cooperation and support.

Sincerely,
Richard W. Wright
Chairman of the Board

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in the enclosed documents. Any representation to the contrary is a criminal offense.

The proxy statement is dated [•], 2007, and is first being mailed to stockholders on or about [•], 2007.

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James River Group, Inc.
300 Meadowmont Village Circle, Suite 333
Chapel Hill, North Carolina 27517

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held On [•], 2007

Dear Stockholder:

Notice is hereby given that a special meeting of stockholders of James River Group, Inc., a Delaware corporation, which we refer to as James River or the Company, will be held at the offices of Bryan Cave LLP, 1290 Avenue of the Americas, 35th Floor, New York, New York 10104, on [•], 2007 at [•]:00 a.m. local time. The purposes of the special meeting will be:

1. To consider and vote upon a proposal to approve the adoption of the Agreement and Plan of Merger, dated as of June 11, 2007, which we refer to as the merger agreement, among Franklin Holdings (Bermuda), Ltd., a Bermuda company, which we refer to as Buyer, Franklin Acquisition Corp., a Delaware corporation and a direct, wholly owned subsidiary of Buyer, and the Company. Buyer is a Bermuda-based holding company and member of the D. E. Shaw group, a global investment management firm. Upon completion of the merger, each share of common stock of the Company, other than treasury shares and shares as to which appraisal rights have been perfected under Delaware law, will be converted into the right to receive $34.50 in cash, without interest and less any applicable withholding tax.
2. To consider and vote upon a proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to approve the adoption of the merger agreement.
3. To transact any other business that may properly come before the special meeting or any adjournment thereof.

A committee of our board of directors formed to evaluate, among other things, the merger, and consisting entirely of non-management directors, developed the material terms of the merger agreement with the assistance of the board committee's financial and legal advisors for consideration by our board of directors. Our board of directors has unanimously determined that it is in the best interests of the Company and its stockholders to enter into, and approved and declared the advisability of, the merger agreement. Our board of directors unanimously recommends that you vote ''FOR'' the proposal to approve the adoption of the merger agreement and ''FOR'' the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes in favor of the adoption of the merger agreement at the time of the special meeting.

The merger may not be completed unless the merger agreement is approved by a majority of the votes entitled to be cast by the holders of the outstanding shares of common stock of the Company, voting together as a single class. Stockholders holding approximately 45% of the outstanding shares of our common stock have agreed to vote in favor of the adoption of the merger agreement. Only stockholders of record on [•], 2007 are entitled to notice of and to vote at the special meeting or at any adjournment thereof. A list of James River stockholders eligible to vote at the special meeting will be available at our principal offices at 300 Meadowmont Village Circle, Suite 333, Chapel Hill,

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North Carolina during normal business hours from [•] through [•], 2007, and will also be available at the special meeting and at any adjournment thereof.

Whether or not you plan to attend the special meeting, please complete, date, sign and return, as promptly as possible, the enclosed proxy in the accompanying reply envelope, or submit your proxy by telephone or via the Internet. Stockholders who attend the special meeting may revoke their proxies and vote in person.

Please do not send your stock certificates with your proxy. If the merger is completed, you will be sent instructions regarding the surrender of your stock certificates.

Stockholders who do not vote in favor of the proposal to adopt the merger agreement will have the right to seek appraisal of the fair value of their shares if the merger is completed, but only if their appraisal rights are perfected under Delaware law. In order to perfect and exercise appraisal rights, stockholders must give written demand for appraisal of their shares before the taking of the vote on the merger at the special meeting and must not vote in favor of the merger. A copy of the applicable Delaware statutory provisions is included as Annex D to the accompanying proxy statement, and a summary of these provisions can be found under ‘‘Appraisal Rights of Dissenting Stockholders’’ in the accompanying proxy statement.

If you need assistance in submitting your proxy or voting your shares of our common stock, or if you have additional questions about the merger, please call Michael T. Oakes, our Chief Financial Officer, at (919) 883-4171.

The merger agreement and the merger are described in the accompanying proxy statement. A copy of the merger agreement is included as Annex A to the accompanying proxy statement. We urge you to read the entire proxy statement and the annexes thereto carefully.

By Order of the Board of Directors,
Judy D. Young
Secretary

Chapel Hill, North Carolina
[•], 2007

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SUMMARY TERM SHEET

The following summary highlights selected information in this proxy statement and may not contain all the information that may be important to you. In order to fully understand the merger, the merger agreement and all the transactions contemplated thereby, you should carefully read this entire proxy statement, its annexes and the documents referred to in this proxy statement. We have included page references to direct you to a more complete description of the items in this summary.

References to James River, the Company, we, our or us in this proxy statement refer to James River Group, Inc. and its subsidiaries, unless otherwise indicated by the context. References to the merger agreement in this proxy statement refer to the Agreement and Plan of Merger, dated as of June 11, 2007, among Franklin Holdings (Bermuda), Ltd., Franklin Acquisition Corp. and the Company.

The Parties to the Merger (page 12)

James River Group, Inc.

James River Group, Inc. is a Delaware corporation headquartered in Chapel Hill, North Carolina. We are an insurance holding company that primarily owns and manages specialty property/casualty insurance company subsidiaries with the objective of consistently earning underwriting profits. Each of our two insurance company subsidiaries is rated ‘‘A–’’ (Excellent) by A.M. Best Company. Founded in September 2002, James River wrote its first policy in July 2003 and currently underwrites 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 and Virginia.

Franklin Holdings (Bermuda), Ltd.

Franklin Holdings (Bermuda), Ltd., which we refer to in this proxy statement as Buyer, is a newly formed Bermuda-based holding company and member of the D. E. Shaw group. The D. E. Shaw group is a global investment and technology development firm with more than 1,200 employees, approximately $35 billion in aggregate investment capital and offices in North America, Europe and Asia. Buyer has not engaged in any business activities

except activities incidental to its organization and in connection with the transactions contemplated by the merger agreement.

Franklin Acquisition Corp.

Franklin Acquisition Corp., which we refer to in this proxy statement as Merger Sub, is a newly formed Delaware corporation and a direct, wholly owned subsidiary of Buyer. Merger Sub was organized solely for the purpose of completing the merger. Merger Sub has not engaged in any business except activities incidental to its organization and in connection with the transactions contemplated by the merger agreement.

The Special Meeting (page 13)

Time, Place and Purpose of the Special Meeting

The special meeting will be held on [•], at [•]:00 a.m. local time, at the offices of Bryan Cave LLP, 1290 Avenue of the Americas, 35th Floor, New York, New York 10104. The purpose of the special meeting is for our stockholders to consider and vote upon a proposal to approve the adoption of the merger agreement and to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

Record Date

You are entitled to vote at the special meeting if you owned shares of our common stock at the close of business on [•], 2007, the record date for the special meeting. You will have one vote for each share of our common stock that you owned on the record date.

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Vote Required for Approval of the Merger Agreement and Adjournment

The affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of our common stock, voting together as a single class, is required to approve the adoption of the merger agreement. The affirmative vote of a majority of the holders of our common stock present or represented by proxy at the special meeting and entitled to vote on the proposal, voting together as a single class, is required to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies. As of [•], 2007, the record date for the special meeting, [•] shares of our common stock were outstanding. This means that to approve the adoption of the merger agreement, [•] shares or more must vote in the affirmative at the special meeting.

Concurrently with the execution of the merger agreement, Buyer and Merger Sub entered into separate voting agreements with each of Trident II, L.P., HRWCP 1, L.P. and JRG Seven, LLC, and in each case certain related parties (but none of the individual board members), who we refer to in this proxy statement as the Significant Stockholders. The Significant Stockholders collectively own approximately 45% of the outstanding shares of our common stock. Under the terms of the voting agreements, each of the Significant Stockholders has agreed to vote all of its shares of our common stock in favor of the adoption of the merger agreement. Further, all of our directors and executive officers, who collectively with their respective affiliates, excluding the Significant Stockholders, own an additional approximately 7.8% of the outstanding shares of our common stock, have indicated to us that they intend to vote their shares in favor of the adoption of the merger agreement.

The Merger (page 16)

Background of the Merger

A detailed description of the events which led to the proposed merger, including our discussions with Buyer and other parties, is included in this proxy statement beginning on page 16.

Reasons for the Merger; Recommendation of our Board of Directors

A committee of our board of directors formed to evaluate, among other things, the merger, and consisting entirely of non-management directors, developed the material terms of the merger agreement with the assistance of the board committee's financial and legal advisors for consideration by our board of directors. Our board of directors has unanimously determined that it is in the best interests of James River and our stockholders to enter into, and approved and declared the advisability of, the merger agreement. A discussion of the factors considered by our board of directors in making such determination is included in this proxy statement beginning on page 35.

Our board of directors unanimously recommends that you vote ''FOR'' the proposal to approve the adoption of the merger agreement and ''FOR'' the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes in favor of the adoption of the merger agreement at the time of the special meeting.

Opinion of JPMorgan

Our board of directors and the board committee have received an opinion from J.P. Morgan Securities Inc., which we refer to in this proxy statement as JPMorgan, to the effect that, as of the date of the opinion and based upon and subject to the factors and assumptions set forth therein, the merger consideration to be paid to the holders of our common stock is fair, from a financial point of view, to such holders. JPMorgan provided the opinion for the information and assistance of our board of directors and the board committee in connection with their consideration of the transaction, and the opinion is not a recommendation as to how any of our stockholders should vote or act with respect to the merger. The full text of the opinion of JPMorgan which sets forth the assumptions made, matters considered and limits on the review undertaken in connection with the opinion, is attached as Annex C to this proxy statement. We encourage you to carefully read the full text of the opinion.

Interests of Our Directors and Executive Officers in the Merger

In considering the recommendation of our board of directors, you should be aware that our directors and executive officers may have interests in the merger that are different from, or in addition to, the

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interests of our stockholders. These interests may present actual or potential conflicts of interest. Our board of directors was aware of these interests and considered them, among other matters, in approving the merger agreement.

The Merger Agreement (page 50)

The Merger

If the merger is completed, Merger Sub will be merged with and into the Company and the Company will continue as the surviving corporation and a wholly owned subsidiary of Buyer. We encourage you to carefully read the merger agreement attached to this proxy statement as Annex A.

Merger Consideration

Subject to the terms and conditions set forth in the merger agreement, at the effective time of the merger, each outstanding share of our common stock, other than treasury shares and shares as to which appraisal rights may have been perfected under Delaware law, will be canceled and converted into the right to receive $34.50 in cash per share, without interest and less any required withholding taxes, which we refer to in this proxy statement as the merger consideration.

Treatment of Options, Warrants and Notes

Stock Options. Under the terms of the merger agreement, upon the completion of the merger, each outstanding vested or unvested option to purchase our common stock will be canceled and the holder will be entitled to receive in cash an amount equal to the difference between the merger consideration and the exercise price of each applicable stock option, without interest and less any required withholding taxes.

Warrants. Under the terms of the merger agreement, upon the completion of the merger, each outstanding warrant to purchase shares of our common stock will be converted into the right to receive, upon exercise of such warrant the merger consideration the holder of such warrant would have been entitled to receive upon completion of the merger if such holder had been, immediately prior to the merger, the holder of the number of shares of our common stock then issuable upon exercise in full of such warrant or, if the holder and the Company agree, canceled and extinguished, and the holder thereof will be entitled to receive, following cancellation an amount in cash equal to the excess of (a) the product of (1) the number of shares of our common stock subject to the warrant and (2) the merger consideration, minus (b) the aggregate exercise price of the warrant, without interest and less any required withholding taxes.

Notes. If you borrowed funds from the Company to purchase shares of our common stock and any such loan is outstanding, under the terms of the notes evidencing such loans, the outstanding principal amount and accrued and unpaid interest is required to be prepaid in full by wire transfer or certified bank check upon the completion of the merger. However, if the borrower and the Company agree, the borrower may pay such loan by agreeing to reduce the merger consideration otherwise payable to the borrower by the outstanding amount of principal and interest with respect to any such loan.

Conditions to the Merger; Regulatory Approvals

In addition to approval of our stockholders as described in this proxy statement, the merger is subject to regulatory approvals and satisfaction or waiver of other customary closing conditions.

U.S. state insurance laws and regulations generally require that, prior to the direct or indirect acquisition of an insurance company domiciled in that particular jurisdiction, the acquiring company must obtain the approval of the insurance regulatory authority of that jurisdiction. In connection with the merger, filings for regulatory approval are required with the insurance regulatory authorities of North Carolina and Ohio, the states in which the Company’s insurance subsidiaries are domiciled. These filings were made with the insurance regulatory authorities of North Carolina and Ohio on July 11, 2007.

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Although the Company and Buyer do not expect these regulatory authorities to object to the transaction or otherwise withhold their approval, there is no assurance that the Company and Buyer will obtain all necessary regulatory approvals.

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to in this proxy statement as the HSR Act, and the rules promulgated thereunder by the Federal Trade Commission, which we refer to in this proxy statement as the FTC, the merger may not be completed until notification and report forms have been filed with the FTC and the Antitrust Division of the Department of Justice, which we refer to in this proxy statement as the DOJ, and the applicable waiting period has expired or been terminated. The Company and Buyer filed notification and report forms under the HSR Act with the FTC and the Antitrust Division of the DOJ on July 11, 2007. On July 20, 2007, the FTC granted early termination of the waiting period under the HSR Act with respect to the merger.

No Financing Condition; Equity Commitment Letter

The merger is not subject to a financing condition. Equity commitments for the full amount of the merger consideration plus funds sufficient to pay all related fees and expenses required to be paid or funded as of or prior to the completion of the merger have been received by Buyer from D. E. Shaw Composite Fund, L.L.C. and D. E. Shaw Oculus Portfolios, L.L.C., which we refer to in this proxy statement as the Investors, each an investment fund and member of the D. E. Shaw group, pursuant to a letter agreement entered into concurrently with the execution of the merger agreement, which we refer to in this proxy statement as the equity commitment letter. Under the terms of the equity commitment letter, the Investors have committed to Buyer, severally and not jointly, each in the amount set forth therein, to fund, or to cause to be funded, the aggregate funds necessary to complete the transactions contemplated by the merger agreement. The obligations of each Investor to Buyer to fund, or to cause to be funded, its equity commitment are subject to the prior satisfaction or waiver of the conditions to Buyer's and Merger Sub's obligations to effect the merger, as set forth solely in Sections 7.1 and 7.2 of the merger agreement, and the contemporaneous completion of the merger.

Solicitation of Other Offers during the ''Go-Shop'' Period

Under the terms of the merger agreement, the Company has the right to actively solicit and engage in discussions and negotiations with respect to competing proposals from, and provide non-public information to, third parties through 11:59 p.m., New York time, on August 5, 2007, which we refer to in this proxy statement as the go-shop period. At any time during the go-shop period, subject to the payment of a termination fee (as described in ''The Merger Agreement — Termination of the Merger Agreement'' and ''The Merger Agreement — Termination Fees and Expenses'' beginning on page 62 and 63, respectively), our board of directors may terminate the merger agreement to accept a ''superior proposal'' (as defined in ''The Merger Agreement — Solicitation of Other Offers'' beginning on page 60 of this proxy statement), without any obligation to provide notice to or offer Buyer a right to match the proposal.

No Solicitation of Other Offers during the ''No-Shop'' Period

Under the terms of the merger agreement, after 11:59 p.m., New York time, on August 5, 2007, the Company has agreed not to, and to cause our representatives not to:

- initiate, solicit or knowingly encourage the submission of any inquiries, proposals or offers, provide any non-public information or data to any third party that may initiate a takeover proposal, or knowingly make any other efforts or attempts that constitute or would reasonably be expected to lead to, any takeover proposal or engage in any discussions or negotiations with

respect thereto or otherwise cooperate with or assist or participate in, or knowingly facilitate any such inquiries, proposals, discussions or negotiations;

- approve or recommend, or publicly propose to approve or recommend, any takeover proposal;

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- enter into any merger agreement, letter of intent or other agreement providing for or relating to a takeover proposal;
- enter into any agreement requiring us to abandon, terminate or fail to complete the transactions contemplated by the merger agreement; or
- agree or publicly propose to do any of the foregoing.

However, if at any time after 11:59 p.m., New York time, on August 5, 2007 and prior to the approval of the merger agreement by our stockholders, which we refer to in this proxy statement as the no-shop period, we receive a bona fide written takeover proposal from any party with whom we were in contact during the go-shop period or an unsolicited takeover proposal from any third party, we are permitted to engage in discussions or negotiations with, or provide any non-public information to, any such party if our board of directors determines in good faith, after consultation with its financial advisor and outside counsel, that such takeover proposal constitutes, or could reasonably be expected to lead to, a superior proposal and the failure to provide non-public information to or engage in discussions or negotiations with, such third party would be inconsistent with our directors' fiduciary duties under applicable law.

At any time during the no-shop period, subject to the payment of a termination fee and expense reimbursement in certain circumstances (as described in ''The Merger Agreement — Termination of the Merger Agreement'' and ''The Merger Agreement — Termination Fees and Expenses'' beginning on page 62 and 63, respectively), our board of directors may (a) effect a recommendation withdrawal (as defined in ''The Merger Agreement — Recommendation Withdrawal; Special Company Termination Rights'' beginning on page 61) and/or (b) terminate the merger agreement, in either case, if our board of directors determines in good faith, after consultation with its outside counsel, that the failure to take such action would be inconsistent with its fiduciary duties under applicable law, except that our board of directors may not take any such action (1) not in connection with a takeover proposal, unless the taking of such action is based on one or more events, changes, circumstances or effects relating to the Company or any of its subsidiaries that occurs on or after June 11, 2007, the date of the merger agreement, and (2) in connection with a takeover proposal, unless our board of directors prior to taking such action provides Buyer copies of the relevant proposed transaction agreements with the party making the takeover proposal, offers Buyer matching rights and determines in good faith, after consultation with its financial advisor and outside counsel, that such takeover proposal constitutes a superior proposal.

Termination of the Merger Agreement

The Company and Buyer each have certain termination rights under the terms of the merger agreement, including the right of either party to terminate the merger agreement if the merger has not been completed on or before December 15, 2007.

In the event that the merger agreement is terminated under certain circumstances, including by the Company in order to enter into a transaction that is a superior proposal or by Buyer or the Company following the Company effecting a recommendation withdrawal not related to the receipt of a superior proposal, we will be required to pay a fee of $11,463,424 to Buyer, unless the termination occurs during the go-shop period, in which case the Company must pay a fee of $7,164,640 to Buyer. In addition, if the termination occurs after the expiration of the go-shop period, the Company will under certain circumstances be required to reimburse Buyer for an amount not to exceed $3,582,320 for transaction fees and expenses incurred by Buyer and its affiliates. In the event that the merger agreement is terminated

because Buyer and Merger Sub fail to fund the merger consideration following satisfaction or waiver of the conditions to Buyer's and Merger Sub's obligations to effect the merger as set forth in the merger agreement or fail to receive the necessary regulatory approvals for the merger, Buyer will be required to pay to the Company a fee of $11,463,424 and to reimburse the Company for an amount not to exceed $3,582,320 for transaction fees and expenses incurred by the Company and its affiliates.

The respective payment obligations of the parties for breaches under the merger agreement and related agreements are capped at $15,045,744, plus interest and collection costs if applicable, which we refer to in this proxy statement as the liability cap.

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Under the terms of the equity commitment letter, each of the Investors has agreed, severally and not jointly, to pay its proportionate share, based on its respective portion of the equity commitment, of the termination fee and expense reimbursement owed to the Company if Buyer and Merger Sub fail to do so, subject to its respective share of the liability cap.

Appraisal Rights

Under Delaware law, holders of our common stock who do not vote in favor of adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares of our common stock as determined by the Delaware Court of Chancery if the merger is completed, but only if they comply with all requirements of Delaware law, which are summarized in this proxy statement. This appraisal amount could be more than, the same as or less than the amount a stockholder would be entitled to receive under the terms of the merger agreement. Any holder of our common stock intending to exercise appraisal rights, among other things, must submit a written demand for an appraisal to us prior to the vote on the adoption of the merger agreement and must not vote or otherwise submit a proxy in favor of adoption of the merger agreement. Your failure to follow the procedures specified under Delaware law will result in the loss of your appraisal rights. For further information, please see ''Appraisal Rights of Dissenting Stockholders'' beginning on page 71 and the text of the Delaware appraisal rights statute reproduced in its entirety as Annex D to this proxy statement.

Effects on the Company if the Merger is not Completed

If the merger agreement is not adopted by our stockholders or if the merger is not completed for any other reason, you will not receive any payment for your shares in connection with the merger. Instead, the Company will remain a public company and our common stock will continue to be listed and traded on the NASDAQ Global Market, which we refer to in this proxy statement as NASDAQ. Under specified circumstances described in this proxy statement, we may be required to pay Buyer a termination fee and/or to reimburse Buyer for its out-of-pocket expenses up to an agreed-upon cap. Under other specified circumstances, we may be entitled to receive a termination fee and to reimbursement of our transaction fees and expenses up to the same agreed-upon cap.

Market Price of our Common Stock (page 67)

Our common stock is listed on NASDAQ under the trading symbol ''JRVR''. On June 8, 2007, which was the last trading day before the Company announced the execution of the merger agreement, our common stock closed at $35.18 per share. On [•], 2007, which was the last trading day before the printing of this proxy statement, our common

stock closed at $[•] per share. On May 9, 2007 and March 9, 2007, which were the last trading days one month and three months prior to the announcement of the execution of the merger agreement, respectively, our common stock closed at $33.60 and $29.02, respectively.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers are intended to address briefly some commonly asked questions regarding the merger, the merger agreement and the special meeting. These questions and answers may not address all questions that may be important to you as a stockholder. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in this proxy statement, which we encourage you to read carefully.

Q. When and where is the special meeting?

A. The special meeting will be held on [•], 2007, at [•]:00 a.m. local time, at the offices of Bryan Cave LLP, 1290 Avenue of the Americas, 35th Floor, New York, New York 10104.

Q. What am I being asked to vote on at the special meeting?

A. You are being asked to vote on the adoption of the merger agreement that we have entered into with Buyer and Merger Sub. Pursuant to the merger agreement, Merger Sub will be merged with and into the Company and we will become a wholly owned subsidiary of Buyer. You are also being asked to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there not sufficient votes at the time of the special meeting to approve the adoption of the merger agreement.

Q. If the merger is completed, what will I receive for each share of my common stock?

A. If the merger is completed, you will be entitled to receive $34.50 in cash, without interest and less any applicable withholding tax for each share of our common stock that you own, if you do not perfect appraisal rights under Delaware law.

Q. If the merger is completed and I am an option holder, what will I receive for my options?

A. If the merger is completed and you hold vested or unvested options to purchase our common stock, your options will be canceled and you will be entitled to receive in cash an amount equal to the difference between $34.50 and the exercise price of each applicable stock option, without interest and less any required withholding taxes.

Q. How does James River's board of directors recommend that I vote?

A. Our board of directors unanimously recommends that you vote ''FOR'' the proposal to approve the adoption of the merger agreement and ''FOR'' the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to approve the adoption of the merger agreement. See ''The Merger — Reasons for the Merger; Recommendation of Our Board of Directors'' beginning on page 35 for a discussion of the factors that our board of directors considered in deciding to recommend the adoption of the merger agreement by our stockholders.

Q. How many votes do I have?

A. You have one vote for each share of our common stock you own as of [•], 2007, the record date for the special meeting.

Q. May I attend the special meeting in person?

A. Yes. All stockholders, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees or any other holder of record, as of the close of business on [•], 2007, the record date for the special meeting, may attend the special meeting in person.

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Q. How do I cast my vote?

A. You may cast your vote by:

- signing and dating each proxy card you receive and returning it in the enclosed prepared envelope;
- using the telephone number printed on your proxy card;
- using the Internet voting instructions printed on your proxy card; or
- if you hold your shares in ''street name,'' following the procedures provided by your broker, bank or other nominee.

If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted ''FOR'' the proposal to approve the adoption of the merger agreement and ''FOR'' the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

Q. Can I change or revoke my vote?

A. You may change or revoke your proxy at any time before the vote is taken at the special meeting:

- if you hold your shares in your name as a stockholder of record, by notifying in writing our Secretary, Judy D. Young, at 300 Meadowmont Village Circle, Suite 333, Chapel Hill, North Carolina 27517;
- by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting);
- by submitting a later-dated proxy card;
- if you voted by telephone or via the Internet, by voting again at a later date by telephone or via the Internet; or
- if you have instructed a broker, bank or other nominee to vote your shares, by following the directions received from your broker, bank or other nominee to change those instructions.

Q. If my shares are held in ''street name'' by my broker, bank or other nominee, will my broker, bank or other nominee vote my shares for me?

A. Your broker, bank or other nominee will vote your shares only if you provide instructions to your broker, bank or other nominee on how to vote. You should follow the procedures provided by your broker, bank or other nominee regarding the voting of your shares. If you do not instruct your broker, bank or other nominee to vote your shares, your shares will not be voted and will have the same effect as a vote ''AGAINST'' the adoption of the merger agreement, but will not have an effect on any vote regarding the adjournment of the special meeting.

Q. What does it mean if I get more than one proxy card?

A. If you have shares of our common stock that are registered differently or are in more than one account, you may receive more than one proxy card. Please follow the directions for voting on each of the proxy cards you receive to ensure that all of your shares are voted. These proxy cards should each be voted and returned separately in order to ensure that all of your shares are voted.

Q. What happens if I sell my shares before the special meeting?

A. The record date for the special meeting is earlier than the date the special meeting is being held and earlier than the date that the merger is expected to be completed. If you transfer your shares of

common stock after the record date but before the special meeting, you will retain your right to vote at the special meeting, but will have transferred the right to receive $34.50 per share in cash to be paid to our stockholders in the merger. In order to receive the $34.50 per share, you must hold your shares through completion of the merger.

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Q. What do I need to do now?

A. Even if you plan to attend the special meeting in person, after carefully reading and considering the information contained in this proxy statement, if you hold your shares in your own name as the stockholder of record, please vote your shares by completing, signing, dating and returning the enclosed proxy card; using the telephone number printed on your proxy card; or using the Internet voting instructions printed on your proxy card. If you have Internet access, we encourage you to record your vote via the Internet. You can also attend the special meeting and vote. If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted ‘‘FOR’’ the proposal to adopt the merger agreement and ‘‘FOR’’ the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

Q. Should I send in my stock certificates with my proxy?

A. No. After the merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your common stock certificates for the merger consideration. If your shares are held in ‘‘street name’’ by your broker, bank or other nominee you will receive instructions from your broker, bank or other nominee as to how to effect the surrender of your ‘‘street name’’ shares in exchange for the merger consideration. Please DO NOT send your certificates in now.

Q. When is the merger expected to be completed?

A. We are working toward completing the merger and currently expect that the merger will be completed in the second half of 2007. However, the exact timing of the completion of the merger cannot be predicted. In order to complete the merger, stockholder approval and approvals from the insurance regulatory authorities of North Carolina and Ohio, the domiciliary states of our insurance subsidiaries, must be obtained and other closing conditions must be satisfied or waived.

Q. Will I owe taxes as a result of the merger?

A. Yes, if you recognize taxable gain. The merger will be a taxable transaction for U.S. federal income tax purposes to U.S. holders of our common stock, including holders of options or warrants to purchase our common stock. As a result, to the extent you recognize income or taxable gain, the cash you receive in the merger in exchange for your shares of our common stock, or in exchange for options or warrants to purchase shares of our common stock, will be subject to U.S. federal income tax and also may be taxed under applicable state, local and foreign income and other tax laws. See ‘‘The Merger — Material U.S. Federal Income Tax Consequences’’ beginning on page 47.

We strongly encourage you to consult your own tax advisor to determine the particular tax consequences to you, including the application and effect of any state, local or foreign income and other tax laws, of the receipt of cash in exchange for our common stock, including in exchange for options or warrants to purchase shares of our common stock, pursuant to the merger.

Q. Who can help answer my other questions?

A. If you need assistance in submitting your proxy or voting your shares of common stock, or if you have additional questions about the merger, please call Michael T. Oakes, our Chief Financial Officer, at (919) 883-4171.

Q. Where can I find more information about James River?

A. We file reports, proxy statements and other information with the Securities and Exchange Commission, which we refer to in this proxy statement as the SEC. You may obtain a free copy

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of this proxy statement, as well as all other documents filed by James River with the SEC, at the SEC's website, http://www.sec.gov or on our website, http://www.james-river-group.com. You may also obtain such documents on request to Michael T. Oakes, Chief Financial Officer, James River Group, Inc., 300 Meadowmont Village Circle, Suite 333, Chapel Hill, North Carolina, telephone: (919) 883-4171.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

Certain matters discussed in this proxy statement and the documents we incorporate by reference into this proxy statement are forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections of future company or industry performance based on management's judgment, beliefs, current trends and market conditions. Actual outcomes and results may differ materially from what is expressed, forecasted or implied in any forward-looking statement. Forward-looking statements may be identified by the use of words such as ''will,'' ''expects,'' ''intends,'' ''plans,'' ''anticipates,'' ''believes,'' ''seeks,'' ''estimates,'' and similar expressions. There are a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements included in this proxy statement. These include, but are not limited to:

- regulatory approvals necessary for the merger may not be obtained, or necessary regulatory approvals may delay the merger or result in the imposition of conditions that could have a material adverse effect on the Company or cause the parties not to complete the transaction;
- conditions to the closing of the merger may not be satisfied or waived;
- the outcome of any legal proceedings initiated against the Company and others following the announcement of the merger cannot be predicted and could delay or prevent the merger;
- the business of the Company may suffer as a result of uncertainty surrounding the merger;
- the amount of the costs, fees, expenses and charges related to the merger, including if we are required to pay Buyer a termination fee or reimburse Buyer's transaction expenses under the terms of the merger agreement; and
- we may be adversely affected by other economic, business, and/or competitive factors.

Other factors that could cause our actual results to differ materially from those expressed or implied above are discussed under ''Risk Factors'' in our most recent annual report on Form 10-K and our other filings with the SEC. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise. Stockholders are cautioned not to place undue reliance on these forward-looking statements.

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THE PARTIES TO THE MERGER

James River Group, Inc.

James River Group, Inc.
300 Meadowmont Village Circle, Suite 333
Chapel Hill, North Carolina 27517
(919) 883-4171

James River is a Delaware corporation headquartered in Chapel Hill, North Carolina. We are an insurance holding company that primarily owns and manages specialty property/casualty insurance company subsidiaries with the objective of consistently earning underwriting profits. Each of our two insurance company subsidiaries is rated ''A–'' (Excellent) by A.M. Best Company. Founded in September 2002, James River wrote its first policy in July 2003 and currently underwrites 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 and Virginia.

For more information about us, please visit our website at http://www.james-river-group.com. The information provided on our website is not part of this proxy statement, and therefore is not incorporated by reference. See also ''Where You Can Find More Information'' beginning on page 74. Our common stock is publicly traded on NASDAQ under the symbol ''JRVR''.

Buyer

Franklin Holdings (Bermuda), Ltd.
Clarendon House
2 Church Street
Hamilton HM 11 Bermuda
(441) 295-1422

Buyer is a newly formed Bermuda-based holding company and member of the D. E. Shaw group. The D. E. Shaw group is a global investment and technology development firm with more than 1,200 employees, approximately $35 billion in aggregate investment capital and offices in North America, Europe and Asia. Buyer has not engaged in any business activities except activities incidental to its organization and in connection with the transactions contemplated by the merger agreement.

Merger Sub

Franklin Acquisition Corp.
c/o D. E. Shaw & Co., L.P.
Tower 45, 39th Floor
120 West 45th Street,
New York, NY 10036
(212) 478-0000

Merger Sub is a newly formed Delaware corporation and a direct, wholly owned subsidiary of Buyer. Merger Sub was organized solely for the purpose of completing the merger. Merger Sub has not engaged in any business except

activities incidental to its organization and in connection with the transactions contemplated by the merger agreement.

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THE SPECIAL MEETING

Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting to be held on [•], 2007, at [•]:00 a.m. local time, at the offices of Bryan Cave LLP, 1290 Avenue of the Americas, 35th Floor, New York, New York 10104, or at any adjournment thereof. The purpose of the special meeting is for our stockholders to consider and vote upon a proposal to approve the adoption of the merger agreement and to consider and vote upon a proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there not sufficient votes at the time of the special meeting to approve the adoption of the merger agreement. A copy of the merger agreement is attached to this proxy statement as Annex A. This proxy statement and the enclosed form of proxy are first being mailed to our stockholders on or about [•], 2007.

Record Date and Quorum

The holders of record of our common stock as of the close of business on [•], 2007, the record date set by our board of directors for the special meeting, are entitled to receive notice of and to vote at the special meeting. As of [•], 2007, the record date for the special meeting, [•] shares of our common stock were outstanding.

The holders of a majority of our common stock issued and outstanding and entitled to vote at the special meeting, present in person or represented by proxy, shall constitute a quorum for the purpose of considering the proposals. Shares of our common stock represented at the special meeting but not voted, including shares of our common stock for which proxies have been received but for which stockholders have abstained, will be treated as present at the special meeting for purposes of determining the presence of a quorum. If a new record date is set for the adjourned or postponed special meeting, then a new quorum will have to be established.

Votes cast by proxy or in person at the special meeting will be tabulated by the inspectors of election appointed for the special meeting. The inspectors of election will determine whether a quorum is present at the special meeting. In the event that a quorum is not present, we expect that the meeting will be adjourned or postponed to solicit additional proxies.

Vote Required for Approval of the Merger Agreement

Each outstanding share of our common stock on the record date entitles the holder to one vote at the special meeting. The affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of our common stock, voting together as a single class, is required to approve the adoption of the merger agreement. This means that to approve the adoption of the merger agreement, [•] shares or more must vote in the affirmative at the special meeting. If the required vote is not obtained, the merger will not occur. With respect to the proposal to approve the adoption of the merger agreement, you may vote ‘‘FOR’’, ‘‘AGAINST’’ or ‘‘ABSTAIN’’. Abstentions will not be counted as votes cast or shares voting on the proposal to approve the adoption of the merger agreement, but will count for the purpose of determining whether a quorum is present. If you abstain, it will have the same effect as a vote ‘‘AGAINST’’

the adoption of the merger agreement.

Concurrently with the execution of the merger agreement, Buyer and Merger Sub entered into separate voting agreements with each of the Significant Stockholders, who collectively own approximately 45% of the outstanding shares of our common stock. Under the terms of the voting agreements, each of the Significant Stockholders has agreed to vote all of its shares of our common stock in favor of the adoption of the merger agreement. Further, all of our directors and executive officers, who collectively with their respective affiliates, excluding the Significant Stockholders, own an additional approximately 7.8% of the outstanding shares of our common stock, have indicated to us that as of [•], 2007, they intend to vote their shares in favor of the adoption of the merger agreement.

Brokers who hold shares in street name for customers have the authority to vote on ‘‘routine’’ proposals when they have not received instructions from beneficial owners. However, brokers are

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precluded from exercising their voting discretion with respect to approving non-routine matters such as the adoption of the merger agreement and, as a result, absent specific instructions from the beneficial owner of such shares, brokers are not able to vote those shares. These ‘‘broker non-votes’’ will be counted for purposes of determining a quorum, but will have the same effect as a vote ‘‘AGAINST’’ the adoption of the merger agreement.

Proxies and Revocation

If you are a stockholder of record and submit a proxy by telephone or via the Internet or by returning a signed proxy card by mail, your shares will be voted at the special meeting as you indicate on your proxy card or as indicated pursuant to such other method of submission. If you sign your proxy card without indicating your vote, your shares will be voted ‘‘FOR’’ the adoption of the merger agreement and ‘‘FOR’’ the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, and in accordance with the recommendations of our board of directors on any other matters properly brought before the special meeting for a vote, except that, unless otherwise indicated on the proxy card:

- no proxy voted against adoption of the merger agreement will be voted in favor of any adjournment of the special meeting; and
- no proxy voted against adjournment of the special meeting to solicit additional proxies will be voted in favor of adoption of the merger agreement.

If your shares are held in ‘‘street name’’ by your broker, bank or other nominee, you should instruct your broker, bank or other nominee how to vote your shares using the instructions provided by your broker, bank or other nominee. If you have not received such voting instructions or require further information regarding such voting instructions, contact your broker, bank or other nominee for directions on how to vote your shares. Brokers who hold shares in ‘‘street name’’ for customers may not exercise their voting discretion with respect to the approval of non-routine matters such as the merger proposal and thus, absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote such shares with respect to the adoption of the merger agreement, which we refer to in this proxy statement as broker non-votes. Shares of our common stock held by persons attending the special meeting but not voting, or shares for which we received proxies on which holders have noted an abstention from voting, will be considered abstentions. Abstentions and properly executed broker non-votes, if any, will be treated as shares that are present and entitled to vote at the special meeting for purposes of determining whether a quorum exists but will have

the same effect as a vote ‘‘AGAINST’’ adoption of the merger agreement.

Proxies received at any time before the special meeting, and not revoked or superseded before being voted, will be voted at the special meeting. You may change or revoke your proxy at any time before the vote is taken at the special meeting:

- if you hold your shares in your name as a stockholder of record, by notifying in writing our Secretary, Judy D. Young, at 300 Meadowmont Village Circle, Suite 333, Chapel Hill, North Carolina 27517;
- by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting);
- by submitting a later-dated proxy card;
- if you voted by telephone or via the Internet, by voting a second time by telephone or via the Internet; or
- if you have instructed a broker, bank or other nominee to vote your shares, by following the directions received from your broker, bank or other nominee to change those instructions.

We do not expect that any matter other than the adoption of the merger agreement (and the approval of the adjournment of the meeting, if necessary or appropriate, to solicit additional proxies) will be brought before the special meeting. If, however, any such other matter is properly presented at the

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special meeting or any adjournment or postponement of the special meeting, the persons appointed as proxies will have discretionary authority to vote the shares represented by duly executed proxies in accordance with their discretion and judgment.

Adjournments and Postponements

Although it is not currently expected, the special meeting may be adjourned or postponed, if necessary or appropriate, for the purpose of soliciting additional proxies if there are not sufficient votes to approve the adoption of the merger agreement at the time of the special meeting. In order to approve such proposal to adjourn the special meeting, the affirmative vote of a majority of the voting power present at the special meeting and entitled to vote thereat is required, whether or not a quorum exists at the special meeting. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow our stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed. If the special meeting is adjourned, we are not required to give notice of the time and place of the adjourned meeting unless our board of directors fixes a new record date for the special meeting.

The adjournment proposal relates only to an adjournment of the special meeting occurring for purposes of soliciting additional proxies for the approval of the proposal to adopt the merger agreement. Our board of directors retains full authority to adjourn the special meeting for any other purpose, including the absence of a quorum, or to postpone the special meeting before it is convened, without the consent of any stockholders.

Solicitation of Proxies

This proxy solicitation is being made and paid for by us on behalf of our board of directors. Our directors, officers and employees may solicit proxies by personal contact, mail, e-mail, telephone, facsimile or other means of communication. These persons will not be paid additional remuneration for their efforts. We will also request brokers and other fiduciaries to forward proxy solicitation material to the beneficial owners of shares of our common stock that the brokers and fiduciaries hold of record. Upon request, we will reimburse them for their reasonable out-of-pocket expenses.

Appraisal Rights

Stockholders are entitled to statutory appraisal rights under Delaware law in connection with the merger. This means that if you exercise your appraisal rights properly, you are entitled to have the value of your shares determined by the Delaware Court of Chancery and to receive payment based on that valuation. The ultimate amount you receive as a dissenting stockholder in an appraisal proceeding may be more than, the same as or less than the amount you would have received under the merger agreement.

To exercise your appraisal rights, among other things, you must submit a written demand for appraisal to us before the vote is taken on the merger agreement and you must not vote or otherwise submit a proxy in favor of the adoption of the merger agreement. Your failure to follow the procedures specified under Delaware law will result in the loss of your appraisal rights. See ‘‘Appraisal Rights of Dissenting Stockholders’’ beginning on page 71 and the text of the Delaware appraisal rights statute reproduced in its entirety as Annex D to this proxy statement.

Questions and Additional Information

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please call Michael T. Oakes, our Chief Financial Officer, at (919) 883-4171.

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THE MERGER

This discussion of the merger is qualified in its entirety by reference to the merger agreement, which is attached to this proxy statement as Annex A. You should read the entire merger agreement carefully as it is the legal document that governs the merger.

Introduction

We are seeking approval of the adoption of the merger agreement among Buyer, Merger Sub and the Company. If the merger is completed, Merger Sub will be merged with and into the Company and the Company will continue as the surviving corporation and a wholly owned subsidiary of Buyer. In addition, if the merger is completed, we will cease to be a publicly held company. In connection with the merger, each outstanding share of our common stock, other than treasury shares and shares as to which appraisal rights under Delaware law may have been perfected, will be canceled and converted into the right to receive $34.50 in cash per share, without interest and less any required withholding taxes.

Background of the Merger

The specialty property/casualty insurance business segments in which we compete are subject to increased competition from national and Bermuda-based insurers, Lloyd's underwriters, specialty insurance companies, underwriting agencies and diversified financial services companies. While we believe we have developed our own competitive advantages, many of our competitors have greater financial resources and market recognition than we do.

Based on our management team's experience in the industry, their knowledge of our competitors' businesses and strategies and their evaluation of market conditions, our management team has continually sought to position the Company to compete profitably in the various sub-markets in which we participate. As part of this process, our management has had an ongoing and active dialogue with our board of directors regarding industry developments, the Company's competitive position in the industry and potential strategic transactions.

Our board of directors, together with management, has from time to time evaluated the Company's strategic direction and ongoing business plans, with a view towards strengthening the Company's core businesses and increasing stockholder value. As part of its ongoing evaluation, our board of directors has continually considered a variety of strategic alternatives, including potential acquisitions or business combinations that might enhance stockholder value. During these discussions and investigations regarding the Company's strategic alternatives, the policy of the Company has been neither to actively seek nor oppose the sale of the Company, but rather to act at all times in the best interests of the Company and its stockholders.

Beginning in late 2005, our management, with the authorization of our board of directors, engaged in specific discussions with several Bermuda-based reinsurance companies, including the company referenced in the following paragraph, regarding potential business combinations, in each case, structured as a stock-for-stock merger, for the purpose of creating a Bermuda-based specialty insurance and reinsurance company that would have international reach. The Company actively explored three such combinations, none of which led to a transaction, largely, management believes due to the Company's higher relative value, in terms of stock price to book value or stock price to annualized earnings, as compared to the other company, which would have caused, in each case, the proposed transaction to be dilutive to the tangible book value of the Bermuda companies.

Beginning in early 2007, management initiated conversations with two private equity groups regarding the potential financing of an acquisition of a Bermuda-based reinsurance company, followed by a merger of the acquired company with the Company. One of the private equity groups was the private equity group of the D. E. Shaw group and the other was a consortium of private equity funds. Each of these two potential financing sources entered into a confidentiality agreement with the Company and conducted due diligence on the Company. In early February 2007, at the urging of the Company, the D. E. Shaw group and the consortium of private equity funds decided to combine their efforts and

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resources and explore a transaction in which they would be co-investors. The Company and these financing sources identified a Bermuda-based reinsurance company and made a non-binding proposal to acquire the potential target in February 2007. The proposal was subsequently rejected by the potential target, also in February 2007.

In March 2007, Bryan Martin, the co-head of private equity of the D. E. Shaw group, contacted J. Adam Abram, our chief executive officer, and informed him that the D. E. Shaw group was interested in continuing discussions with the Company about other potential business relationships. At Mr. Martin's suggestion, Mr. Abram met with him and other representatives of the D. E. Shaw group in person on March 22, 2007. Based on the discussions at this meeting,

Mr. Abram believed that the D. E. Shaw group was actively considering making a proposal to acquire the Company. Mr. Abram informed Richard W. Wright, the chairman of our board of directors, of the discussions at the meeting and arranged a special meeting of our board of directors on March 28, 2007 to update the entire board of directors on the recent discussions with representatives of the D. E. Shaw group.

On March 28, 2007, our board of directors met by telephone conference to discuss the possible proposal by the D. E. Shaw group and related matters. At the invitation of our board of directors, also present at the meeting were representatives of Bryan Cave LLP, which we refer to in this proxy statement as Bryan Cave, outside legal counsel to the Company. At this meeting, Mr. Abram summarized for our board of directors the Company's previous discussions with representatives of the D. E. Shaw group. In addition, Mr. Abram reported that although he did not know the terms of the possible proposal from the D. E. Shaw group, it was possible that the proposal would include an element providing for the Company's management to have an interest in the acquiring entity. A representative of Bryan Cave discussed with our board members their legal duties and responsibilities and other related issues in connection with a possible proposal, including a proposal that might contain an element of management participation. Mr. Abram suggested that in anticipation of the possible proposal from the D. E. Shaw group, our board of directors consider forming a board committee consisting entirely of non-management directors with respect to matters relating to, or arising from, the Company's strategic alternatives. At this meeting, our board approved the formation of a board committee consisting of Mr. Wright, Matthew Bronfman, James L. Zech and Nicolas D. Zerbib, with Mr. Zerbib serving as chairman, and delegated to the board committee the full power and authority of our board with respect to matters relating to, or arising from, the Company's strategic alternatives, including the power and authority to:

- examine, review and consider any potential transaction that may be proposed to the Company;
- explore strategic alternatives available to the Company;
- retain counsel and financial and other advisors at the expense of the Company;
- solicit proposals for a potential transaction, including competing proposals;
- negotiate a potential transaction with any party;
- determine whether a potential transaction is fair to and in the best interests of the Company and its stockholders, and make recommendations to our board of directors with respect to any potential transaction to be voted upon by our board of directors; and
- take any other actions it may determine to be appropriate in connection with the foregoing.

Also at the March 28 meeting, our board of directors authorized (1) the executive officers of the Company, as they deem appropriate, to engage, on their own behalf, in discussions with representatives of the D. E. Shaw group, regarding a potential transaction and (2) the Company to sign a limited conflict waiver, which was requested by the D. E. Shaw group, to allow Ernst & Young LLP to assist the D. E. Shaw group in performing tax, accounting and actuarial due diligence on the Company at the appropriate time.

Following this board meeting, on March 28, 2007, the general counsel of Stone Point Capital LLC, a private equity firm and the investment manager of Trident II, L.P., a significant stockholder of the

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Company with which Mr. Zerbib is affiliated, which we refer to in this proxy statement as Stone Point, contacted a representative of Skadden, Arps, Slate, Meagher & Flom LLP, which we refer to in this proxy statement as Skadden Arps, to determine its ability to serve as outside legal counsel to the board committee. During the next several days, Mr. Zerbib and the representative of Stone Point discussed with representatives of Skadden Arps the possible

engagement.

On March 30, 2007, Mr. Abram and Michael T. Oakes, our chief financial officer, met in person with representatives of the D. E. Shaw group, including Mr. Martin and Richard Aube, co-head of private equity of the D. E. Shaw group. At this meeting, the representatives of the D. E. Shaw group expressed a continuing interest in potentially making a proposal to acquire the Company. Messrs. Abram and Oakes informed the representatives of the D. E. Shaw group that our board of directors had formed a board committee in anticipation of the possible proposal. In addition, at this meeting the representatives of the D. E. Shaw group expressed a desire that the Company's management remain in place and to explore in due course the possibility of investments by management in the acquiring entity following the consummation of a transaction, in each case subject to agreement by the parties to mutually acceptable terms and conditions. Messrs. Abram and Oakes expressed a general willingness to continue their employment with the Company following any possible transaction. However, the parties agreed at this meeting that the terms of management's possible continued employment and any possible investment by management in the acquiring entity would not be a condition to a possible transaction and there were no discussions at this meeting about the terms of employment of or compensation for any individuals or of any such investment.

Over the several days following the March 30, 2007 meeting, Mr. Abram spoke with representatives of the D. E. Shaw group by telephone regarding whether our board of directors would be willing to consider a proposal to acquire the Company. At the instruction of Mr. Zerbib, Mr. Abram expressed to the representatives of the D. E. Shaw group that our board of directors would consider a proposal to acquire the Company on its merits. In addition, Mr. Abram reminded them that all negotiations with the Company should be conducted through the board committee.

On April 2, 2007, members of the board committee met by telephone conference together with, for a portion of the meeting, representatives of Skadden Arps. The purpose of the meeting was to discuss: (1) the scope of the board committee's authorization granted by our board at its March 28, 2007 meeting; (2) the selection process for the board committee's legal and financial advisors; and (3) recent discussions between Messrs. Abram and Oakes and representatives of the D. E. Shaw group. At the invitation of Mr. Zerbib, representatives of Skadden Arps discussed, among other matters, their qualifications to serve as legal counsel to the board committee, as well as the board committee's fiduciary duties in connection with any proposal that might be received from the D. E. Shaw group and the exploration of strategic alternatives for the Company generally. The board committee also reviewed the fact that other representatives of Skadden Arps had done, and might in the future do, work for members of the D. E. Shaw group unrelated to the proposed transaction, as well as the board committee's belief that such work would not interfere with Skadden Arps' ability to act for the board committee in an objective and disinterested manner. After representatives of Skadden Arps departed the telephone conference and following discussion among the members, the board committee authorized Skadden Arps to be engaged as its legal advisor. Skadden Arps obtained a conflict waiver from the D. E. Shaw group with respect to Skadden Arps' representation of the board committee, and an engagement letter was subsequently executed between the board committee and Skadden Arps.

Also, on April 2, 2007, Messrs. Bronfman, Zech and Zerbib met in person with Messrs. Wright and Abram, with representatives of Skadden Arps participating by telephone, regarding the selection of a financial advisor for the board committee. They held discussions with representatives of JPMorgan and another nationally recognized investment banking firm to review their qualifications to serve as financial advisor to the board committee. Following these separate meetings, discussions were held among the members of the board committee regarding the qualifications of each firm and it was agreed to engage JPMorgan as financial advisor to the board committee, subject to negotiating acceptable engagement terms. An engagement letter was subsequently executed between the board committee and JPMorgan.

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On April 4, 2007, members of the board committee, with one member absent, met by telephone conference together with representatives of Skadden Arps and, for a portion of the meeting, representatives of JPMorgan. The purpose of the meeting was for Mr. Zerbib to discuss a telephone call he had received from Mr. Martin with respect to an acquisition proposal that the D. E. Shaw group anticipated delivering to the board committee on or about April 9, 2007. Mr. Zerbib indicated that the anticipated proposal, as summarized by Mr. Martin, would be in the range of $30.00 to $32.00 in cash per share of our common stock and was expected to be conditioned on a 30-day exclusivity period and access to management for purposes of discussing actuarial reports, financial projections, proposed transaction structure and matters relating to possible management participation in the proposed transaction. The members of the board committee and its advisors discussed the anticipated proposal, particularly with respect to if, how and when the board committee should respond to the D. E. Shaw group. It was agreed that Mr. Zerbib would request that Mr. Martin provide any such proposal in writing to the board committee. In the interim, the members of the board committee directed JPMorgan to begin its work regarding the Company, so that JPMorgan would be in a position to provide advice to the board committee following receipt of the anticipated proposal from the D. E. Shaw group. Following the meeting, Mr. Zerbib contacted Mr. Martin by telephone to request that Mr. Martin provide any such proposal in writing to the board committee.

On April 9, 2007, the board committee received a non-binding written proposal from the D. E. Shaw group, which we refer to in this proxy statement as the April 9 proposal.

On April 10, 2007, the board committee members met by telephone conference together with representatives of JPMorgan and Skadden Arps. The purpose of the meeting was to: (1) discuss the terms and conditions of the April 9 proposal; (2) receive feedback on the April 9 proposal from representatives of JPMorgan and Skadden Arps; and (3) commence the exploration of strategies for responding to the April 9 proposal. During the discussion of the terms and conditions of the April 9 proposal, it was noted, among other matters, that the proposal:

- was non-binding in nature and could be withdrawn or modified by the D. E. Shaw group at any time;
- set forth a proposed price range of $30.00-$32.00 in cash per share of our common stock;
- was subject to due diligence that the D. E. Shaw group described as largely confirmatory in nature;
- had been reviewed and was supported, although not formally approved, by members of the D. E. Shaw group’s private equity group’s investment committee;
- did not contemplate a financing condition;
- requested a period of exclusivity of three weeks; and
- contemplated that certain of the Company’s stockholders would enter into voting agreements.

In addition, representatives of JPMorgan noted that they were still working on a preliminary intrinsic valuation analysis of the Company, and, therefore, it was premature to provide feedback, from a financial point of view, on the range of consideration proposed to be paid by the D. E. Shaw group. A representative of JPMorgan went on to discuss and provide feedback on other aspects of the April 9 proposal, including process and timing considerations. A representative of Skadden Arps then discussed the legal duties and responsibilities of the board committee members in considering the April 9 proposal. Following further discussion among the members of the board committee and their advisors, the board committee members agreed that Mr. Zerbib would contact Mr. Martin by telephone to indicate that the board committee was reviewing the proposal and would respond in due course. Following the meeting, Mr. Zerbib so informed Mr. Martin by telephone.

On April 17, 2007, the board committee members met by telephone conference together with representatives of JPMorgan and Skadden Arps and for a portion of the meeting, members of management of the Company. The purpose

of the meeting was to: (1) further review the terms and conditions of the April 9 proposal; (2) receive preliminary feedback on the April 9 proposal from the

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Company's management; (3) review with management various industry factors potentially affecting the desirability of seeking a sale transaction at this time, as well as prior discussions with other third parties regarding potential strategic transactions; (4) review with JPMorgan and management the financial projections that were being used by JPMorgan for purposes of its preliminary intrinsic valuation analysis; (5) review the preliminary valuation materials disseminated by JPMorgan prior to the meeting; and (6) consider strategies for responding to the April 9 proposal. During management's review of prior discussions regarding potential strategic transactions, it was noted that, while parties with whom the Company had discussions generally expressed interest in a possible combination with the Company, the other party often indicated that the Company's stock price was in their view too high in relation to their own market value to move forward with a transaction. Following this discussion, a representative of JPMorgan, with the assistance of Messrs. Abram and Oakes, discussed the financial projections contained in the preliminary valuation materials, including the basis on which they were prepared and the key assumptions utilized. At the end of this discussion, Messrs. Abram and Oakes were excused from the meeting. Representatives of JPMorgan then discussed the remaining portions of the preliminary valuation materials and strategies for responding to the April 9 proposal. At this point, the board committee members agreed to conclude the meeting and schedule the next meeting for April 18, 2007.

On April 18, 2007, the board committee members met by telephone conference together with representatives of JPMorgan and Skadden Arps to resume their discussion of strategies for responding to the April 9 proposal. The board committee members, with the assistance of their advisors, considered and evaluated various potential alternatives, including the desirability of trying to determine whether the D. E. Shaw group would increase its price, as well as the possible advantages and disadvantages of seeking other third party interest at this time. In this regard, the board committee members considered the possible risk of the D. E. Shaw group not participating if the process were to be opened to other parties, as well as the concern that a broad-based solicitation of interest might become public, which could have a destabilizing effect on the Company's work force. During the course of discussion, it was observed that no decision had been made at this time to seek a sale of the Company and that more information was required, including with respect to the April 9 proposal, before such a decision could be made. Following further discussion, the board committee members agreed to take steps to enable the D. E. Shaw group to explore further its April 9 proposal to acquire the Company, but not actively seek other potential buyers at this time. In that regard, the board committee members agreed to permit the D. E. Shaw group to conduct limited due diligence primarily focusing on financial and operational related matters, as well as engage in limited discussions with management regarding the business and affairs of the Company, with the process overseen and coordinated by representatives of JPMorgan. The board committee members determined that in light of the proposed price range and preliminary and contingent nature of the April 9 proposal, as well as the granting to the D. E. Shaw group of access to limited due diligence materials with a view to the D. E. Shaw group possibly increasing its valuation of the Company, it was not an appropriate time to consider granting the D. E. Shaw group's request for exclusivity contained in the April 9 proposal. Following the meeting, Mr. Zerbib contacted Mr. Martin by telephone to inform him of the board committee's decision.

Also, on April 18, 2007, the D. E. Shaw group executed a non-disclosure agreement with the Company. Thereafter, representatives of JPMorgan and Bryan Cave provided the D. E. Shaw group and its financial and legal advisors access to limited due diligence materials.

During the period from April 19-24, 2007, representatives of JPMorgan and the Company participated in preliminary meetings with representatives of the D. E. Shaw group and representatives of its financial advisor, Wachovia Capital Markets, LLC, which we refer to in this proxy statement as Wachovia, and its legal advisor, Debevoise & Plimpton LLP, which we refer to in this proxy statement as Debevoise, to discuss (1) the D. E. Shaw group's proposed structure for the transaction, which would include a Bermuda holding company to be newly formed in connection with the transaction and a Bermuda-based reinsurance affiliate, (2) the Company's business operations by segment, (3) the

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Company's 2007 performance to date and (4) other due diligence matters. Due diligence discussions were also held among representatives of the Company and the D. E. Shaw group's outside tax accounting and actuarial firms.

On April 27, 2007, Messrs. Abram and Oakes, with the authorization of Mr. Zerbib, met with representatives of the A.M. Best Company to discuss generally, on a no-names basis, the possibility that the Company would enter into a sale transaction and the anticipated structure following such a transaction, including a Bermuda-based holding company and a Bermuda-based reinsurance affiliate.

On April 30, 2007, members of the board committee, with one member absent, met by telephone conference together with representatives of JPMorgan and Skadden Arps, to discuss a telephone call Mr. Zerbib received from Mr. Martin during which Mr. Martin indicated that the D. E. Shaw group anticipated sending a revised proposal to the board committee that would include a price in the high-end of the $30.00-$32.00 per share range previously indicated in the April 9 proposal. Mr. Zerbib noted that he had indicated to Mr. Martin his belief that the board committee would not recommend a proposal at that price level and that Mr. Martin had, in response, requested guidance from the board committee regarding a price level at which it might consider recommending a proposal to our board of directors. Mr. Zerbib also indicated that Mr. Martin had noted that if the board committee required the purchase price to be in the mid-to-high $30's per share, the D. E. Shaw group would not be interested in continuing discussions. Mr. Zerbib reported that Mr. Martin had explained that the D. E. Shaw group believed that the market price of our common stock already reflected the Company's higher relative value as compared to the stock price of the companies in our peer group and already reflected a measurable increase over the past several months. Mr. Zerbib further noted that Mr. Martin had indicated a possible willingness on the part of the D. E. Shaw group for the Company to conduct a process to explore potential third-party interest for the sale of the Company, subject to the parties' agreement as to the timing and other terms of such a process.

A representative of JPMorgan next provided the preliminary view of JPMorgan that the high-end of the price range for our common stock that the D. E. Shaw group would consider was between $32.00 and $35.00 per share based on the results of their valuation methodologies and the discussions to date with representatives of the D. E. Shaw group and Wachovia. The members of the board committee, with the assistance of their advisors, then discussed the strategy for responding to the D. E. Shaw group's request for guidance from the board committee regarding a price level at which it would consider recommending a proposal to our board of directors and various merger agreement provisions, such as go-shop and termination provisions, and fiduciary duty issues that should be considered as part of a response to the D. E. Shaw group's request for guidance, including JPMorgan's view as to the timing and mechanics of any market check for the Company.

Following this discussion, the members of the board committee determined that, prior to responding, the board committee should receive in writing and review any proposal that the D. E. Shaw group should determine to submit. At the request of the board committee, Mr. Zerbib then contacted Mr. Martin by telephone to request that Mr. Martin

provide the revised proposal in writing to the board committee. During that conversation, Mr. Zerbib reiterated the board committee's concerns regarding the proposed purchase price and asked that the D. E. Shaw group resubmit a proposal at a higher price. Later that evening, the board committee received a revised, non-binding written proposal from the D. E. Shaw group, which we refer to in this proxy statement as the April 30 proposal. Following receipt of the April 30 proposal, representatives of JPMorgan also contacted representatives of Wachovia to obtain any additional guidance that Wachovia representatives might have regarding the April 30 proposal.

On May 1, 2007, the board committee members met by telephone conference together with representatives of JPMorgan and Skadden Arps to discuss the terms and conditions of the April 30 proposal. It was noted, among other matters, that the proposal: (1) was non-binding in nature and could be withdrawn or modified by the D. E. Shaw group at any time; (2) set forth a proposed price of $32.00 in cash per share of our common stock; (3) was subject to due diligence that the D. E. Shaw group described as confirmatory in nature and largely focused on A.M. Best Company rating agency implications; (4) had been reviewed and was supported, although not formally approved, by members

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of the D. E. Shaw group's private equity group's investment committee; (5) did not contemplate a financing condition; (6) requested a period of exclusivity of three weeks; and (7) contemplated that certain of the Company's stockholders would enter into voting agreements. Representatives of JPMorgan then discussed their views of the April 30 proposal, including that, in JPMorgan's view, the D. E. Shaw group was serious about its revised proposal and that it would be expected to have available sources of financing to fund and the ability to complete an acquisition of the Company. The board committee members and their advisors next discussed the recent range of trading prices and trading volume of our common stock, including that, as of such date, the 52-week high (intraday trading) was $34.48 per share, and go-shop and termination provisions, as well as fiduciary duty issues that would likely be raised as part of any negotiations with representatives of the D. E. Shaw group with respect to a transaction. The board committee members and their advisors then discussed the D. E. Shaw group's request for guidance regarding price.

Following this discussion, it was agreed that Mr. Zerbib would contact Mr. Martin by telephone to indicate that the board committee was unwilling to agree to exclusivity, allow further due diligence or otherwise pursue a transaction at a price of $32.00 per share and that, in order for discussions to continue, the D. E. Shaw group would have to resubmit its proposal at a price in the high $34's per share, and such proposal would have to contain an acceptable go-shop provision. The board committee members noted that this pricing guidance took into account the presentations previously received from JPMorgan regarding valuation and reflected a judgment as to the maximum price that the members of the board committee reasonably believed that the D. E. Shaw group would consider. Following the meeting, Mr. Zerbib contacted Mr. Martin by telephone to inform him of the board committee's decision.

On May 5, 2007, Mr. Martin contacted Mr. Zerbib by telephone regarding the possibility of the D. E. Shaw group submitting a revised proposal.

On May 8, 2007, the board committee received a further revised, non-binding written proposal from the D. E. Shaw group, which we refer to in this proxy statement as the May 8 proposal, at a price of $34.50 per share in cash. Prior to submitting the revised proposal, Mr. Martin, on May 5, 2007, with the authorization of Mr. Zerbib, had a telephone call with Mr. Abram for the purpose of reviewing certain of the assumptions underlying the Company's 2007 budget and related matters.

On May 9, 2007, members of the board committee, with one member absent, met by telephone conference together with representatives of JPMorgan and Skadden Arps to: (1) review the terms and conditions of the May 8 proposal; (2) discuss the board committee's legal duties and responsibilities in responding to the May 8 proposal; (3) receive feedback from JPMorgan on the financial terms of the May 8 proposal, which advice reflected JPMorgan's view that the $34.50 in cash per share proposal was very attractive from a financial point of view and compared favorably to the results of their valuation methodologies previously reviewed with the board committee; and (4) consider strategies for responding to the May 8 proposal. During the review of the terms and conditions of the May 8 proposal, it was noted, among other matters, that the proposal:

- was at a price of $34.50 in cash per share;
- contained a 30-day go-shop period with notice and matching rights;
- provided for a termination fee equal to 1.5% of the purchase price during the go-shop period and 3% thereafter, as well as expense reimbursement in the event of termination of the merger agreement during the go-shop period or thereafter;
- contemplated expense reimbursement for the D. E. Shaw group (up to $750,000) for 50% of its expenses if for any reason the parties failed to enter into a merger agreement;
- would be fully financed from available funds and would not contain a financing condition;
- was conditioned on voting agreements from certain of the Company's stockholders;
- was subject to due diligence that the D. E. Shaw group described as confirmatory in nature;
- was subject to discussions with A.M. Best Company regarding the validation by the D. E. Shaw group of rating agency implications;

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- requested a three-week exclusivity period;
- contemplated that the D. E. Shaw group would expect, shortly before execution of the merger agreement, to negotiate with key members of management the terms of their continued employment and possible equity participation in the acquiring entity; and
- set forth the principal items and activities necessary for the D. E. Shaw group to complete the remainder of its due diligence.

The members of the board committee noted that the May 8 proposal did not state whether the Company's regular quarterly cash dividend would be permitted to continue to be declared and paid between the execution of a definitive agreement and the closing of a transaction, which the members of the board committee felt was an important point. A representative of JPMorgan then discussed JPMorgan's view that, given the attractiveness of the price and the D. E. Shaw group's consistent statements regarding its unwillingness to further increase its proposed price, it would be more productive for the efforts of the board committee to be focused on the negotiation of the non-price terms of the May 8 proposal, rather than on further increasing the price. While it was recognized that the $34.50 price per share might, depending upon the market price of our common stock at the time of the announcement of the transaction, represent little-to-no premium over that market price, the board committee noted that such possibility did not affect the attractiveness of the price based on the results of the valuation methodologies performed by JPMorgan. In addition, given the limited trading volume of our common stock, there would be no assurance that the Company's stockholders would be able to obtain liquidity at the prevailing market price. It was also noted that representatives of the D. E. Shaw group had confirmed that the anticipated voting agreements would contain customary terms that would expire upon termination of the definitive merger agreement, so that the voting agreements would not interfere with the Company's ability to accept a superior proposal, should one develop during the go-shop or no-shop period.

The board committee members and their advisors next reviewed the request for a three-week exclusivity period and other aspects of the May 8 proposal, including issues associated with granting notice and matching rights during the go-shop period. Representatives of JPMorgan then discussed how the go-shop process would be undertaken by the board committee and the Company and expressed its views as to the terms of the go-shop proposed by the D. E. Shaw group. Following this discussion, JPMorgan recommended responding to the D. E. Shaw group's proposal by requesting a 45-day go-shop period with no notice and matching rights and a 1.25% termination fee with no expense reimbursement during the go-shop period. The representatives of JPMorgan expressed their view that these terms would provide sufficient flexibility for the Company to undertake an appropriate post-signing market check. The members of the board committee also discussed that it was important that the response to the May 8 proposal clarify that the Company's regular quarterly cash dividend would be permitted to continue between the execution of a definitive agreement and the closing of a transaction and that the transaction would not be subject to the receipt of any particular rating from A.M. Best Company. It was also the view of those present to grant exclusivity, subject to the concurrence of our board of directors at a meeting scheduled to be held on May 17, 2007, but not to initially offer to provide the requested pre-signing expense reimbursement, although Mr. Zerbib was authorized, on behalf of the board committee, to enter into an expense reimbursement agreement for pre-signing expenses incurred by the D. E. Shaw group substantially consistent with the terms outlined in the May 8 proposal.

In making the determination to proceed with representatives of the D. E. Shaw group in exploring a transaction on the foregoing terms, the members of the board committee considered and discussed:

- JPMorgan's recommendation that the proposed purchase price of $34.50 in cash per share represented an attractive valuation for stockholders based on peer trading, transaction comparables and the intrinsic valuation analysis employed by JPMorgan;
- the Company's prior efforts to explore business combination transactions, which had not led to a transaction;
- current insurance market conditions;

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- the limited opportunity for our stockholders to monetize their shares at the current share price given the limited liquidity of our common stock;
- their belief that the D. E. Shaw group was at the high end of its price range;
- their view that the May 8 proposal was a bona fide proposal with few contingencies and no financing condition;
- the risk that the D. E. Shaw group could withdraw its proposal or reduce its proposed share price;
- the Company's ability to conduct a post-announcement market check of the price through the go-shop provision; and
- the possibility that the D. E. Shaw group would not continue with discussions in light of the significant resources and expenses it was incurring in conducting its due diligence review of the Company, preparing the transaction agreements and in other matters relating to the transaction, unless the Company provided expense reimbursement and a reasonable period of exclusivity.

The members of the board committee determined that Mr. Zerbib should update the board committee member who was absent from the meeting and, assuming his concurrence with the views of the other members of the board committee, respond, as planned, to Mr. Martin regarding the May 8 proposal.

Following the meeting, Mr. Zerbib, after receiving the concurrence of the absent board committee member, contacted Mr. Martin by telephone and conveyed the planned response to the May 8 proposal. During this telephone call, Mr. Zerbib noted that the board committee was inclined to support the D. E. Shaw group's request for exclusivity to facilitate the D. E. Shaw group's development of the terms of definitive agreements, but that the granting of such request would need to await approval by our board of directors at a meeting that had been previously scheduled for May 17, 2007. Also following the meeting, representatives of JPMorgan contacted representatives of Wachovia by telephone to seek clarification on certain aspects of the May 8 proposal, including receiving confirmation that the Company's regular quarterly cash dividend would be permitted to continue between the execution of a definitive agreement and the closing of a transaction.

On May 10, 2007, Mr. Zerbib had several discussions with Mr. Martin regarding the May 8 proposal, including as to whether there would be notice and matching rights during the go-shop period, the amount of the termination fee during the go-shop period and expense reimbursement if for any reason the parties failed to enter into a merger agreement, as well as expense reimbursement in the event the proposed merger agreement was terminated during the go-shop period or thereafter. During these discussions, Mr. Zerbib reiterated that the board committee would not agree to notice and matching rights during the go-shop period and that the termination fee during the go-shop period should be 1.25% with no expense reimbursement. In response to Mr. Martin's insistence on reimbursement for expenses incurred prior to the execution of a definitive agreement, as well as the D. E. Shaw group's concern that our board of directors would not be acting on its request for exclusivity for another week, Mr. Zerbib indicated that the Company would agree to be responsible for out-of-pocket expenses incurred by the D. E. Shaw group relating to a transaction (up to a maximum of $300,000) if our board of directors did not concur on May 17, 2007 with entering into an exclusivity agreement. Mr. Zerbib also noted that if our board of directors were to approve the entering into of an exclusivity agreement on May 17, 2007, the Company would agree to be responsible for 50% of the out-of-pocket expenses incurred by the D. E. Shaw group relating to a transaction (up to $750,000 in the aggregate), except in certain events, such as the D. E. Shaw group's unwillingness to enter into a definitive agreement on or prior to June 4, 2007 on the terms substantially as set forth in the May 14 proposal discussed below. Also, on May 10, 2007, representatives of JPMorgan contacted representatives of Wachovia to discuss various matters relating to the go-shop and expense reimbursement provisions.

On the evening of May 11, 2007, the D. E. Shaw group delivered a further revised, non-binding written proposal, which we refer to in this proxy statement as the May 11 proposal, as well as drafts of an expense reimbursement agreement and exclusivity agreement.

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During the period from May 12-14, 2007, representatives of Skadden Arps and Bryan Cave, in consultation with Mr. Zerbib, negotiated with Debevoise, in consultation with Mr. Martin, principally to finalize the expense reimbursement agreement and related exclusivity agreement. During the period of May 12-17, 2007, the D. E. Shaw group and its advisors continued their due diligence of the Company.

On May 14, 2007, the board committee received a further revised, non-binding written proposal from the D. E. Shaw group, which we refer to in this proxy statement as the May 14 proposal, together with final versions of the expense reimbursement agreement and exclusivity agreement. The May 14 proposal:

- was at a cash price of $34.50 per share;

- contained a 45-day go-shop period with no notice and matching rights during such period;
- provided for a termination fee equal to 1.25% of the purchase price during the go-shop period and 3.00% thereafter;
- provided for reimbursement of out-of-pocket expenses subsequent to termination of the go-shop period under customary circumstances up to a reasonable and customary cap;
- would be fully financed from available funds and would not contain a financing or rating agency condition;
- was conditioned on voting agreements from certain of the Company's significant stockholders;
- contemplated that the D. E. Shaw group would expect, shortly before execution of the merger agreement, to negotiate with key members of management the terms of their continued employment and possible equity participation in the acquiring entity;
- permitted the Company to declare and pay its regular quarterly cash dividend in the ordinary course and consistent with past practice between signing and closing of a transaction; and
- set forth the principal items and activities necessary for the D. E. Shaw group to complete the remainder of its due diligence.

The May 14 proposal was substantially similar to the May 11 proposal except that it recognized that the Company's obligation to reimburse the D. E. Shaw group for its expenses following the termination of the merger agreement would be limited to ''customary circumstances'', as would be set forth therein. On May 14, 2007, Mr. Zerbib, on behalf of the Company, entered into the expense reimbursement agreement with members of the D. E. Shaw group.

Also, on May 14, 2007, representatives of JPMorgan participated in a telephone conference with representatives of the D. E. Shaw group to: (1) schedule an on-site management meeting with C. Kenneth Mitchell, the president and chief executive officer of Stonewood Insurance Management Company, Inc. and Michael P. Kehoe, the president and chief executive officer of James River Management Company, Inc.; (2) schedule an in-person meeting with representatives of A.M. Best Company; and (3) follow up on open due diligence matters. From May 14-June 11, 2007, representatives of the D. E. Shaw group and its financial, actuarial, accounting and legal advisors were also granted access to additional due diligence materials and thereafter requested further due diligence materials from time to time, which were subsequently provided by the Company in coordination with its financial and legal advisors.

On May 17, 2007, a regularly scheduled meeting of our board of directors was held. In addition to the directors, representatives of Bryan Cave, JPMorgan and Skadden Arps and, for a portion of the meeting, certain members of management of the Company were present. The purpose of the meeting was to: (1) approve the declaration of a quarterly dividend to our stockholders; (2) provide our board members with management reports for each of our insurance subsidiaries; (3) provide our board members with reports from our audit committee, compensation committee and investment committee; (4) update our board members on developments since the last board meeting, including the terms and conditions of the May 14 proposal and the status of negotiations with representatives of the

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D. E. Shaw group; (5) discuss with our board members their legal duties and responsibilities; (6) provide our board members with an opportunity to receive a full presentation from JPMorgan, including a review of the preliminary valuation materials disseminated by JPMorgan prior to the meeting; (7) discuss with the directors next steps in connection with the transaction and various alternatives; and (8) seek our board's concurrence with the board committee's recommendation that the D. E. Shaw group be granted a three-week period of exclusivity with a view to finalizing the terms of its proposal for consideration by the board committee and our board of directors.

The members of management of the Company assisted in the review of the projections contained in the JPMorgan preliminary valuation materials, but were excused from the portion of the meeting at which the results of JPMorgan's preliminary valuation analysis were discussed. In describing the recommendation of the board committee, the members of the board committee advised our board of directors of their belief that the benefits of continued exploration of a transaction outweighed the potential for additional expense reimbursement to members of the D. E. Shaw group. Moreover, the board committee members expressed their view that the go-shop provisions presently proposed, including the 45-day go-shop period with no notice and matching rights and a 1.25% termination fee with no expense reimbursement during the go-shop period, reflected the good faith negotiations of the parties, and after considering the advice of JPMorgan in respect of the following, that these provisions would provide sufficient flexibility for the Company to undertake an appropriate post-signing market check. After considering the recommendation of the board committee, the input from the various advisors and their own deliberations, our board of directors unanimously authorized the board committee to further explore a transaction with members of the D. E. Shaw group on the terms set forth in the May 14 proposal, including by entering into the exclusivity agreement.

On May 17, 2007, Mr. Zerbib, on behalf of the Company, executed the exclusivity agreement with members of the D. E. Shaw group granting a period of exclusivity until June 4, 2007, subject to earlier termination in certain circumstances.

On May 18, 2007, Debevoise, on behalf of the D. E. Shaw group, delivered an initial draft of the merger agreement. Drafts of the voting agreement and the equity commitment letter were provided at a later date.

On May 21, 2007, Messrs. Abram and Oakes, together with members of the Company's insurance company subsidiaries' management, met in person at the offices of Stonewood Insurance Company with representatives of the D. E. Shaw group and representatives of JPMorgan and Wachovia to discuss, among other matters, the insurance company subsidiaries' businesses and operations and the Company's reinsurance strategy, as well as to prepare for a meeting with representatives of A.M. Best Company at which possible rating agency implications arising from the transaction would be discussed.

Following the May 21, 2007 meeting at the offices of Stonewood Insurance Management Company, Inc., Messrs. Abram and Oakes, together with a representative of JPMorgan, had a meeting with Messrs. Martin and Aube, at which they discussed, among other things, the D. E. Shaw group's general philosophy for compensating senior executives, including competitive salaries, performance-based cash bonuses and possibly options or other equity-based incentives for management. However, these discussions were general in nature, and did not address the specific compensation terms of the employees of the Company as a group or individually.

From May 21-31, 2007, representatives of the Company, including Messrs. Abram and Oakes, and representatives of the D. E. Shaw group, including Messrs. Martin and Aube, as well as representatives of their respective advisors, had a number of telephone conferences and in-person meetings regarding due diligence matters, the insurance regulatory filing and approval process and the preparation of presentation materials for the meeting with A.M. Best Company scheduled for May 30, 2007.

During the period from May 23-29, 2007, representatives of Skadden Arps and Bryan Cave, on behalf of the Company, and Debevoise, on behalf of the D. E. Shaw group, exchanged drafts of the various transaction agreements. This was followed by an in-person meeting on May 30, 2007 between representatives of Skadden Arps and Bryan Cave and representatives of Debevoise to discuss and

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negotiate certain provisions of the latest drafts of the merger agreement, equity commitment letter and the form of voting agreement. The parties discussed, among other provisions in the merger agreement, the following: (1) the ability of our board of directors to effect a recommendation withdrawal not related to the receipt of a superior proposal; (2) triggers for when Buyer and the Company would be permitted to terminate the merger agreement; (3) triggers for when Buyer and the Company would be obligated to pay a termination fee and reimburse expenses and the amounts thereof, including the possibility that Buyer would be required to pay a termination fee and reimburse expenses to the Company in the event that it failed to obtain any of the necessary regulatory approvals; and (4) the specified exceptions to the definition of material adverse effect.

On May 27, 2007, Messrs. Abram and Oakes, representatives of the D. E. Shaw group and representatives of Bryan Cave, Skadden Arps, Debevoise, Wachovia and the Company's and the D. E. Shaw group's respective local counsel in the domiciliary states of the insurance company subsidiaries, participated in a telephone conference to discuss the timing and mechanics of, and other issues relating to, the insurance regulatory filing and approval process. On May 29, 2007, Messrs. Abram and Martin and representatives of Bryan Cave and Debevoise participated in a follow-up telephone conference regarding the insurance regulatory filing and approval process.

On May 30, 2007, Messrs. Abram and Oakes and Mr. Martin met in person with representatives of A.M. Best Company to introduce them to representatives of the D. E. Shaw group and inform them on a confidential basis of the potential transaction. The purpose of the meeting was to discuss possible rating agency implications from the announcement of the potential transaction and the implementation of the D. E. Shaw group's planned Bermuda reinsurance strategy.

On June 1, 2007, the board committee members met by telephone conference together with representatives of JPMorgan and Skadden Arps. The purpose of the meeting was to: (1) receive an update on the status of negotiations with representatives of the D. E. Shaw group; (2) review the principal open issues remaining in the transaction agreements; (3) discuss the triggers for payment and the amount of the reverse termination fee payable by Buyer; and (4) receive feedback on the May 30, 2007 meeting with A.M. Best Company. The principal open issues identified in the transaction agreements were:

- the ability of our board of directors to withdraw its recommendation and terminate the merger agreement absent a superior proposal;
- the possible requirement that the Company may need to facilitate the financing of a transaction through an inter-company dividend prior to the completion of a transaction;
- the size of the reverse termination fee and expense reimbursement payable by Buyer and the events that would cause it to be triggered, including the possibility that Buyer would be required to pay a termination fee and reimburse expenses to the Company in the event that it failed to obtain any of the necessary regulatory approvals;
- the events that would give rise to a Company obligation to pay a termination fee;
- the date after which the parties could unilaterally terminate the merger agreement;
- the cap, if any, that would be placed on the Company's potential liability for monetary damages under the merger agreement for any breach by the Company; and
- whether the voting agreements would apply if a majority of the shares not subject to a voting agreement vote against the transaction.

On June 2, 2007, Mr. Martin contacted Mr. Zerbib by telephone to inform him that, particularly in light of our insistence that the Buyer pay a reverse termination fee in the event it failed to obtain any of the necessary regulatory approvals, the D. E. Shaw group required an opportunity to discuss the transaction and its proposed regulatory filings with the insurance regulator in the domiciliary state of Stonewood Insurance Company prior to concluding

negotiations of the open issues in the transaction agreements.

On June 2-3, 2007, Messrs. Abram and Martin and a representative from Hunton & Williams LLP, the Company's local counsel in the domiciliary state of Stonewood Insurance Company, which we refer to

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in this proxy statement as Hunton & Williams, and representatives of Debevoise and Bryan Cave, participated in numerous telephone conversations regarding the D. E. Shaw group's request that it be afforded an opportunity to discuss the transaction and related regulatory filings with insurance regulators. It was agreed that a representative of Hunton & Williams would contact a representative of the insurance department of the domiciliary state of Stonewood Insurance Company to arrange the meeting requested by the D. E. Shaw group.

On June 3, 2007, the members of our board of directors met by telephone conference together with representatives of Bryan Cave, JPMorgan and Skadden Arps. The purpose of the meeting was to update our board members on the status of the transaction, including the request by the D. E. Shaw group to discuss the transaction and the related regulatory filings with insurance regulators. During this meeting, Mr. Zerbib expressed his view, which was informed by discussions with Mr. Abram, that the potential opportunity for a representative of the D. E. Shaw group to meet with a representative of the insurance department of the domiciliary state of Stonewood Insurance Company was a positive factor that weighed in favor of continuing to work with representatives of the D. E. Shaw group and its advisors over the next several days. Our board members next affirmed the importance of there being parity in the maximum amount of the termination fees payable by Buyer and the Company and having the reverse termination fee payable if the members of the D. E. Shaw group were not able to obtain, for any reason, any of the necessary regulatory approvals. Following this discussion, our board of directors determined that the Company should continue to work with representatives of the D. E. Shaw group and its advisors over the next several days to facilitate a meeting with the insurance department of the domiciliary state of Stonewood Insurance Company, but that the exclusivity arrangement should be terminated as of the close of business on June 4, 2007, as permitted by the terms of the exclusivity agreement.

On June 4, 2007, Mr. Zerbib confirmed with Mr. Martin by e-mail that the exclusivity period had terminated as of the close of business on that day.

During the period from June 4-6, 2007, Messrs. Abram and Oakes and a representative from Hunton & Williams participated in numerous telephone conferences with various representatives of the D. E. Shaw group and representatives of Debevoise and Bryan Cave to review and finalize the presentation materials for a meeting with a representative of the insurance department of the domiciliary state of Stonewood Insurance Company scheduled for June 7, 2007.

Following the expiration of the exclusivity period, Mr. Abram, in consultation with Mr. Zerbib, met in person on June 5, 2007 with representatives of a private equity firm, which we refer to in this proxy statement as Party A, to introduce the Company and its management to such firm and to inquire as to such firm's interest in possibly pursuing an acquisition of the Company. The Company had on prior occasions been contacted by an investment bank representing such firm to indicate that such firm had high regard for the management of the Company. During such meeting, representatives of Party A confirmed their interest in the Company, including their high regard for the Company's management. Representatives of Party A also indicated their desire to engage in due diligence. To facilitate an open discussion at the meeting, representatives of Party A executed a non-disclosure agreement with the Company.

In addition, during the period from June 5-7, 2007, Mr. Abram and/or other representatives of the Company and JPMorgan had preliminary discussions with representatives of several potential strategic acquirors and another private equity firm regarding their interest in possibly pursuing an acquisition of the Company.

On June 7, 2007, Messrs. Abram and Martin and a representative from Hunton & Williams met with a representative of the insurance department of the domiciliary state of Stonewood Insurance Company to discuss the transaction and insurance regulatory filings in that state in respect of an acquisition by the D. E. Shaw group of the Company and indirectly Stonewood Insurance Company. Following the meeting, Mr. Martin informed Mr. Zerbib by telephone that the D. E. Shaw group was ready to proceed to finalize negotiations and, if the open issues in the transaction agreements were resolved, to execute such agreements. During this telephone call, Mr. Zerbib and Mr. Martin agreed to discuss several unresolved issues in the merger agreement that evening, including the amount of the reverse

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termination and Company termination fees and expense reimbursement provisions. Representatives of Bryan Cave, Skadden Arps and Debevoise discussed unresolved issues over the course of the day in preparation for the discussion between Messrs. Zerbib and Martin.

Also, on June 7, 2007, representatives of Party A's financial advisor contacted Mr. Zerbib to express its client's interest in pursuing an acquisition of the Company.

During the period from June 7-10, 2007, the board committee, representatives of the Company and the D. E. Shaw group and their respective advisors worked together to finalize the terms and conditions of the transaction documents, including with respect to the form of voting agreement, having it reviewed by, and receiving the input of, counsel to certain of the Significant Stockholders.

On June 8, 2007, Mr. Abram, in consultation with Mr. Zerbib, had a telephone discussion with representatives of Party A regarding its potential interest in the Company. Also, on June 8, 2007, representatives of JPMorgan had similar discussions with representatives of Party A's financial advisor. Later in the same day, Party A submitted a non-binding indication of interest, which we refer to in this proxy statement as the Party A proposal. Following receipt of the Party A proposal, JPMorgan contacted Party A's financial advisor in an effort to clarify the terms of such proposal, although Party A's financial advisor indicated that it was not in a position to provide clarity as to the price that Party A might be willing to consider without further guidance from Party A.

During the day on June 8, 2007, Messrs. Zerbib and Martin and their respective advisors continued their discussion of several unresolved issues in the merger agreement.

Later in the day on June 8, 2007, the board committee members met by telephone conference together with representatives of JPMorgan, Skadden Arps and Bryan Cave. The purpose of the meeting was to: (1) discuss the terms and conditions of the Party A proposal; (2) receive feedback on the Party A proposal from representatives of Skadden Arps and JPMorgan; (3) consider appropriate next steps with regard to the Party A proposal; and (4) receive an update on recent developments in negotiating the remaining issues in the transaction agreements with representatives of the D. E. Shaw group. During the discussion of the terms and conditions of the Party A proposal, it was noted, among other matters, that the proposal:

- was non-binding in nature and could be withdrawn by Party A at any time for any reason;

- contemplated a price payable in cash at ‘‘a value meaningfully in excess of $34.39 per share’’, which was the Company’s closing price on NASDAQ on June 7, 2007 (the day preceding the proposal), subject to completion of satisfactory due diligence and negotiation of satisfactory definitive documentation (but without further clarification of the meaning of ‘‘a value meaningfully in excess of $34.39 per share’’);