Brittain Willard Woodson JR
Form 4
April 03, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Brittain Willard Woodson JR

(Last) (First) (Middle)

C/O DAVITA INC., 1551 WEWATTA ST

(Street)

DENVER, CO 80202

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
DAVITA INC [DVA]

3. Date of Earliest Transaction (Month/Day/Year)
03/31/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/31/2012		A		33	A (1)	$ 0	7,104	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Brittain Willard Woodson JR C/O DAVITA INC. 1551 WEWATTA ST DENVER, CO 80202	X			

Signatures

/s/ Kim M. Rivera Attorney-in-Fact	04/03/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Grant of restricted stock units, pursuant to the issuer's 2011 Incentive Award Plan, which are issuable on 3/31/2013.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. lor: #000000; font-weight: normal; font-style: normal; border-bottom: 3px double #ffffff; padding-left: 0pt; text-indent: 0pt; padding-top: 0pt" align="right" valign="bottom" colspan="1" nowrap="nowrap">— Other operating expenses 6,842 280 Interest expense — — Compensation expense on common stock warrant issuance 524 — Total expenses 10,738 280 Loss before taxes (5,188) (278) Income tax expense — — Net loss $ (5,188) $ (278)

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

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

Results by Business Segment

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

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

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

44

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

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

Premium activity by reportable segment is as follows:

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

Net earned premiums	$	20,832	$	4,000	$	24,832	$	8,944	$	311	$	9,255

	Year Ended December 31,					
	2004			2003		
	Excess and Surplus Insurance	Workers' Compensation Insurance	Total	Excess and Surplus Insurance	Workers' Compensation Insurance	Total
	(in thousands)					
Direct written premiums	$ 133,354	$ 9,185	$ 142,539	$ 36,764	$ —	$ 36,764
Ceded written premiums	(20,927)	(1,434)	(22,361)	(9,339)	—	(9,339)
Net written premiums	112,427	7,751	120,178	27,425	—	27,425
Change in net unearned premiums	(41,897)	(2,518)	(44,415)	(22,338)	—	(22,338)
Net earned premiums	$ 70,530	$ 5,233	$ 75,763	$ 5,087	$ —	$ 5,087

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

45

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

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

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

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

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

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

46

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

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

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

Excess and Surplus Insurance

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

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

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

47

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

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

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

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

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

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

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

The loss ratio for the Excess and Surplus Insurance segment improved to 54.3% for the three months ended March 31, 2005 from 62.6% for the three months ended March 31, 2004. The loss ratio for the three months ended March 31, 2005 was impacted by $2.0 million of favorable loss and loss adjustment expense reserve development that our Excess and Surplus Insurance segment experienced in the quarter. Of this favorable development, $1.7 million occurred in the James River Insurance property line related to the 2004 accident year. The Excess and Surplus Insurance segment's loss ratio for the three months ended March 31, 2005 excluding favorable reserve development was 64.0%.

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

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

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

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

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

49

Workers' Compensation Insurance

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

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

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

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

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

Since Stonewood Insurance wrote its first insurance policy effective January 1, 2004, results for the three months ended March 31, 2004 did not include any renewal premiums, while direct written premiums for the three months ended March 31, 2005 include $453,000 of renewal premiums. Stonewood Insurance did not receive its "A-" (Excellent) rating from A.M. Best until April 2004, and the lack of a rating in the first quarter of 2004 limited direct written premium production in that quarter. At March 31, 2005, there

50

---

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

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

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

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

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

Corporate and Other

Results for the Corporate and Other segment are as follows:

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

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

51

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

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

Other expenses of the Corporate and Other segment were $398,000 for the three months ended March 31, 2005 and ($61,000) for the three months ended March 31, 2004. The other expenses for the three months ended March 31, 2004 reflect reimbursements of expenses from our subsidiaries during the quarter in excess of expenses incurred by the holding company during that quarter. The expense reimbursements from subsidiaries are based on budgeted expenses for each calendar year, and the reimbursements are the same monthly amount throughout the year. As a result, the timing of when the holding company incurs expenses can result in reimbursements from subsidiaries in excess of actual expenses incurred by the holding company for a particular quarter. The timing of the reimbursements from our subsidiaries has no impact on our consolidated operating results. Other expenses of the Corporate and Other segment increased 162% to $879,000 in 2004, compared to $336,000 in 2003. These costs include personnel costs associated with the holding company employees, directors' fees, professional fees and various other corporate expenses. A majority of these costs are reimbursed by our subsidiaries and the amount of the reimbursement is included as other underwriting expenses in the 2004 results of our Excess and Surplus Insurance and Workers' Compensation Insurance segments and as other underwriting expenses, other expenses or start-up expenses in the 2003 results of our Excess and Surplus Insurance and Workers' Compensation Insurance segments. The amounts of other expenses of the Corporate and Other segment presented above represent the expenses of the holding company that were not reimbursed by our subsidiaries.

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

Liquidity and Capital Resources

Sources and Uses of Funds

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

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

52

---

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

Cash Flows

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

A summary of our cash flows is as follows:

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

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

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

Capital Transactions

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

In May 2004, we issued $15.0 million of senior notes due April 29, 2034. The senior notes are not redeemable by the holder or subject to sinking fund requirements. Net proceeds totaled $14.5 million and were used to provide additional capital to our insurance subsidiaries and working capital for us. Interest accrues quarterly and is payable in arrears at a floating rate per annum equal to three-month LIBOR plus 3.85%. The senior notes are redeemable prior to their stated maturity at our option in whole or in part, on or after May 15, 2009. Among other things, the terms of the indenture for the senior notes prohibit our subsidiaries and us from:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Return on Equity

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

55

Contractual Obligations and Commitments

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

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

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

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

Cash and Invested Assets

Our cash and invested assets consist of fixed maturity securities, short-term investments, cash and cash equivalents and a bond mutual fund (classified as an equity security on the balance sheet). At March 31, 2005 and December 31, 2004, our investments in fixed maturity securities had carrying values (which were the same as their fair values) of $201.5 million and $172.7 million, respectively. Our fixed maturity securities and equity securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses on these securities reported, net of tax, as a separate component of accumulated other comprehensive income (loss). The duration of our fixed maturity security portfolio at March 31, 2005 is approximately 4.4 years.

56

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

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

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

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

The majority of the unrealized losses on fixed maturity securities and equity securities are interest rate related. Each of the fixed maturity securities with an unrealized loss at December 31, 2004 has a fair value that is greater than 93.0% of its carrying value. Of the nine securities at December 31, 2004 that had been in an unrealized loss position for 12 months or longer, six securities are United States treasury securities and each of the remaining three securities has a fair value that is greater than 97.0% of its carrying value. All but one of the fixed maturity securities with an unrealized loss at March 31, 2005 had a fair value greater than 90.0% of its carrying value. That security, a bond issued by GMAC, had a fair value of $429,799, a book value of $508,086 and an unrealized loss of $78,287. None of the fixed maturity securities with unrealized losses, including the GMAC bond, has ever missed, or been delinquent on, a scheduled principal or interest payment, and none was rated below investment grade at March 31, 2005. In May 2005, Standard & Poor's downgraded two bonds in our portfolio. The GMAC bond was downgraded from "BBB−" to "BB" and our Ford Motor Credit bond, which had a fair value at March 31, 2005 of $471,931, a book value of $512,185 and an unrealized loss of $40,254, was downgraded from "BBB−" to "BB+". As a result, these two bonds are no longer considered to be investment grade. Both the GMAC bond and the Ford Motor Credit bond mature in 2011. None of the fixed maturity securities with unrealized losses have ever missed, or been delinquent on, a scheduled principal or interest payment.

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

57

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

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

Deferred Policy Acquisition Costs

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

Reinsurance

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

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

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

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

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

---

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

We use computer models to analyze the risk of severe losses from hurricanes and earthquakes. We measure exposure to these catastrophe losses in terms of probable maximum loss (PML), which is an estimate of how much we would expect to pay in a wind or earthquake event occurring once in every 250 years. We manage this PML by purchasing catastrophe reinsurance coverage. Effective June 1, 2004, we purchased catastrophe reinsurance coverage of $5.0 million per event in excess of our $2.0 million per event retention. Effective June 1, 2005, we increased our catastrophe reinsurance coverage to $36.0 million per event in excess of our $2.0 million per event retention.

Ratings

James River Insurance and Stonewood Insurance each have a financial strength rating of "A-" (Excellent) from A.M. Best. A.M. Best assigns 16 ratings to insurance companies, which currently range from "A++" (Superior) to "F" (In Liquidation). "A-" (Excellent) is the fourth highest rating issued by A.M. Best. The "A-" (Excellent) rating is assigned to insurers that have, in A.M. Best's opinion, an excellent ability to meet their ongoing obligations to policyholders. This rating is intended to provide an independent opinion of an insurer's ability to meet its obligation to policyholders and is not an evaluation directed at investors.

The financial strength ratings assigned by A.M. Best have an impact on the ability of the insurance companies to attract and retain agents and brokers and on the risk profiles of the submissions for insurance that the insurance companies receive. The "A-" (Excellent) ratings obtained by James River Insurance and Stonewood Insurance are consistent with the companies' business plans and allow the companies to actively pursue relationships with the agents and brokers identified in their marketing plans.

Reconciliation of Non-GAAP Measure

Underwriting profit (loss) of insurance segments is defined as net earned premiums minus losses and loss adjustment expenses and other operating expenses of our two insurance segments, the Excess and Surplus Insurance segment and the Workers' Compensation Insurance segment. Our definition of underwriting profit (loss) may not be comparable to the definition of underwriting profit (loss) for other companies. We evaluate the performance of our insurance segments and allocate resources based, in part, on underwriting profit (loss) of insurance segments. We believe that this is a useful measure for investors in evaluating the performance of our insurance segments because our objective is to consistently earn underwriting profits.

59

The following table reconciles the underwriting profit (loss) of insurance segments by individual segment to consolidated income before taxes:

	Three months ended March 31,		Year ended December 31,		Period from September 25, 2002 (inception) through December 31, 2002
	2005	2004	2004	2003	
Underwriting profit (loss) of the Excess and Surplus Insurance segment	$ 5,642	$ 682	$ 10,980	$ (1,613)	$ —
Underwriting profit (loss) of the Workers' Compensation Insurance segment	501	(779)	(2,616)	—	—
	6,143	(97)	8,364	(1,613)	—

Total underwriting profit (loss) of insurance segments										
Net investment income		1,745		588		3,626		407		2
Realized investment losses		(25)		—		(71)		—		—
Other income		45		29		144		56		—
Other operating expenses of the Corporate and Other segment		(398)		61		(879)		189		(5)
Operating expenses of the insurance segments prior to commencing insurance operations		—		—		—		(3,703)		(275)
Interest expense		(588)		—		(793)		—		—
Compensation expense on common stock warrant issuance		—		—		—		(524)		—
Consolidated income before taxes	$	6,922	$	581	$	10,391	$	(5,188)	$	(278)

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk and interest rate risk.

Credit Risk

Credit risk is the potential economic loss principally arising from adverse changes in the financial condition of a specific debt issuer or a reinsurer.

We address the risk associated with debt issuers by investing in fixed maturity securities that are investment grade, which are those securities rated "BBB-" or higher by Standard & Poor's. We monitor the financial condition of all of the issuers of fixed maturity securities in our portfolio. Our outside investment managers assist us in this process. We utilize a ratings changes report, a security watch list and a schedule of securities in unrealized loss positions as part of this process. If a security is rated "BBB−" or higher by Standard & Poor's at the time that we purchase it and then is downgraded below "BBB−" while we hold it, we will evaluate the security for impairment, and after discussing the security with our investment advisors, we will make a decision to either dispose of the security or continue to hold it. Finally, we employ stringent diversification rules that limit our credit exposure to any single issuer or business sector.

We address the risk associated with reinsurers by generally targeting reinsurers with A.M. Best financial strength ratings of "A" (Excellent) or better for liability coverages and "A−" (Excellent) or better for property coverages. In an effort to minimize our exposure to the insolvency of our reinsurers, our security committee, consisting of our Chief Financial Officer and our corporate actuary, evaluates the

60

---

acceptability and reviews the financial condition of each reinsurer annually. In addition, our security committee continually monitors rating downgrades involving any of our reinsurers. At March 31, 2005, all reinsurance contracts that our insurance subsidiaries are a party to are either with companies with A.M. Best ratings of "A−" (Excellent) or better, or are collateralized by a trust agreement with American Empire as explained below.

We address the risk associated with the business that Fidelity wrote before we acquired it by monitoring the trust assets in the trust account established by American Empire. Pursuant to our reinsurance agreement, American Empire is obligated to ensure that the assets in the trust are equal to or greater than the ultimate net aggregate losses recoverable under our reinsurance agreement with American Empire. We also monitor the amount of reinsurance recoverables from third party reinsurers on business written by Fidelity prior to our acquisition, since those recoverables will become subject to the reinsurance agreement with American Empire if the third party reinsurers default on their obligations. At March 31, 2005, trust assets had a fair value of $7.6 million, which exceeded the sum of the $2.8 million of reinsurance recoverables from American Empire and the $2.3 million of recoverables from third party reinsurers associated with the business Fidelity wrote before we acquired them. At December 31, 2004, trust assets had a fair value of $7.7 million, which exceeded the sum of the $2.6 million of reinsurance recoverables from American Empire and the $1.9 million of recoverables from third party reinsurers associated with the business that Fidelity wrote before we acquired them. As additional security, Great American Insurance Company, an affiliate of American Empire, has unconditionally guaranteed the performance by American Empire of all of its obligations under the reinsurance agreement and the trust agreement.

Interest Rate Risk

Interest rate risk is the risk that we may incur economic losses due to adverse changes in interest rates. The primary market risk to the investment portfolio is interest rate risk associated with investments in fixed maturity securities. Fluctuations in interest rates have a direct impact on the market valuation of these securities. We had fixed maturity securities and a bond mutual fund investment (classified as equity securities on our balance sheet) with a fair value of $203.4 million at March 31, 2005 and $175.0 million at December 31, 2004 that are subject to interest rate risk. We manage our exposure to interest rate risk through an asset/liability matching process. In the management of this risk, the characteristics of duration, credit and variability of cash flows are critical elements. These risks are assessed regularly and balanced within the context of our liability and capital position. Our outside investment managers assist us in this process.

Sensitivity Analysis

The table below illustrates the sensitivity of the fair value of our fixed maturity securities and our bond mutual fund investment (classified as equity securities on our balance sheet) to selected hypothetical changes in interest rates as of December 31, 2004. The selected scenarios are not predictions of future events, but rather illustrate the effect that such events may have on the fair value of fixed maturity securities and our bond mutual fund portfolio and stockholders' equity.

					Hypothetical Percentage Increase (Decrease) in	
		Estimated Fair Value		Estimated Change in Fair Value	Fair Value	Stockholders' Equity
				($ in thousands)		
200 basis points increase	$	160,057	$	(14,964)	(8.5%)	(12.1%)
100 basis points increase	$	167,509	$	(7,512)	(4.3%)	(6.1%)
No change	$	175,021	$	—	—	—
100 basis points decrease	$	182,506	$	7,485	4.3%	6.0%
200 basis points decrease	$	189,986	$	14,965	8.6%	12.1%

Interest expenses would also be affected by a hypothetical change in interest rates. As of December 31, 2004, we had $37.7 million of floating rate debt, consisting of $15.0 million of senior notes

61

and $22.7 million of junior subordinated notes. Assuming this amount remains constant, a hypothetical 100 basis point increase in interest rates would increase annual interest expense by $377,000, and a 200 basis point increase would increase interest expense by $754,000. A hypothetical 100 basis point decrease in interest rates would reduce annual interest expense by $377,000, and a 200 basis point decrease would reduce interest expense by $754,000.

There were no material changes to this sensitivity analysis at March 31, 2005.

Recent Accounting Pronouncements

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment (Statement 123(R)), which is a revision of Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB Opinion No. 25), and amends FASB Statement No. 95, Statement of Cash Flows.

Statement 123(R) requires all share-based payments to employees, including grants of stock options, to be recognized in the financial statements based on their fair values. Under Statement 123(R), pro forma disclosure is no longer an alternative to financial statement recognition for stock option awards made after our adoption of Statement 123(R). We will adopt Statement 123(R) on January 1, 2006.

Prior to May 3, 2005 (the date that the we filed the Form S-1 with the Securities and Exchange Commission), we used the minimum value method to calculate the pro forma disclosures required by Statement 123. When we adopt Statement 123(R) on January 1, 2006, we will continue to account for the portion of awards outstanding prior to May 3, 2005 using the provisions of APB Opinion No. 25 and its related interpretive guidance.

For awards issued on or after May 3, 2005, and for awards modified, repurchased or cancelled on or after that date, we will use an option pricing model other than the minimum value method to calculate the pro forma disclosures required by Statement 123. When we adopt Statement 123(R) on January 1, 2006, we will begin recognizing the expense associated with these awards in the income statement over the award's remaining vesting period using the modified prospective method. Because the amount, terms and fair values of awards to be issued in the future are uncertain, the impact of the adoption of Statement 123(R) on our financial statements is not known at this time.

Outlook

Our operating objective is to achieve an annual return on equity of at least 15%. We calculate return on equity by dividing net income by average stockholders' equity. Our strategy to achieve this objective is to:

- earn an underwriting profit;
- deploy our capital efficiently by writing as much premium for each dollar of capital as we can, consistent with our current A.M. Best ratings;
- increase the ratio of cash and invested assets to stockholders' equity;
- employ financial leverage, consistent with our current A.M. Best ratings, through the use of debt and preferred stock; and
- manage our equity capital through stock repurchases, stock issuances and dividends.

We anticipate contributing approximately $60.0 million to $65.0 million of the proceeds of the offering to the capital of our insurance subsidiaries in 2005. We expect to achieve our return on equity objective in 2005 and 2006.

Our premiums, revenues and profits increased substantially in 2004. Subject to insurance market conditions, we expect continued premium, revenue and profit growth in 2005 and 2006. We anticipate direct written premiums to grow 55% to 65% from 2004 to 2005 and 20% to 30% from 2005 to 2006. We expect this growth will be driven by:

- Increased market penetration. Based on 2004 direct written premiums, we estimate that our Excess and Surplus Insurance and Workers' Compensation Insurance segments represented 0.4% and 2.0% of the total written premiums in their respective markets in 2004. We expect our market share in both segments to increase in 2005 and 2006.

62

- Recent division expansion and new product offerings. We added one excess and surplus lines underwriting division in November 2003, two underwriting divisions in 2004, one underwriting division in May 2005, and anticipate adding another underwriting division in 2005.
- Increased agent and broker acceptance. The number of brokers submitting business to our Excess and Surplus Insurance segment increased from 66 in December 2003 to 139 in December 2004. Our Workers' Compensation Insurance segment, which began writing business in 2004, made agency appointments throughout 2004 which increased the number of agents in the workers' compensation business network from 59 at March 31, 2004 to 110 at December 31, 2004. We believe that having this expanded agency and brokerage base distributing our products for a full year will increase our direct written premiums.
- Increased renewal opportunities. We wrote our first policy in our Excess and Surplus Insurance segment effective July 2003 and in our Workers' Compensation Insurance segment effective January 2004. As a result, to date, most of our written premiums have come from new business. We expect to continue to generate new business as well as to benefit from retention of existing policies. The number of expiring policies available for renewal at James River Insurance during the three months ended March 31, 2005 totaled 1,102 compared to 942 for the three months ended December 31, 2004 and 426 for the three months ended September 30, 2004. From July 1, 2003 through March 31, 2005, James River Insurance has renewed approximately 55.0% of its expiring policies. Of the 153 policies that have expired since January 1, 2004 at Stonewood Insurance, approximately 82.4% were renewed.

For 2005, we intend to cede $20.0 million to $40.0 million of earned premiums under our quota share reinsurance agreement. In the fourth quarter of 2005, we will review whether to continue the quota share reinsurance agreement, basing our decision on insurance market conditions, our growth prospects and reinsurance availability and cost. If insurance market conditions limit our ability to earn underwriting profits in future periods, we anticipate managing our capital base to achieve our 15% return on equity objective.

For 2005 and 2006, we anticipate writing at a combined ratio of between 80% and 90%. We anticipate that our combined ratio will decrease in 2005 relative to our combined ratio for the year ended December 31, 2004. We believe that this reduction will be driven primarily by the reduction in the expense ratio for our Workers' Compensation Insurance segment. For 2004, our Workers' Compensation Insurance segment had an expense ratio of 76.5%. This high expense ratio was driven by costs associated with the segment's first year of operation and should be significantly lower in 2005 as we increase our premium volume and do not incur additional start-up expenses.

The foregoing discussion includes certain forward-looking statements that are subject to risks, uncertainties and other factors described in "Risk Factors" beginning on page 9 and elsewhere in this prospectus that could cause actual results to differ materially. See "Forward-Looking Statements."

63

OUR BUSINESS

Who We Are

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

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

Our underwriters evaluate and price each policy individually, and we do not extend underwriting or claims handling authority to third parties. For the year ended December 31, 2004, our first full year of insurance operations, we wrote $142.5 million in direct written premiums, earned net income of $8.8 million and had a combined ratio of 90.1%. A combined ratio of less than 100% generally indicates profitable underwriting prior to the consideration of investment income.

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

Our Products

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

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

Both James River Insurance and Stonewood Insurance are rated "A−" (Excellent) by A.M. Best. "A−" (Excellent) is the fourth highest of 16 A.M. Best ratings. These ratings are based on matters of concern to policyholders but are not designed or intended for use by investors in evaluating our securities.

Our Approach to Our Business

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

64

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

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

proactive loss control measures.

- Use Timely and Accurate Data. We design our internal processing and data collection systems to provide our management team with accurate and relevant information in real-time. Our data warehouse collects premium, commission and claims data, including detailed information regarding policy price, terms, conditions and the insured's business. This data allows us to analyze trends in our business, including results by individual agent or broker, underwriter and class of business. We rely on our technology systems in this process.
- Actively Manage Claims. We believe that actively managing our claims is an important aspect of keeping loss and loss adjustment expenses low and accurately setting reserves. We promptly and thoroughly investigate all claims generally through direct contact with the insured and other affected parties. When we believe claims are not validly covered under the policy form, we vigorously contest payment and are willing to pursue prosecution for claims fraud.

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

- Expand Existing Operations. We intend to expand our existing insurance operations to increase our market share in our chosen markets. Both our Excess and Surplus Insurance and Workers' Compensation Insurance segments are relatively new, and we believe they can capture more market share. A potential drawback of our specialized approach is that we may be more vulnerable to adverse events that affect the excess and surplus lines and workers' compensation insurance business than companies that have more diversified business.
  - Excess and Surplus Insurance Segment. We seek to grow the business of our Excess and Surplus Insurance segment by taking advantage of opportunities for enhanced product offerings, additional coverages, geographic expansion and increased penetration in our existing markets. We have expanded the Excess and Surplus Insurance segment from seven underwriting

65

divisions at inception to ten divisions at December 31, 2004, added an additional underwriting division in May 2005 and anticipate adding another underwriting division in 2005. We continue to make selective broker appointments which helps drive our market penentration. In 2004, our Excess and Surplus Insurance segment wrote $133.4 million in direct written premiums. A.M. Best estimated total premiums in this market to be $32.8 billion in 2003.
  - Workers' Compensation Insurance Segment. We seek to expand our Workers' Compensation Insurance segment by adding selected agents and achieving greater market penetration. Our Workers' Compensation Insurance segment wrote $9.2 million in direct written premium in 2004, its first year of operation, and we estimate, based in part on 2001 data (the latest we believe to be available) from the North Carolina Rate Bureau, that the North Carolina workers' compensation market for the portions of the construction industry in which we compete is approximately $450 million in direct written premiums.
- Acquire Additional Specialty Insurance Businesses. We intend to pursue acquisitions of specialty insurance businesses which have particular expertise in operating profitably in their markets. Our management team has significant industry experience in acquisitions of insurance companies and managing general agencies.

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

Manage Capital Actively. We intend to expand our business and capital base to capitalize on opportunities to earn an underwriting profit and reduce our business and capital base if attractive underwriting opportunities are not available. We expect to finance our future operations with a combination of debt and equity and do not intend to seek to raise or retain more capital than we believe we can profitably deploy in a reasonable time frame. We may not, however, always be able to raise capital when needed. Our ratings from A.M. Best are very important to us, and maintaining them will be a principal consideration in our decisions regarding capital.

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

Industry Overview

Industry Overview

The property/casualty insurance industry has historically experienced market cycles in which pricing was more or less competitive. However, because casualty claims emerge over time, the industry does not always recognize inadequate pricing until losses emerge and as a result companies have less capital to deploy. The 1990's was a period of particularly intense price competition. Significant industry losses began to emerge in 1998 and throughout 1999. By 2000, price increases and tighter contract terms were widespread as companies reacted to the volume of claims emerging from earlier in the decade and from asbestos and environmental exposures written prior to 1987.

The trend toward higher pricing and narrower coverage accelerated in 2001 when the property/casualty industry experienced severe losses from the September 11, 2001 terrorist attacks. Additionally, the low interest rate environment aided this trend because as investment returns have moderated over the past few years, property/casualty carriers have been forced to adopt more profitable underwriting

practices. During 2004 and early 2005, we believe that these trends slowed and that the current insurance market is becoming generally more competitive in terms of pricing and policy terms and conditions. However, we do not believe there is widespread pressure to lower prices in order to retain business.

The excess and surplus lines market generally provides coverage for risks that do not fit the underwriting criteria of standard carriers. Since 2001, we believe that more conservative risk selection in the standard market has caused a significant volume of premium to move from the standard market to the excess and surplus lines market. According to data published by A.M. Best, direct premiums written in the excess and surplus lines market grew by 61.7% to $25.6 billion in 2002 and 28.3% to $32.8 billion in 2003. These totals represent 6.3% and 7.2% of the direct written premiums by the United States property/casualty insurance industry in 2002 and 2003, respectively. Based on data compiled by A.M. Best for the five years ended December 31, 2003, the excess and surplus lines sector had an average combined ratio of 96.8% compared to an average combined ratio of 107.9% for the United States property/casualty insurance industry.

Workers' compensation insurance provides insurance for employers who are statutorily mandated to provide benefits to employees if they are injured in the course of their employment. Workers' compensation was the fourth largest property/casualty insurance line in the United States in 2003, according to A.M. Best, with direct written premiums of approximately $48.3 billion. Volume in the workers' compensation insurance industry increased 14% in 2003 compared to 2002.

We believe the workers' compensation sector followed a pricing cycle that was very similar to the general commercial lines property/casualty industry as described above. According to data compiled by the National Council on Compensation Insurance, Inc., workers' compensation insurance was adversely affected by escalating health care costs and higher indemnity recoveries by injured workers since 1996. By 2000, many workers' compensation insurance companies were reporting poor results and workers' compensation insurance rates began to rise. Within the workers' compensation insurance sector, we focus primarily on the residential construction industry in North Carolina. We have experienced increased competition in 2005, though our submarket within the workers' compensation insurance industry has experienced less volatility over time than the overall workers' compensation market. We estimate, based in part on 2001 data (the latest we believe to be available) from the North Carolina Rate Bureau, that annual premiums for workers' compensation insurance for the construction industry in North Carolina are approximately $450 million.

Business Segments

James River operates in two principal segments: Excess and Surplus Insurance (through our James River Insurance subsidiary) and Workers' Compensation Insurance (through our Stonewood Insurance subsidiary). The following table shows our premiums by segment:

	Year Ended December 31,					
	2004			2003		
	Direct Written Premiums	Net Written Premiums	Net Earned Premiums	Direct Written Premiums	Net Written Premiums	Net Earned Premiums
	(in thousands)					
Excess and Surplus Insurance	$133,354	$112,427	$70,530	$36,764	$27,425	$ 5,087
Workers' Compensation Insurance	9,185	7,751	5,233	—	—	—
Total	$142,539	$120,178	$75,763	$36,764	$27,425	$ 5,087

For 2004, the Excess and Surplus Insurance segment had a loss ratio of 62.0% and the Workers' Compensation Insurance segment had a loss ratio 73.5%. Our overall loss ratio was 62.8%.

The amounts presented in this "Business" section do not reflect the impact of the intercompany reinsurance pooling arrangement that allocates our overall insurance results between our insurance companies. For 2004, James River Insurance had a 70% share and Stonewood Insurance had a 30% share of the intercompany pool. For 2005, James River Insurance will have an 80% share and Stonewood Insurance will have a 20% share of the intercompany pool.

67

Additional financial information regarding our segments is presented in Note 20 of the notes to our 2004 audited consolidated financial statements appearing elsewhere in this prospectus.

Excess and Surplus Insurance

Excess and surplus lines insurance focuses on insureds who generally cannot purchase insurance from standard lines insurers due typically to perceived risk related to their businesses. Our Excess and Surplus Insurance segment reflects the operations of James River Insurance. James River Insurance underwrites property/casualty insurance on an excess and surplus lines basis in 48 states and the District of Columbia. James River Insurance wrote its first policy effective July 1, 2003 and sells its policies through a network of independent wholesale and retail brokers throughout the United States.

Products

James River Insurance's underwriting is organized in 11 underwriting divisions, each of which focuses on a specific industry group or coverage. Every policy issued by James River Insurance is produced by a surplus lines broker and individually underwritten by a James River Insurance underwriter.

Companies that underwrite on an excess and surplus lines basis operate under a different regulatory regime than standard market carriers. Excess and surplus lines carriers are generally permitted to craft the terms of the insurance contract to suit the particular risk they are assuming. Also, excess and surplus lines carriers are, for the most part, free of rate regulation. In contrast, licensed carriers are generally required to use approved insurance forms and to charge rates that have been authorized by or filed with state insurance departments.

James River Insurance writes insurance on both an occurrence form and a claims made and reported form. A policy written on an occurrence form provides coverage to the insured for all losses that were incurred during the coverage period, regardless of when the loss is reported. A policy written on a claims made and reported form provides coverage to the insured only for losses incurred during the coverage period and only if the claim was made and reported to us during a specified reporting period. While it may take many years for us to know the full extent of our loss under a claims made and reported form, that form does provide greater certainty and at an earlier time than alternative forms as to the number of claims to which we are exposed.

Below is a list of our 11 underwriting divisions with their 2004 direct written premiums, maximum policy limit, maximum retained policy limit and 2003 direct written premiums. The Life Sciences division wrote its first policy in May 2005.

	2004 Direct Written Premiums	2004 Maximum Policy Limit	2004 Maximum Retained Policy Limit	2003 Direct Written Premiums
	(in millions)			
Allied Health	$ 25.7	$ 5.0	$ 1.0	$ 8.8
General Casualty	22.4	1.0	1.0	8.2
Excess Casualty	21.6	6.0	0.5	4.3
Manufacturers & Contractors	21.5	1.0	1.0	5.3
Professional Liability	16.8	3.0	1.0	4.9
Primary Property	10.4	19.7	0.5	2.5
Excess Property	6.5	15.0	0.5	2.0

Energy		5.7	5.0	1.0		0.8
Healthcare		1.6	2.0	1.0		—
Environmental		1.2	2.0	1.0		—
Life Sciences		—	—	—		—
	$	133.4			$	36.8

Allied Health underwrites casualty insurance for allied health and social service types of risks, such as long term care facilities, independent living apartments, group homes, half-way houses and shelters,

68

drug rehab and methadone clinics, home health care and medical staffing enterprises, ambulance companies and non-emergency medical transport companies, durable medical equipment manufacturers and distributors, mental health counselors, adoption and foster placement agencies and medical imaging centers. Physicians are not covered under this division. The underwriter responsible for this unit has 22 years experience in the business. It is most typical for policy limits offered in this coverage to be for $1.0 million per occurrence. Over 95% of the premiums written by our Allied Health division from inception through 2004 have been written on a claims made and reported form. We believe this policy form significantly reduces our long-term exposure in this complicated class of business. In 2004, the division wrote $25.7 million in direct written premiums with an average premium per policy of $27,063.

General Casualty underwrites risks of a wide variety of classes including: mercantile and retail operations, apartments and condominiums with less than 2,000 units, auto parts and auto supply stores, daycare facilities and preschools, equipment service and installation operations, marinas and boatyards, janitorial service providers, manufactured home parks, hotels and motels, refuse and garbage collection companies, restaurants, bars, taverns, schools and vocational training centers, shopping centers, special events, sports camps, sports clinics and sports leagues, temporary employment agencies, vacant commercial properties and assorted owners, landlord and tenant risks. The head underwriter in this division has 18 years of experience. We generally write $1.0 million per occurrence in limits, and we retain the entire $1.0 million limit. Our General Casualty division generated $22.4 million in direct written premiums in 2004. Our average premium per policy in this division was $30,021 in 2004.

Excess Casualty underwrites on a following form basis for a variety of classes of risk, including: amusement parks and recreational facilities, chemical manufacturers and distributors, contractors, contractors' equipment rental facilities, cosmetics and personal care products manufacturers and distributors, food processors, forest product companies, habitational risks including apartments and condominiums, machine shops, manufacturers and installers of heavy industrial equipment, manufacturers of vehicles, boats and rail cars including parts made by these manufacturers, sporting goods manufacturers and distributors, bars, restaurants, taverns and special events. A following form means that we provide coverage for the same risks as, and follow the form of, the primary policy but the coverage is for claims exceeding the policy limits of the primary policy. We utilize a following form to benefit from all of the exclusions, limitations and defenses provided in the primary policy and eliminate the possibility of providing coverage for a risk that the primary policy does not cover. Our excess casualty policies may also include restrictions and exclusions in addition to those in the primary policy. We typically provide between $3.0 million and $5.0 million per occurrence limits above a $1.0 million attachment point. Of this amount, we retain $500,000 exposure per occurrence and cede the balance to our reinsurers. The underwriter who heads this division has 22 years of industry experience. In 2004, we wrote $21.6 million in direct written premiums in this division with an average premium per policy of $22,820.

Manufacturers and Contractors underwrites liability, product liability and completed operations risks of a number of risk classes, including manufacturers of consumer goods, industrial equipment manufacturers and distributors, contractors and commercial goods manufacturers and service providers. Among the risk classifications are: small hand tool manufacturers, small electric appliance manufacturers, clothing manufacturers, food and beverage processors, manufacturers and installers of HVAC systems, manufacturers of machinery, crane rental operations, street and road contractors, chemical distributors including their mixing and blending operations, pump and valve manufacturers and roofing and siding contractors. We typically issue a $1.0 million per occurrence limit in this division and retain the entire risk. The individual overseeing this division has 36 years of industry experience. During 2004, we wrote $21.5 million in direct written premiums in this division. Through 2004, less than 13% of the policy premium for this division came from accounts written on a claims made and reported form. Our average premium per policy in the manufacturers and contractors division was $30,658 in 2004.

Professional Liability underwrites liability risks (including errors and omissions) of accountants, architects, engineers, lawyers and certain other professions. We also offer directors' and officers' liability coverage to small corporate accounts and not-for-profit enterprises. Policy limits offered are generally $1.0 million or lower. We retain $1.0 million per occurrence in this division. The individual who directs our professional liability division has 34 years of industry experience. All of our professional liability coverage

69

---

is written on a claims made and reported basis. In 2004, we wrote $16.8 million in direct written premiums in the professional liability division. Our average premium per policy was $13,481 in this division in 2004.

Primary Property underwrites classes including property risks of retail chains, shopping centers, offices, healthcare facilities, service and repair facilities, golf and country clubs, restaurants and cafes, vacant properties, recreational facilities, light manufacturing facilities, hotels, motels, resorts and distribution centers. Limits are generally $10.0 million or less per occurrence, of which we retain $1.0 million and cede the balance to our reinsurers. The individual supervising this division has 32 years experience in the industry. In 2004, James River Insurance wrote $10.4 million in direct written premium through this division. Our average premium per policy in the primary property division was $13,796 in 2004.

Excess Property underwrites property risks above the primary coverage layer for classes including apartments, condominiums, resorts, municipalities and school boards, retail chains and shopping centers, offices and general commercial properties and property managers. Typical limits are $10.0 million or less. We retain $1.0 million per occurrence on these policies and cede the balance to our reinsurers. The underwriter leading our excess property division has 12 years experience in the industry. In 2004, we wrote $6.5 million in direct written premiums in this division with an average premium per policy of $22,109.

Energy underwrites risks of enterprises engaged in the business of energy production or distribution. Examples of classes underwritten by this division include: oil and gas exploration companies, oil or gas well drillers, oilfield consultants, oil or gas lease operators, oil well servicing companies, oil or gas pipeline construction companies, oil refining operations, petrochemical contractors and pipeline managers. The majority of policies written in this division are for limits of $1.0 million per occurrence. The underwriter leading this division has 33 years experience in the business. In 2004, the division wrote $5.7 million in direct written premiums with an average premium per policy of $41,552.

Healthcare underwrites non-standard physicians' malpractice risks of sole practitioners or practitioners who are in a practice group insured by another carrier. Currently, the division underwrites risks in only nine states: Maryland, Virginia, North Carolina, Georgia, Kentucky, Arizona, Colorado, Michigan and Tennessee. Classes covered include: non-surgery practices with only minor invasive treatments, anesthesiology, orthopedics (subject to territorial restrictions as well as exclusive of certain procedures), cardiac surgery, otolaryngology (excluding plastic surgery) and certain other miscellaneous classes. The underwriter leading this division has 30 years of experience. This division is relatively new and direct written premiums volume for 2004 was $1.6 million. Our average premium per policy in this division was $41,313 in 2004. All of the policies written by this division have been issued on a claims made and reported basis.

Environmental underwrites casualty risks for two types of clients. Some of our insureds are general contractors or artisans who we estimate have very little exposure to environmental risks, but who are required, as a matter of contract, to carry some environmental coverage. We write contractors pollution liability in these situations on either a stand alone basis, or in conjunction with a general liability policy issued to the contractor. We also write environmental coverage for contractors who are engaged in environmental related businesses, including: emergency response and emergency response action contractors, site remediation contractors, maintenance contractors and environmental contractors. The underwriter heading our environmental division has 36 years experience in the business. Approximately 93% of our environmental policies written from inception through 2004 carry $1.0 million per occurrence limits. Approximately 52% of our environmental premiums written through 2004 were written on a claims made and reported basis. We generally write environmental coverage for contractors who do not do environmental remediation work on an occurrence form. In 2004, the division wrote $1.2 million in direct written premiums at an average premium per policy of $31,827.

Life Sciences underwrites general liability, products liability and/or professional liability coverage for manufacturers, distributors and developers of pharmaceuticals, biologics (antibodies & vaccines used for the prevention of disease), nutraceuticals (health, nutrition and herbal supplements) and medical devices. Typical policy limits are offered at $1.0 million. The underwriter at the head of this division has five years of experience in the industry. All of the premium written in this division is subject to a claims made and reported form which reduces the long term exposure on these difficult classes of business. This division commenced underwriting in May 2005.

70

James River Insurance sells policies in 48 states and the District of Columbia. The following table shows James River Insurance's 2004 direct written premiums by state.

State	2004 Direct Written Premiums	% of 2004 Direct Written Premiums
	($ in thousands)	
California	$ 21,627	16.2%
Texas	17,838	13.4
Florida	13,107	9.8
New York	7,675	5.8
Louisiana	5,681	4.3
Georgia	4,783	3.6

All Other States		62,643	46.9
Total	$	133,354	100.0%

Marketing and Distribution

James River Insurance markets its products through a select group of licensed excess and surplus lines brokers we believe can consistently produce reasonable volumes of quality business for James River Insurance. These brokers sell policies for us as well as for other insurance companies. For 2004, this group consisted of 149 retail and wholesale brokers. James River Insurance does not grant its brokers any underwriting or claims authority.

Most of our brokers are appointed only for selected classes. When James River Insurance appoints an agency, the appointment does not extend to all employees of the entity. James River Insurance selects its brokers based upon management's review of the experience, knowledge and business plan of each broker. While many of James River Insurance's brokers have more than one office, we evaluate each office as if it were a separate agency. Often, James River Insurance appoints some but not all offices owned by an agency for specialized lines of business. James River Insurance may designate only a specific employee of the broker as having authority under the agreement. We seek brokers with written business plans that are consistent with our strategy and underwriting objectives. Brokers must be able to demonstrate an ability to competently produce both the quality and quantity of business sought by James River Insurance. For our more specialized divisions, we seek to appoint brokers that have a similar focus. Brokers who are unable to produce consistently profitable business, or who produce unacceptably low volumes of business, can be terminated. James River Insurance's underwriters regularly visit with brokers in their offices in order to review policies submitted by that agency, discuss products offered by the James River Insurance and market to these brokers.

James River Insurance's largest single broker, CRC Insurance Services, Inc., produced $32.0 million, or 24.0%, of our excess and surplus lines direct written premiums in 2004. James River Insurance has appointed 12 of CRC's offices as approved brokers. Our second largest broker, Swett & Crawford, produced $14.5 million, or 10.8%, of our excess and surplus lines direct written premiums in 2004. No other broker accounted for more than 10% of our direct written premiums.

In 2004, our Excess and Surplus Insurance segment paid an average commission to producers of 13.9% of direct written premiums. We believe this is lower than the average commission paid by our competitors. We believe that our concentration on hard to place risks, combined with a high level of service permits us to manage our commission expense as part of our overall management of the underwriting process. It is important to us that we maintain excellent relationships with the excess and surplus lines brokers who present business to us. Commissions are an important part of that relationship, but not the sole determining factor in which company ultimately writes business for a broker. James River Insurance has not paid any contingent commission and has not entered into any contingent commission arrangements with any brokers.

Underwriting

James River Insurance's staff included 99 individuals, 54 of whom were directly employed in underwriting policies, at March 14, 2005. We believe our internal business processing systems allow us to maintain a high ratio of underwriters to total employees. We believe our "paperless" environment allows us to engage fewer employees in policy administration.

We are very selective in the policies we bind. James River Insurance binds approximately one in every 11 submissions. We realize all excess and surplus lines applications have already been rejected by the standard market. If our underwriters cannot reasonably expect to bind coverage at the combination of premium and coverage that meets our standards, they are encouraged to quickly move on to another prospective opportunity. For the year ended December 31, 2004, we received 63,107 submissions, quoted 21,082 policies and bound 5,760 policies for a policy to submission ratio of 9.1%.

When we accept risk in our Excess and Surplus Insurance segment, we are careful to establish terms that are suited to the risk and the pricing. As an excess and surplus lines company, James River Insurance uses its freedom of rate and form assertively in order to make it possible to take on risks that have already been rejected by licensed carriers which have determined they cannot insure these risks on approved forms at filed rates.

We attempt to craft policies that offer affordable protection to insureds by tailoring coverages in ways that make potential losses more predictable and keep claims costs affordable. For example, the punitive damage exclusion, which was applied to 83% of written premiums for primary casualty policies we wrote on an excess and surplus lines basis in 2004, reduces our exposure to large jury verdicts. Our "defense inside the limits" clause, which we applied to 57% of our primary casualty premiums written in 2004, means that funds we expend defending an insured against a claim are counted against the total policy limit. Our assault and battery exclusion, which we applied to 48% of our primary casualty premiums written in 2004, makes it more possible for us to quantify possible losses from policies where assault claims might make results highly unpredictable. We have no material exposure to claims from asbestos, lead paint, silica, mold or nuclear, biological or chemical terrorism.

Our underwriters focus on the individual risk to tailor a policy to make the risk insurable at an acceptable price. For example, on a liability policy for an apartment complex we may exclude or put a sublimit on assault and battery occurring at the insured location. Frequently, assault and battery risk is a reason why an apartment complex liability risk might be in the excess and surplus insurance market instead of the standard market. Additionally, we tailor coverage to reflect items disclosed on the policy application. For example, if an application from an apartment complex did not disclose that it had a swimming pool then the policy would carry an endorsement that excluded losses arising from water hazards.

Claims

James River Insurance's claims department consisted of six claims professionals who have an average of 17 years of claims experience in the property/casualty industry as of March 14, 2005. The Senior Vice President of Claims is an attorney with 20 years of claims experience in large commercial and specialty insurance claims. Prior to joining James River Insurance, our head of the claims department was a senior officer in charge of claims for the United States division of a multi-national insurer.

James River Insurance's excess and surplus lines business generally results in claims from premises/operations liability, professional liability, first party property losses and products liability.

We believe the key to effective claims management is timely and thorough claims investigation (which James River Insurance believes results in accurate reserves, improved defenses and proper settlements). We seek to complete all investigations and adjust reserves appropriately as soon as practicable after the receipt of a claim. We seek to manage the number of claims per adjuster to allow adjusters sufficient time to investigate and settle claims. Each quarter senior management reviews each case to ensure that the front-line adjuster has recognized and is addressing the key issues in the case and has adjusted the reserve to the appropriate amount. James River Insurance keeps the settlement authority of its front-line adjusters low to ensure the practice of having two or more members of the department participate in the decision whether to settle or defend. In addition, cases with unusual damage, liability or policy interpretation issues are subjected to peer review on a weekly basis, and members of the underwriting staff participate in this process. Prior to any scheduled mediation or trial of a claim, claims personnel conduct further peer review to make sure all issues and exposures have been adequately analyzed. James River Insurance believes that effective management of litigation avoids delays and associated additional costs.

The claims staff also contributes to James River Insurance's underwriting operations through its interaction with the underwriting staff. The Senior Vice President for Claims heads the forms committee for James River Insurance which reviews and develops all policy forms and exclusions and is also a member of the underwriting review committee.

Workers' Compensation Insurance

Workers' compensation insurance provides coverage to employers to compensate for employees' medical costs, lost wages, vocational rehabilitation and death benefits for work related injuries or illness. The benefits payments and the duration of such benefits are set by statute and vary with the nature and severity of the injury or disease and the wages, occupation and age of the employee. Our Workers' Compensation Insurance segment provides workers' compensation insurance to narrowly-defined, high hazard employers.

Our Workers' Compensation Insurance segment reflects the operations of Stonewood Insurance. Stonewood Insurance was licensed to write insurance in North Carolina in November 2003 and wrote its first policy effective January 1, 2004. Stonewood Insurance sells its policies through a retail network of independent insurance agencies in North Carolina and is an admitted insurer there.

Target Markets

Stonewood Insurance writes workers' compensation insurance for construction industry accounts in North Carolina with a focus on residential construction. Additionally, Stonewood Insurance provides workers' compensation insurance to selected commercial construction and light manufacturing accounts in North Carolina. For 2004, approximately 98% of Stonewood Insurance's direct written premiums were from customers in the residential construction industry. Examples of the types of risks written by Stonewood Insurance include: carpentry, electrical, painting, excavation, masonry, wallboard, plumbing and roofing. Stonewood Insurance's average annual premium was approximately $13,000 in 2004. Our senior management team has an average of 21 years of experience focused on workers' compensation for this sector in North Carolina. C. Kenneth Mitchell, President of Stonewood Insurance Management, is the past Executive Vice President of the North Carolina Home Builders Association, the largest state home builders association in the United States and past President and Chief Executive Officer of the largest writer of workers' compensation insurance in North Carolina.

We focus on workers' compensation for the residential construction industry because our management team has extensive experience and expertise in this class of business in North Carolina. We believe that specialized knowledge in a focused geographic market improves our risk selection, loss control and claims management. This hazardous class of business has relatively high premium rates and we believe we can successfully underwrite these accounts through proactive loss control. We believe that the fact that these operations are hazardous is balanced by the ability of Stonewood Insurance to charge premiums developed for the entire hazardous class while insuring operations we believe are safer than average.

Marketing and Distribution

Stonewood Insurance produced its business through 110 appointed independent agents as of December 31, 2004, 11 of whom were responsible for the majority of Stonewood Insurance's workers' compensation insurance business in 2004. These producers generally are selected on the basis of their ability to access profitable workers' compensation business in the construction industry in North Carolina. Stonewood Insurance focuses on high levels of service for its agents.

Approximately 67% of our workers' compensation policy applications through December 31, 2004 were received through a proprietary internet-based system. Applications received though our internet-based system can be quoted within 24 hours. Additionally, we do not have to re-enter data in our underwriting and policy issuance system which reduces our costs and minimizes errors.

73

Stonewood Insurance pays commissions which it believes are competitive with other insurance carriers offering similar products and also believes that it delivers prompt, efficient and professional support services. Our Workers' Compensation Insurance segment pays an 8% commission on new and renewal business. Stonewood Insurance has not paid any contingent commissions and has not entered into any contingent commission arrangements with any agent. Our senior management maintains personal contact with the agency force through regular visits to each producer's office. Approximately $1.0 million (11.0%) of Stonewood Insurance's direct written premiums were derived from one agent, SIA Group, Inc., for the year ended December 31, 2004. Stonewood Insurance sets production goals for each agent and agents not making progress toward production targets can be terminated. Stonewood Insurance offers multiple payment plans for insureds including monthly self reporting, a ten payment plan and other installment payment options.

Underwriting

Stonewood Insurance had four employees in its underwriting department with an average of 23 years of underwriting experience, at March 14, 2005. These employees make all underwriting decisions. Our underwriters review each submission individually and develop rates based on our state filed rates and our customized rating model. None of our agents have underwriting or binding authority. Policy applications must include a loss history for all accounts. Our underwriting staff also determines which accounts require loss control inspections prior to binding. All underwriting is conducted in Stonewood Insurance's main office in Raleigh, North Carolina. During the year ended December 31, 2004, we received 3,932 submissions, quoted 2,408 policies and bound 1,031 policies for a policy to submission ratio of 26.2%. Our loss ratio for the Workers' Compensation Insurance segment in 2004, our first year of operation for the segment, was 73.5%.

We underwrite business on a guaranteed cost basis. Guaranteed cost plans allow for fixed premium rates for the term of the insurance policy. Although premium rates are fixed, the final premium on a guaranteed cost plan will vary based on the difference between the estimated payroll at the time the policy is written and the final audited payroll of the customer after the policy expires. Stonewood Insurance's first policy expirations were in January 2005 and it is our policy to audit the payroll for each expired policy. Stonewood Insurance does not offer any loss sensitive policies or policies providing for policyholder dividends. We underwrite workers' compensation insurance only on an occurrence form.

Loss Control

We place a strong emphasis on loss control as an integral part of the underwriting process. Stonewood Insurance has its own experienced loss control department which makes extensive evaluations of potential insureds. Many insureds are inspected prior to binding coverage. The majority of insureds are inspected within 60 days from the effective date of the policy, during which time we may cancel coverage in the event of an unsatisfactory inspection. Stonewood Insurance's management believes that its detailed knowledge of the residential construction industry, bolstered by these inspections, plays an important role in their ability to make informed underwriting decisions. A loss control inspection may result in termination of the policy within the first 60 days based on unsafe worksite practices, increased premium based on information collected in the inspection such as the number of employees or type of work being performed or safety recommendations for the contractor. Many loss control inspections generate follow-up inspections to insure that safety recommendations are implemented.

Our loss control department visits job sites to prepare individual evaluations for our underwriters with respect to the safety practices of our insureds or companies that have applied for coverage. Our staff serves as a resource for our insureds to support the promotion of a safe workplace. Our loss control staff has extensive experience developed from years of serving the construction industry. Our loss control staff consists of four employees with an average of 13 years of experience in the industry. We believe that this experience benefits us by allowing us to serve our insureds more efficiently and effectively. In 2004, our loss control staff conducted 752 inspections. Our loss control staff reviews a potential insured's safety and loss control procedures and provides direct feedback to our underwriting department. Our workers' compensation policies can be canceled within 60 days based on unsatisfactory loss control reports. Our

74

---

loss control provides improvement recommendations to potential insureds. Whenever possible, our loss control staff conducts large loss investigation visits for traumatic or fatal incidents. Our loss control specialists are located throughout North Carolina.

Claims

Stonewood Insurance's claims staff, consisting of three individuals who have an average of seven years of claims management experience, retains complete authority for handling claims arising from policies issued by Stonewood Insurance. Stonewood Insurance believes that proper handling of workers' compensation claims includes at least three steps:

- determination of a claimant's eligibility for medical benefits and wage indemnity payments;
- ascertaining the appropriate medical treatment for an injured or ill claimant, and providing appropriate, cost-effective treatment of covered medical expenses; and
- returning the claimant to work as soon as the claimant is medically capable of resuming work.

Stonewood Insurance has organized its claims handling process to effectively and efficiently address each of these tasks.

Stonewood Insurance's policy is to initiate a review of each claim within 48 hours of receiving notice thereof. This review is conducted by a member of the claims staff, who develops basic information to determine whether the claim is covered under the policy terms. A typical investigation will include direct contact with the claimant, the claimant's employer and the medical service provider. If the adjuster develops information which suggests the claim may not be covered, additional investigation is commenced. This process may include ordering additional medical exams, surveillance, interviewing witnesses and reviewing police reports. Stonewood Insurance's policy is to promptly pay all sums due under its policies, and to vigorously contest claims it judges to be unwarranted or not covered by its policies.

Medical cost containment is a key to Stonewood Insurance's success as a workers' compensation carrier. Under North Carolina law (where all of Stonewood Insurance's workers' compensation business is currently written), insurance companies have the right to direct medical treatment to the physicians of their choice. The North Carolina Industrial Commission sets a medical fee schedule applicable to workers' compensation related medical treatment. Stonewood Insurance reviews the treatment its claimants receive to assure they are being appropriately treated, consistent with the approach most likely to permit a rapid recovery and return to work. All medical bills are reviewed to assure that Stonewood Insurance has been billed the appropriate amount.

At the outset of each claim which involves both medical and indemnity payments, Stonewood Insurance develops a strategy designed to chart a course to close the claim. To help implement these strategies Stonewood Insurance remains in contact with injured or ill claimants and their medical providers during the entire period of their recovery and works with employers to modify the workers' duties during a period of convalescence.

In the event that a worker suffers a total disability, Stonewood Insurance's policy is to attempt to reach a total settlement of indemnity and medical claims associated with the claim. Final settlements permit Stonewood Insurance to eliminate the uncertainty associated with setting appropriate reserves for long-term medical care and indemnity payments. North Carolina law allows Stonewood Insurance to reach final settlements on workers' compensation cases.

Stonewood Insurance conducts a complete file review on each claim every 30 days. This review process is designed to encourage progress on claims resolution, and to assure that reserves set on each open claim are appropriate and adequate and to review for appropriate medical treatment and return to work strategies.

Reserves

Applicable insurance laws require us to maintain reserves to cover our estimated ultimate losses under insurance policies that we write and for loss adjustment expenses relating to the investigation and

75

---

settlement of policy claims. The reserve for losses and loss adjustment expenses represents the estimated ultimate cost of all reported and unreported losses and loss adjustment expenses incurred and unpaid at the balance sheet date. We do not use discounting (recognition of the time value of money) in establishing our estimated reserve for losses and loss expenses.

When a claim is reported to one of our insurance subsidiaries, our subsidiary's claims department establishes a "case reserve" for the estimated amount of the ultimate payment as promptly as possible after receiving notice of the claim and developing sufficient information to form a judgment about the probable ultimate loss and loss adjustment expense associated with that claim. Case reserves are typically established as soon as practicable after the receipt of the claim. The estimate of the amount of the ultimate loss is based upon various factors such as:

- the type of loss;
- the severity of injury or damage;
- our knowledge of the circumstances surrounding the claim;

- jurisdiction of the occurrence;
- policy provisions related to the claim; and
- benefits defined by statute (for our workers' compensation insurance).

In addition to case reserves, we establish reserves on an aggregate basis to provide for losses and loss expenses that have been incurred but not reported, commonly referred to as "IBNR." Case reserves and IBNR together constitute the total reserve for losses and loss adjustment expenses. Our corporate actuary reviews our reserve for losses and loss adjustment expenses each quarter.

The reserve for losses and loss adjustment expenses is estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. We have limited historical loss information available in making loss reserve estimates. Several actuarial methods are utilized in the loss reserve estimates with an emphasis on two methods. One of the primary methods utilizes management's initial expected loss ratio (the ratio of losses and loss adjustment expenses incurred to net earned premiums), expected reporting patterns for losses based on insurance industry data and our actual reported losses and loss adjustment expenses to estimate the reserve. The other primary method estimates the reserve by applying an expected loss ratio to net earned premiums by line of business. Because we have limited historical experience, we have generally selected the method that yields the highest reserve for each line of business in calculating the aggregate reserve for losses and loss adjustment expenses at December 31, 2004. There is inherent uncertainty in estimating the reserve for losses and loss adjustment expenses. Although we believe that the reserve for losses and loss adjustment expenses is reasonable, it is possible that our actual incurred losses and loss adjustment expenses will not conform to the assumptions inherent in the determination of these reserves. Specifically, our actual ultimate loss ratio could differ from our initial expected loss ratio or our actual reporting patterns for losses could differ from the expected reporting patterns based on industry data. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary significantly from the estimates included in our financial statements. These estimates are regularly reviewed by management and are adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Although many factors influence the actual cost of claims and our corresponding reserve estimates, we do not measure and estimate values for all of these variables individually. This is because many of the factors that are known to impact the cost of claims cannot be measured directly, such as the impact on claim costs due to economic inflation, coverage interpretations and jury determinations. In most instances, we rely on our historical experience or industry information to estimate values for the variables that are explicitly used in our reserve analyses. We assume that the historical effect of these unmeasured factors, which is embedded in our experience or industry experience, is representative of future effects of these factors. Where we have reason to expect a change in the effect of one of these factors, we will perform an analysis to quantify the necessary adjustments.

The establishment of loss and loss adjustment expense reserves makes no provision for the broadening of coverage by legislative action or judicial interpretation or for the extraordinary future

emergence of new types of losses not sufficiently represented in our historical experience or which cannot yet be quantified. We regularly analyze our reserves and review our pricing and reserving methodologies so that future adjustments to prior year reserves can be minimized. However, given the complexity of this process, reserves will require continual updates and the ultimate liability may be higher or lower than previously indicated.

Our corporate actuary is a Fellow of the Casualty Actuarial Society and Member of the American Academy of Actuaries. The duties of the corporate actuary include but are not limited to:

- performing an actuarial analysis of loss and loss expense reserves on a quarterly basis;
- assisting our underwriting department in evaluating pricing adequacy;
- signing the annual Statement of Actuarial Opinion for each of our insurance subsidiaries, filed with insurance regulators; and
- monitoring and evaluating catastrophe exposures associated with our book of insurance business.

Additionally, an independent actuarial consultant reviews our reserves annually.

The following table provides a reconciliation of the beginning and ending reserve balances for loss and loss adjustment expenses (LAE), net of reinsurance, to the gross amounts reported in the balance sheet.

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

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

At December 31, 2004 and 2003, reinsurance recoverables related to the business written by Fidelity prior to the date that we acquired that company totaled $4.5 million and $13.3 million, respectively. All reinsurance recoverables related to business written by Fidelity prior to the acquisition date are secured by a trust account established by American Empire for which we are the beneficiary. As additional security, Great American Insurance Company, an affiliate of American Empire, has irrevocably and unconditionally guaranteed the performance by American Empire of all of its obligations under the reinsurance agreement and the trust agreement.

We have not provided insurance coverage that could reasonably be expected to produce material levels of asbestos claims activity. In addition, we believe we are not exposed to any environmental liability claims other than those which we have specifically underwritten and priced as an environmental exposure.

No environmental or asbestos claims have been reported on insurance coverages effective July 1, 2003 or later. Any asbestos or environmental exposure on policies issued by Fidelity prior to July 1, 2003 are subject to the reinsurance agreement and the trust agreement with American Empire. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Acquisition Summary."

Shown below is the loss development for business written each year from 2003 through 2004. The table portrays the changes in our loss and LAE reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year.

The first line of the table shows, for the years indicated, our net reserve liability including the reserve for incurred but not reported losses as originally estimated. For example, as of December 31, 2003, we estimated that $3.183 million would be a sufficient reserve to settle all claims not already settled that had occurred prior to December 31, 2003, whether reported or unreported to us. The next section of the table shows, by year, the cumulative amounts of losses and loss adjustment expenses paid as of the end of each succeeding year. For example, with respect to the net losses and loss expense reserve of $3.183 million as of December 31, 2003, by the end of 2004 (one year later), $228,000 had actually been paid in settlement of the claims which pertain to the reserve as of December 31, 2003.

The next section of the table sets forth the re-estimates in later years of incurred losses, including payments, for the years indicated. For example, as reflected in that section of the table, the original reserve of $3.183 million was re-estimated to be $3.027 million at December 31, 2004. An increase or decrease from the original estimate can generally be attributed to a combination of factors, including: (1) claims being settled for amounts different than originally estimated, (2) reserves being increased or decreased for claims remaining open as more information becomes known about those individual claims and (3) more or fewer claims being reported after December 31, 2003 than had occurred prior to that date.

The "net cumulative redundancy/(deficiency)" represents, as of December 31, 2004, the difference between the latest re-estimated liability and the reserves as originally estimated. A redundancy means the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate. For example, as of December 31, 2004 and based upon updated information, we re-estimated that the reserves which were established as of December 31, 2003 were $156,000 redundant.

The bottom part of the table shows the impact of reinsurance reconciling the net reserves shown in the upper portion of the table to gross reserves.

	Year Ended December 31,	
	2003	2004
	(in thousands)	
Net liability for losses and loss adjustment expenses as originally estimated:	$ 3,183	$ 47,043
Net cumulative payments as of:		
One year later	228	
Net liability re-estimated as of:		
One year later	3,027	
Net cumulative redundancy/(deficiency)	156	
Gross liability for losses and loss adjustment expenses as originally estimated:		
Net liability for losses and loss adjustment expenses	$ 3,183	$ 47,043

Ceded liability for losses and loss adjustment expenses		14,234		15,200
Gross liability for losses and loss adjustment expenses	$	17,417	$	62,243
As re-estimated:				
Net liability for losses and loss adjustment expenses re-estimated	$	3,027		
Ceded liability for losses and loss adjustment expenses re-estimated		10,477		
Gross liability for losses and loss adjustment expenses re-estimated	$	13,504		
Gross cumulative redundancy/(deficiency)	$	3,913		

78

Reinsurance

We enter into reinsurance contracts to limit our exposure to potential losses arising from large risks and to provide additional capacity for growth. Reinsurance involves an insurance company transferring, or "ceding," a portion of its exposure on a risk to another insurer, the reinsurer. The reinsurer assumes the exposure in return for a portion of the premium. The ceding of liability to a reinsurer does not legally discharge the primary insurer from its liability for the full amount of the policies on which it obtains reinsurance. The primary insurer remains liable for the entire loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Our reinsurance is contracted under excess of loss and quota-share reinsurance contracts. Through June 30, 2004, we retained approximately $500,000 per risk for all coverages under our excess of loss reinsurance except for primary casualty coverages, for which we retained $405,000 per risk. Effective July 1, 2004, we increased the retention on our primary casualty excess of loss reinsurance treaty at James River Insurance to $1.0 million. The retentions remained at approximately $500,000 on the other excess of loss reinsurance treaties at James River Insurance that we renewed effective July 1, 2004 and on all business written by Stonewood Insurance.

The following is a summary of our reinsurance program:

Line of Business	Company Policy Limit	Reinsurance Coverage	Company Retention
Property	Up to $15.0 million per risk	$14.0 million excess of $1.0 million	$1.0 million per risk
Primary Casualty	Up to $4.0 million per occurrence	$3.0 million excess of $1.0 million (1)	$1.0 million per occurrence
Excess Casualty	Up to $5.0 million per occurrence	Variable quota share (2)	$500,000 per occurrence, except as described in note (2) below
Workers' Compensation	Unlimited (benefits are prescribed by statute)	$19.5 million excess of $500,000 per occurrence, with maximum of $9.5 million on any one injured worker	$500,000 per occurrence and losses above $20.0 million per occurrence and above $10.0 million on any one life

(1) Reinsurance is not applicable to policies with per occurrence limit of $1.0 million or less on the primary casualty.

(2) Reinsurance is not applicable to any individual policy with a per occurrence limit of less than $1.0 million. For policies with a per occurrence limit of $1.0 million or higher, the quota share ceding percentage varies such that the retention is always $500,000. For example, for a $1.0 million limit excess policy, our retention would be 50%, whereas for a $5.0 million limit excess policy, our retention would be 10%. For policies for which we also write an underlying primary limit, the retention on the excess policy is 10% of the first $1.0 million of loss irrespective of the excess limit.

We have a property reinsurance treaty that covers our per occurrence exposure to terrorism as provided under the Terrorism Risk Insurance Act of 2002. The treaty covers $13.0 million excess of $2.0 million per risk.

Reinsurance contracts do not relieve us from our obligations to policyholders. Failure of the reinsurer to honor its obligation could result in losses to us, and therefore, we establish allowances for amounts considered uncollectible. In formulating our reinsurance programs, we are selective in our choice of reinsurers and we consider numerous factors, the most important of which are the financial stability of the reinsurer, its history of responding to claims and its overall reputation. In an effort to minimize our exposure to the insolvency of our reinsurers, our security committee, consisting of our Chief Financial

Officer and our corporate actuary, evaluates the acceptability and reviews the financial condition of each reinsurer annually. In addition, our security committee continually monitors rating downgrades involving any of our reinsurers. At December 31, 2004, all reinsurance contracts that our insurance subsidiaries were party to were either with companies with A.M. Best ratings of "A−" (Excellent) or better or were collateralized by the trust agreement with American Empire, which is described below. At December 31, 2004, there was no allowance for uncollectible reinsurance.

At December 31, 2004, we had reinsurance recoverables on unpaid losses of $15.2 million. There were no recoverables on paid losses at December 31, 2004. The following is a summary of our top five reinsurers, based on net amount recoverable, as of December 31, 2004:

Reinsurer	A.M. Best Rating as of December 31, 2004	Net Amount Recoverable as of December 31, 2004	Prepaid Premiums as of December 31, 2004	Net Amount Recoverable as a Percentage of Reinsurance Recoverable	Net Amount Recoverable as a Percentage of Total Assets
		($ in thousands)			
Berkley Insurance Company	A	$ 3,157	$ 3,875	20.8%	1.2%
American Empire Surplus Lines Insurance Company	A	$ 2,618	—	17.2%	1.0%
XL Reinsurance America, Inc.	A+	$ 2,194	$ 2,328	14.4%	0.8%

Aspen Insurance UK Limited	$ A1,839	$ 2,246	12.1%	0.7%
Employers Reinsurance Corporation	$ A1,030	$ 1,261	6.8%	0.4%

We did not have reinsurance recoverables greater than $1.0 million at December 31, 2004 from any reinsurers other than the five listed above.

At the time of our acquisition of Fidelity, Fidelity had a reinsurance agreement with its parent, American Empire. Under the reinsurance agreement, Fidelity ceded all of its liabilities on all insurance business it wrote or assumed through June 30, 2003 to American Empire. American Empire and Fidelity also entered into a trust agreement, under which American Empire established a trust account with Fidelity as the beneficiary. Under the trust agreement, American Empire must maintain assets with a current fair value greater than or equal to the ultimate net aggregate losses recoverable under the reinsurance agreement. At December 31, 2004, trust assets of $7.7 million exceeded the ultimate net aggregate losses recoverable under the reinsurance agreement, as required by the trust agreement. The trust assets are limited to cash and investments permitted by Ohio insurance laws. None of the trust assets can be in capital stock or in fixed income securities that are below investment grade. As additional security, Great American Insurance Company, an affiliate of American Empire, has irrevocably and unconditionally guaranteed the performance by American Empire of all of its obligations under the reinsurance agreement and trust agreement. American Empire and Great American Insurance Company are each rated "A" (Excellent) by A.M. Best.

We use computer models to analyze the risk of severe losses from hurricanes and earthquakes. We measure exposure to these catastrophe losses in terms of probable maximum loss, which is an estimate of the highest amount we would expect to pay on our property portfolio in any one catastrophe event over a specified period of time (referred to as the return period). When managing our catastrophe exposure, we focus on the 100 year and the 250 year return periods, which are the worst events we would expect to suffer over 100 years and 250 years, respectively. We manage this probable maximum loss by purchasing catastrophe reinsurance coverage. Effective June 1, 2004, we purchased catastrophe reinsurance coverage of $5.0 million per event in excess of our $2.0 million per event retention. Effective June 1, 2005, we increased our catastrophe reinsurance coverage to $36.0 million per event in excess of our $2.0 million per event retention.

Our primary catastrophic risk is structural property exposures as a result of hurricanes, tornados, hail storms, winter storms and freezing. Our strategy is to generally write hurricane exposed business mainly on an excess basis over another carrier's primary policy, allowing us to avoid the high frequency losses that do not exceed the primary policies' insurance limits.

The reinsurance market has changed dramatically over the past few years as a result of inadequate pricing, poor underwriting and the significant losses incurred in conjunction with the terrorist attacks on September 11, 2001. As a result, reinsurers have exited some lines of business, reduced available capacity and implemented provisions in their contracts designed to reduce their exposure to loss.

At December 31, 2004, prepaid reinsurance premiums to three reinsurers totaled $3.9 million, $2.3 million and $2.2 million, representing approximately 70.4% of the balance.

Effective January 1, 2005, James River Insurance entered into a quota share reinsurance contract with Hannover Reinsurance (Ireland) Limited and E+S Reinsurance (Ireland) Ltd., each of which is rated "A" (Excellent) by A.M.

Best. James River Insurance entered into the quota share reinsurance contract to transfer a portion of the risk related to certain lines of business. By transferring risk to the reinsurers, James River Insurance also reduced the amount of capital required to support its operations. Under terms of the agreement, James River Insurance will cede a portion of its other liability occurrence and primary property lines of business, which includes business written by the General Casualty, Manufacturers and Contractors and Primary Property divisions. James River Insurance receives a 25% ceding commission and pays a reinsurer margin of 4.5%. The ceding commission cannot be reduced, although James River Insurance is under certain circumstances based on underwriting results, entitled to an additional profit contingent commission up to an amount equal to all of the reinsurer's profits above the margin. James River Insurance maintains a funds-held account which is credited interest at 3.75% annually. The contract has a loss ratio cap of 115%, which means that we cannot cede any losses in excess of a 115% loss ratio to the reinsurer. The contract has no impact on revenues or earnings for 2004 or on our statutory surplus or GAAP equity at December 31, 2004. For the impact on our results for the three months ended March 31, 2005, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview."

Investments

Investment income is an important component of our earnings. We collect premiums and hold a portion of these funds in reserves until claims are paid. We invest these reserves. In the years that we make an underwriting profit, we are able to retain all investment income. Underwriting losses require us to dedicate a portion of our investment income or capital to cover insurance claims and expenses associated with writing insurance.

Our policy is to invest primarily in high quality fixed maturity securities with a focus on preservation of capital and a secondary focus on maximizing our risk adjusted investment returns. Investment policy is set by the Investment Committee of the board of directors, subject to limits of applicable regulations. Our investment policy is designed to comply with the regulatory investment requirements and restrictions to which our insurance subsidiaries are subject. The policy imposes stringent diversification rules to minimize our potential exposure to any one business sector. The policy also imposes strict requirements for credit quality, as all securities must be investment grade securities when purchased, with a minimum of 90% of our fixed maturity securities being rated "A−" or higher by Standard & Poor's or the equivalent rating from another nationally recognized rating agency. Our investment portfolio is managed by two investment advisors, Earnest Partners LLC and General Re-New England Asset Management, Inc., that operate under guidelines approved by our Investment Committee. A member of our board of directors, Matthew Bronfman, is a partner of Earnest Partners. Both of our investment advisors operate under the same arms-length fee structure. Our Investment Committee meets periodically and reports to our board of directors.

Our cash and invested assets consist of fixed maturity securities, short-term investments, cash and cash equivalents and a bond mutual fund (classified as an equity security on the balance sheet). At December 31, 2004, our investments in fixed maturity securities had a carrying value and fair value of $172.7 million. Our fixed maturity securities and equity securities are classified as "available-for-sale" and are carried at fair value with unrealized gains and losses on these securities reported, net of tax, as a separate component of accumulated other comprehensive income (loss). Fair value generally represents quoted market value prices for securities traded in the public market or prices analytically determined using bid or closing prices for securities not traded in the public marketplace. Short-term investments are

---

reported at cost and include investments both readily convertible to known amounts of cash and having maturities of 12 months or less upon acquisition by us.

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

The amortized cost and fair value of our investments in fixed maturity securities at December 31, 2004 follows:

	Amortized Cost	Fair Value	Percentage of Total Fair Value
	($ in thousands)		
Corporate	$ 55,709	$ 55,710	32.2%
U. S. Treasury Securities and Obligations of U.S. Government Agencies	37,856	37,647	21.8%
State and Municipal	33,068	33,064	19.1%
Mortgage-backed	31,091	31,189	18.1%
Asset-backed	15,165	15,121	8.8%
Total	$ 172,889	$ 172,731	100.0%

The amortized cost and fair value of our investments in fixed maturity securities at December 31, 2004, summarized by stated maturities follows:

	Amortized Cost	Fair Value	Percentage of Total Fair Value
	($ in thousands)		
Maturity:			
Due in 2005	$ 2,149	$ 2,149	1.2%
Due in 2006-2009	63,861	63,608	36.8%
Due in 2010-2014	41,605	41,596	24.1%
Due after 2014	19,018	19,068	11.0%
Mortgage-backed	31,091	31,189	18.1%
Asset-backed	15,165	15,121	8.8%
Total	$ 172,889	$ 172,731	100.0%

Actual maturities may differ for some securities because borrowers have the right to call or prepay obligations with or without penalties.

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

The following table shows our gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	As of December 31, 2004					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Fixed maturity securities:						
Corporate	$32,242	$ (265)	$ 2,138	$ (57)	$34,380	$ (322)
U.S. treasury securities and obligations of U.S. government agencies	19,334	(136)	6,932	(220)	26,266	(356)
State and municipal	13,103	(87)	1,099	(9)	14,202	(96)
Mortgage-backed	8,988	(92)	—	—	8,988	(92)
Asset-backed	10,072	(88)	—	—	10,072	(88)
	83,739	(668)	10,169	(286)	93,908	(954)
Equity securities	2,290	(10)	—	—	2,290	(10)
Total	$86,029	$ (678)	$10,169	$ (286)	$96,198	$ (964)

The majority of the unrealized losses on fixed maturity securities is interest rate related. Each of the fixed maturity securities with an unrealized loss at December 31, 2004 has a fair value that is greater than 93.0% of its carrying value. Of the nine securities that have been in an unrealized loss position for 12 months or longer, six securities are United States treasury securities or obligations of United States government agencies securities and each of the remaining three securities has a fair value that is greater than 97.0% of its carrying value. None of the fixed maturity securities with unrealized losses have ever missed, or been delinquent on, a scheduled principal or interest payment, and none are rated below investment grade. The unrealized losses related to equity securities are the result of changes in interest rates. Based on our review of the factors above, no securities are considered to be other than temporarily impaired.

As of December 31, 2004, our fixed maturity security portfolio contained $31.2 million (18.1%) of mortgage-backed securities. All of these securities are rated Class I by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC) and are primarily issued by government and government-related agencies, are publicly traded and have market values obtained from an external pricing service. Changes in estimated cash flows due to changes in prepayment assumptions from the original purchase assumptions are revised based on current interest rates and the economic environment.

Mortgage-backed securities (MBSs), including collateralized mortgage obligations, are subject to prepayment risks that vary with, among other things, interest rates. During periods of declining interest rates, MBSs generally prepay faster as the underlying mortgages are prepaid and refinanced by the borrowers in order to take advantage of the lower rates. As a result, during periods of falling interest rates, proceeds from such prepayments generally must be reinvested at lower prevailing yields. In addition, MBSs that have an amortized cost that is greater than par (i.e., purchased at a premium) may incur a reduction in yield or a loss as a result of such prepayments. Conversely, during periods of rising interest rates, the rate of prepayments generally slows. MBSs that have an amortized value that is less than par (i.e., purchased at a discount) may incur a decrease in yield as a result of a slower rate of prepayments. In order to mitigate these risks, approximately 75.9% of the MBSs we held at December 31, 2004 were either a category of MBSs known as planned amortization class bonds or agency pass-through certificates with 15-year or shorter final maturities, the average life of which is less sensitive to fluctuations in interest rates. The remainder of the MBSs we held were primarily agency pass-through certificates with 30-year final maturities. Our investment portfolio does not permit us to own, and we do not own, any interest only, principal only or residual tranches of MBSs.

83

The following table sets forth the composition of the Company's portfolio of fixed maturity securities by rating as of December 31, 2004:

Standard and Poor's or Equivalent Designation	Securities Valuation Office Designation	Fair Value ($ in thousands)	% of Fair Value
AAA	1	$ 104,908	60.8%
AA	1	22,490	13.0%
A	1	42,877	24.8%
BBB	2	2,456	1.4%
Total		$ 172,731	100.0%

In May 2005, Standard & Poor's downgraded two bonds in our portfolio, issued by GMAC and Ford Motor Credit, from "BBB−" to "BB" and "BB+", respectively. These bonds mature in 2011.

At December 31, 2004, our portfolio of fixed maturity securities contained corporate fixed maturity securities with a fair value of $55.7 million. The following is a summary of these securities by industry segment as of December 31, 2004:

Segment	Fair Value ($ in thousands)	% of Fair Value
Industrial	$ 28,221	50.7%
Financial	18,434	33.1%
Utilities	9,055	16.2%
Total	$ 55,710	100.0%

At December 31, 2004 and 2003, investments with a fair value of $9.4 million and $7.6 million, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

Information Technology

As a new company, we had the opportunity to design the architecture for our information systems in a fashion that would allow us to reduce our administrative costs and provide us with useful, reliable, real-time information. Both of our insurance company subsidiaries operate in a "paperless" environment, which eliminates the costs of printing, storing and handling thousands of documents each week. Moreover, by maintaining electronic files on each account, we have been able to facilitate clear communication among personnel responsible for handling matters related to underwriting, servicing and claims as each has access to full information regarding the account.

Our decentralized approach to managing our business allows us the flexibility to permit each business segment to acquire or construct its own policy management system. Consequently, our workers' compensation unit and our excess and surplus lines units, whose businesses are very different, each use policy management systems that permit them to tailor their work to the type of polices they underwrite. This approach promotes better service and more efficient underwriting. Both business segments have embraced a web-based platform approach to acquiring business. When a web-platform is utilized, an agent enters policy application information on a web-site controlled by one of our insurance company subsidiaries, and the information entered by the agent is automatically transferred to our underwriting system. This eliminates costly data-entry steps in our underwriting process and permits the underwriter to focus on underwriting the account accurately and rapidly. We are currently testing a web-based platform for certain of our excess and surplus lines divisions.

From our inception, we have been intent on capturing and analyzing our data and building, over time, a robust repository of information we can continually use to improve our decision making. We refer to this repository as our data warehouse. At the same time, we recognize the importance of permitting the business segments to utilize policy management programs that are suited to their business and that no single policy management system is appropriate across specialty disciplines. Our approach is to place the

data warehouse behind the policy management systems that are selected by our business segments. While we are still in the build-out phase of the data warehouse, our design permits us to capture all premium, claims and other policy information collected by the policy management systems at our subsidiaries. The data warehouse is easily searchable, collects and names information in a consistent format and will eventually contain most of underwriting or claims information we collect at every level. The data warehouse permits us flexibility with regard to analyzing our business by segment or in the aggregate. As we collect more information, we expect the data warehouse will prove to be a competitive advantage for us.

Competition

The property/casualty insurance industry is highly competitive. We compete with domestic and international insurers, some of which have greater financial, marketing and management resources and experience than we do. We also may compete with new market entrants in the future. Competition is based on many factors, including the perceived market strength of the insurer, pricing and other terms and conditions, services provided, the speed of claims payment, the reputation and experience of the insurer and ratings assigned by independent rating organizations such as A.M. Best. James River Insurance and Stonewood Insurance each currently have a rating from A.M. Best of "A−" (Excellent). Ratings for an insurance company are based on its ability to pay policyholder obligations and are not directed toward the protection of investors.

Today, our primary competitors in the excess and surplus lines sector are Scottsdale Insurance Company (Nationwide Mutual Insurance Company), Markel Corporation, Burlington Insurance Group, Admiral Insurance Company (W. R. Berkley Corporation), Colony Insurance Company (The Argonaut Group) and RLI Corp.

We believe James River Insurance has several competitive advantages. James River Insurance has a low cost expense structure and a dual distribution system including retail and wholesale insurance agents. We focus on individually underwritten risks which provide us with the ability to tailor coverage and pricing on each individual risk. We focus on data collection and analysis and benefit from having no material exposure to legacy insurance issues such as asbestos or construction defect coverage.

Our primary competitors in the workers' compensation insurance sector are Builders Mutual Insurance Company, Key Risk (W. R. Berkley Corporation) and Amerisure. We generally compete on the basis of service, as most market competitors have maintained both pricing and underwriting discipline.

We believe Stonewood Insurance has several competitive advantages. For policy applications submitted through our proprietary internet-based portal, we can provide pricing indications within 24 hours. We believe this is significantly faster than our primary competitors. We are able to significantly improve our efficiency for applications submitted through this system because this data does not have to be re-entered into our underwriting system. In addition our system allows agents to automatically generate customized proposals for insureds. Each agent may also access web-based policy information for all of the business they place with Stonewood Insurance. In addition, unlike a major competitor, Stonewood Insurance does not require insureds to join the North Carolina Home Builders Association. We believe this represents a $500 or greater average savings to our policyholders relative to that competitor.

Ratings

A.M. Best, which rates insurance companies based on factors of concern to policyholders, rates each of our insurance subsidiaries. Our insurance subsidiaries have a rating of "A−" (Excellent) from A.M. Best. A.M. Best currently assigns 16 ratings to insurance companies, which currently range from "A++" (Superior) to "S" (Rating Suspended). "A−" (Excellent) is the fourth highest rating. In evaluating a company's financial and operating performance, A.M. Best reviews the company's profitability, leverage and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its loss and loss expense reserves, the adequacy of its surplus, its capital structure, the experience and competence of its management and its market

85

---

presence. A.M. Best's ratings reflect its opinion of an insurance company's financial strength, operating performance and ability to meet its obligations to policyholders. These evaluations are not directed to purchasers of an insurance company's securities.

Employees

As of March 14, 2005, we had 127 employees, six of whom were employed by James River, 99 of whom were employed by James River Insurance and 22 of whom were employed by Stonewood Insurance. All of the James River Insurance and Stonewood Insurance employees are employed through arrangements with James River Management Company and Stonewood Insurance Management Company, respectively. We are not a party to any collective bargaining agreements, and we believe that our relations with employees are good.

Facilities

Our executive offices are located in approximately 2,916 square feet of office space in Chapel Hill, North Carolina, which James River leases for annual rent of approximately $70,000. The term of the lease runs through 2008.

Our insurance operations are located in Richmond, Virginia and Raleigh, North Carolina. James River Insurance operates out of the Richmond office which occupies approximately 27,685 square feet. The lease for this space expires in 2008. The annual rent under this lease is approximately $453,000.

Stonewood Insurance operates out of the Raleigh office which occupies approximately 8,350 square feet. The lease for this space expires in 2009 and is renewable for a period of up to three years. The annual rent under this lease is approximately $145,000.

We believe that our facilities are adequate for our current needs.

Legal Proceedings

We are subject to routine legal proceedings in the normal course of operating our insurance business. We are not involved in any legal proceedings which reasonably could be expected to have a material adverse effect on our business, results of operations or financial condition.

REGULATION

Insurance Regulation

We are regulated by insurance regulatory agencies in the states in which we conduct business. State insurance laws and regulations generally are designed to protect the interests of policyholders, consumers or claimants rather than stockholders or other investors. The nature and extent of state regulation varies by jurisdiction, and state insurance regulators generally have broad administrative power relating to, among other matters, setting capital and surplus requirements, licensing of insurers and agents, establishing standards for reserve adequacy, prescribing statutory accounting methods and the form and content of statutory financial reports, regulating certain transactions with affiliates and prescribing the types and amounts of investments.

Regulation of insurance companies constantly changes as governmental agencies and legislatures react to real or perceived issues. In recent years, the state insurance regulatory framework has come under increased federal scrutiny, and some state legislatures have considered or enacted laws that alter and, in many cases, increase state authority to regulate insurance companies and insurance holding company systems. Further, the National Association of Insurance Commissioners (NAIC) and some state insurance regulators are re-examining existing laws and regulations specifically focusing on issues relating to the solvency of insurance companies, interpretations of existing laws and the development of new laws. Although the federal government does not directly regulate the business of insurance, federal initiatives often affect the insurance industry in a variety of ways.

Among the various legislative changes that state legislatures have considered during the past several years, commercial lines deregulation initiatives have been adopted in many states. In some states, the deregulation of commercial lines generally enables admitted insurers to underwrite certain commercial property/casualty risks without the necessity of obtaining prior approval for rates and/or forms, although the content of policy forms is still regulated. In other states, the terms and conditions of commercial insurance policy forms have been deregulated. The deregulation of commercial lines may permit risks that would not otherwise be considered attractive by standard market carriers to be underwritten by such carriers using forms and rates that are attractive to them. In such states, competition in our property/casualty markets could increase.

The U.S. Congress has been considering a variety of proposals that would increase the level of federal involvement in insurance regulation. One proposal — the State Modernization and Regulatory Transparency ("SMART") Act — would use federal preemption and/or revenue penalties to induce states to adopt and conform to uniform regulatory standards. As of early July 2005, a revised SMART Act text had not yet been released but a revised bill may be released during the summer of 2005. Congress has also considered and discussed so-called optional federal charter proposals. In general, such proposals would afford insurers the option to be regulated at the state level or at the federal level. It is possible that federal solvency and financial standards would preempt state standards in these areas. It is less clear whether and to what extent state market conduct and rate/form regulation would survive with respect to insurers holding federal charters. Accordingly, we are not able to predict the effect of these federal legislative initiatives on the level of competition we may face or on our results of operations.

Required Licensing

James River Insurance is duly organized under the laws of Ohio and is authorized (licensed) in Ohio to transact certain lines of property/casualty insurance. This license is in good standing. Insurance licenses are issued by state insurance regulators upon application and may be of perpetual duration or may require periodic renewal. We must apply for and obtain appropriate new licenses before we can expand into a new state on an admitted basis or offer new lines of insurance that require separate or additional licensing.

In most states, James River Insurance operates on a surplus lines basis. James River Insurance currently operates on a surplus lines basis in 48 states and the District of Columbia. While James River Insurance does not have to apply for and maintain a license in those states, it is subject to maintaining suitability standards or approval under each particular state's surplus lines laws to be included as an

---

approved surplus lines carrier. James River Insurance maintains surplus line approvals in all states except Ohio, where it is admitted, and New Hampshire. In states in which it operates on a surplus line basis, James River Insurance has freedom of rate and form on the majority of its business. This means that James River Insurance can implement a change in policy form, underwriting guidelines, or rates for a product on an immediate basis without regulatory approval.

All insurance is written through licensed agents and brokers. In states in which we operate on a non-admitted basis, general agents and their retail insurance brokers generally are required to certify that a certain number of licensed admitted insurers had been offered and declined to write a particular risk prior to placing that risk with us.

Stonewood Insurance operates on an admitted basis in its home state of North Carolina.

Insurers operating on an admitted basis must file premium rate schedules and policy or coverage forms for review and approval by the insurance regulators. In many states, including North Carolina, rates and policy forms must be approved prior to use, and insurance regulators have broad discretion in judging whether an insurer's rates are adequate, not excessive and not unfairly discriminatory.

Insurance Holding Company Regulation

We operate as an insurance holding company system and are subject to regulation in the jurisdictions in which our insurance subsidiaries conduct business. These statutes require that each insurance company in the system register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system domiciled in that state. These statutes also provide that all transactions among members of a holding company system must be fair and reasonable. Transactions between insurance subsidiaries and their parents and affiliates generally must be disclosed to the state regulators, and notice to or prior approval of the applicable state insurance regulator generally is required for any material or extraordinary transaction. In addition, a change of control of a domestic insurer or of any controlling person requires the prior approval of the state insurance regulator. Generally, any person who acquires 10% or more of the outstanding voting securities of the insurer or its parent company is presumed to have acquired control of the domestic insurer.

James River Insurance and Stonewood Insurance are parties to an intercompany reinsurance pooling agreement between the two companies. This intercompany reinsurance pooling agreement became effective on January 1, 2004. For 2004, the agreement called for a pooling of all business written by the companies on or after January 1, 2004 and an allocation of 70.0% of the pooled premiums, loss and loss adjustment expenses and operating expenses to James River Insurance and 30.0% to Stonewood Insurance. Development on the December 31, 2003 reserves for losses and loss adjustment expenses was also allocated 70.0% to James River Insurance and 30.0% to Stonewood Insurance. Effective January 1, 2005, this intercompany reinsurance pooling agreement was terminated and the two companies entered into a new pooling agreement that calls for a pooling of all business written by the companies on or after January 1, 2005 and an allocation of 80.0% of the pooled premiums, loss and loss adjustment expenses and operating expenses to James River Insurance and 20.0% to Stonewood Insurance. Development on the December 31, 2004 reserves for losses and loss adjustment expenses is also allocated 80.0% to James River Insurance and 20.0% to Stonewood Insurance.

Restrictions on Paying Dividends

We are a holding company with no business operations of our own. Consequently, our ability to pay dividends to stockholders and meet our debt payment obligations is largely dependent on dividends and other distributions from our insurance subsidiaries. State insurance laws restrict the ability of our insurance subsidiaries to declare stockholder dividends. State insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. Generally, dividends may only be paid out of earned surplus, and the amount of an insurer's surplus following payment of any dividends must be reasonable in relation to the insurer's outstanding liabilities and adequate to meet its financial needs. Further, prior approval from the insurance departments of our insurance subsidiaries' state of

---

domicile generally is required in order for our insurance subsidiaries to declare and pay "extraordinary dividends" to us. Ohio defines an extraordinary dividend as any dividend or distribution that, together with other distributions made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as of the preceding December 31st, or the insurer's net income for the 12 month period ending the preceding December 31st, excluding realized capital gains, in each case determined in accordance with statutory accounting practices. North Carolina defines an extraordinary dividend as any dividend or distribution that, together with other distributions made within the preceding 12 months, exceeds the lesser of 10% of the insurer's surplus as of the preceding December 31st, or the insurer's net income for the 12 month period ending the preceding December 31st, in each case determined in accordance with statutory accounting practices. Stonewood Insurance cannot currently pay any dividend without prior approval of the North Carolina Department of Insurance pursuant to the dividend limitations under North Carolina law. The maximum amount of dividends James River Insurance can pay us during 2005 without regulatory approval is $5.8 million. Insurance regulators have broad powers to prevent reduction of statutory surplus to inadequate levels, and there is no assurance that dividends of the maximum amounts calculated under any applicable formula would be permitted. State insurance regulatory authorities that have jurisdiction over the payment of dividends by our insurance subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect.

Guaranty Funds

Under state insurance guaranty fund laws, insurers doing business on an admitted basis in a state can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. Currently, we only conduct insurance on an admitted basis in North Carolina through Stonewood Insurance. The maximum contribution required by North Carolina law in any one year is 2.0% of a company's net direct written premium written in the state for the preceding calendar year on the types of insurance covered by the fund. In North Carolina, guaranty fund assessments are partially recoverable through future offsets to state premium tax liability. James River Insurance is licensed in Ohio but is currently not subject to guaranty fund assessments in Ohio because we do not write any premium in that state. Except for New Jersey, the business that we write on a surplus line basis is not subject to state guaranty fund assessments.

Investment Regulation

Our insurance subsidiaries are subject to state laws which require diversification of our investment portfolios and limits on the amount of our investments in certain categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets in the states in which we are licensed to sell insurance policies for purposes of measuring statutory surplus and, in some instances, would require us to sell those investments.

Restrictions on Cancellation, Non-Renewal or Withdrawal

Many states have laws and regulations that limit the ability of an insurance company licensed by that state to exit a market. Some states prohibit an insurer from withdrawing from one or more lines of business in the state, except pursuant to a plan approved by the state insurance regulator, which may disapprove a plan that may lead to market disruption. Some state statutes may explicitly or by interpretation, apply these restrictions to insurers operating on a surplus line basis.

Licensing of Our Employees and Adjustors

In certain states in which we operate, insurance claims adjusters are also required to be licensed and some must fulfill annual continuing education requirements. In most instances, our employees who are negotiating coverage terms are underwriters and employees of the Company and are not required to be licensed agents. Approximately nine of our employees currently maintain requisite licenses for these activities in most states in which we conduct business.

Privacy Regulations

In 1999, the United States Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information.

Subsequently, a majority of states have implemented additional regulations to address privacy issues. These laws and regulations apply to all financial institutions, including insurance and finance companies, and require us to maintain appropriate procedures for managing and protecting certain personal information of our customers and to fully disclose our privacy practices to our customers. We may also be exposed to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. The NAIC has adopted the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Several states have now adopted provisions similar to those promulgated by the NAIC regarding the safeguarding of customer information. We have adopted a privacy policy for safeguarding customer information and our insurance subsidiaries follow procedures pertaining to applicable customers to comply with the Gramm-Leach-Bliley related privacy requirements.

Trade Practices

The manner in which insurance companies and insurance agents and brokers conduct the business of insurance is regulated by state statutes in an effort to prohibit practices that constitute unfair methods of competition or unfair or deceptive acts or practices. Prohibited practices include, but are not limited to, disseminating false information or advertising; unfair discrimination, rebating and false statements. We set business conduct policies and provide training to make our employee-agents and other sales personnel aware of these prohibitions, and we require them to conduct their activities in compliance with these statutes.

Unfair Claims Practices

Generally, insurance companies, adjusting companies and individual claims adjusters are prohibited by state statutes from engaging in unfair claims practices on a flagrant basis or with such frequency to indicate a general business practice. Unfair claims practices include, but are not limited to, misrepresenting pertinent facts or insurance policy provisions; failing to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies; and attempting to settle a claim for less than the amount to which a reasonable person would have believed such person was entitled. We set business conduct policies and conduct training to make our employee-adjusters and other claims personnel aware of these prohibitions, and we require them to conduct their activities in compliance with these statutes.

Quarterly and Annual Financial Reporting

Our insurance subsidiaries are required to file quarterly and annual financial reports with state insurance regulators utilizing statutory accounting practices (SAP) rather than generally accepted accounting principles (GAAP). In keeping with the intent to assure policyholder protection, SAP emphasize solvency considerations. For a summary of the significant differences for our insurance subsidiaries between SAP and GAAP, see Note 22 to our audited consolidated financial statements included in this prospectus.

Periodic Financial and Market Conduct Examinations

The insurance departments of our insurance subsidiaries states of domicile conduct on-site visits and examinations of the affairs of our insurance subsidiaries, including its financial condition, its relationships and transactions with affiliates and its dealings with policyholders, every three to five years, and may conduct special or target examinations to address particular concerns or issues at any time. Insurance regulators of other states in which we do business also may also conduct examinations. The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action. Insurance regulatory authorities have broad administrative powers to regulate trade practices and in that connection to restrict or rescind licenses to transact business and to levy fines and monetary penalties against insurers and insurance agents and brokers found to be in violation of applicable laws and

---

regulations. The North Carolina Department of Insurance commenced a financial examination of Stonewood Insurance in March 2005. The examination is ongoing. To date, there have been no findings communicated to us that would have an impact on the reported statutory capital and surplus of Stonewood Insurance or on its ability to conduct its business. The Ohio Department of Insurance commenced a financial examination of James River Insurance in the third quarter of 2005.

Investigation of Broker Compensation Practices

The recent investigations and legal actions brought by the New York State Attorney General and others relating to broker compensation practices, as well as other measures (such as proposed legislation) that have been taken to address some of the practices at issue in those investigations and actions, are likely to result in potentially far-reaching changes in industry broker compensation practices. We do not pay and have not paid contingent commissions to our brokers and agents. However, market practices are still evolving in response to these developments, and we cannot predict what practices the market will ultimately adopt or how these changes will affect our competitive standing with brokers and agents or our commission rates.

Risk-Based Capital

Risk-based capital (RBC) requirements laws are designed to assess the minimum amount of capital that an insurance company needs to support its overall business operations and to ensure that it has an acceptably low expectation of becoming financially impaired. Regulators use RBC to set capital requirements considering the size and degree of risk taken by the insurer and taking into account various risk factors including asset risk, credit risk, underwriting risk and interest rate risk. As the ratio of an insurer's total adjusted capital and surplus decreases relative to its risk-based capital, the RBC laws provide for increasing levels of regulatory intervention culminating with mandatory control of the operations of the insurer by the domiciliary insurance department at the so-called mandatory control level. At December 31, 2004, our insurance subsidiaries maintained RBC levels in excess of amounts that would require any corrective actions on our part.

IRIS Ratios

The NAIC Insurance Regulatory Information System or IRIS is part of a collection of analytical tools designed to provide state insurance regulators with an integrated approach to screening and analyzing the financial condition of insurance companies operating in their respective states. IRIS is intended to assist state insurance regulators in targeting resources to those insurers in greatest need of regulatory attention. IRIS consists of two phases: statistical and analytical. In the statistical phase, the NAIC database generates key financial ratio results based on financial information obtained from insurers' annual statutory statements. The analytical phase is a review of the annual statements, financial ratios and other automated solvency tools. The primary goal of the analytical phase is to identify companies that appear to require immediate regulatory attention. A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial.

91

As of December 31, 2004, James River Insurance had three IRIS ratios outside the usual range, as set forth in the following table:

Ratio	Usual Range	Actual Results	Reason for Unusual Results
Change in Net Writings	–33% to 33%	182.0%	Company only wrote business for half of 2003.
Investment Yield	4.5% to 10.0%	3.0%	Low current yields for high quality investments.
Change in Policyholder Surplus	Less than 50%	51.0%	Company made significant capital contributions.

As of December 31, 2004, Stonewood Insurance had three IRIS ratios outside the usual range, as set forth in the following table:

Ratio	Usual Range	Actual Results	Reason for Unusual Results
Change in Net Writings	–33% to 33%	999.0%	No premium written in 2003.
Investment Yield	4.5% to 10.0%	2.7%	Low current market yields for high quality investments.
Liabilities to Liquid Assets	Less than 105%	150.0%	Funds held balance on intercompany reinsurance arrangement inflated ratio.

Our results for these ratios are attributable to the significant growth in premiums and surplus and low investment yields due to the current interest rate environment. We have provided our regulators with an explanation of these unusual results and do not expect any material regulatory action.

Terrorism Exclusion Regulatory Activity

The Terrorism Risk Insurance Act of 2002 (TRIA) provides insurers with free federally funded reinsurance for "acts of terrorism." TRIA also requires insurers to make coverage for "acts of terrorism" available in all commercial property/casualty insurance policies and to comply with various other provisions of TRIA. We are required by TRIA to offer terrorism coverage on all quotes. We generally offer coverage only for those acts covered under TRIA (except for workers' compensation insurance, where terrorism cannot be excluded). Through December 31, 2004, fewer than 5% of the policyholders in our Excess and Surplus Insurance segment had purchased TRIA coverage. The Federal assistance under TRIA is scheduled to expire at the end of 2005 unless Congress extends it. Legislation has been introduced to extend TRIA, but we cannot predict whether or when any such extension may be enacted and what the final terms of such legislation would be.

Mold Contamination

The property/casualty insurance industry experienced an increase in claim activity beginning in 2001 pertaining to mold contamination. Significant plaintiffs' verdicts and increased media attention to the subject have caused insurers to develop and/or refine relevant insurance policy language that excludes mold coverage. The insurance industry foresees increased state legislative activity pertaining to mold contamination. Through 2004, we have excluded coverage for mold contamination on 86% of our primary casualty insurance premiums written. The exceptions generally involve errors and omissions coverage for professionals unrelated to the building industry such as physicians, accountants and lawyers. We closely monitor regulatory and litigation trends and frequently review relevant insurance policy exclusion language.

OFAC

The Treasury Department's Office of Foreign Assets Control (OFAC) maintains various economic sanctions regulations against certain foreign countries and groups and prohibits "U.S. Persons" from

92

engaging in certain transactions with certain persons or entities in or associated with those countries or groups. One key element of these sanctions regulations is a list of "Specifically Designated Nationals and Blocked Persons" (SDN List maintained by the OFAC). The SDN List identifies persons and entities that the government believes are associated with terrorists, rogue nations and/or drug traffickers. OFAC's regulations, among other things, prohibit insurers and others from doing business with persons or entities on the SDN List. If the insurer finds and confirms a match, the insurer must take steps to block or reject the transaction, notify the affected person and file a report with OFAC. The focus on insurers' responsibilities with respect to the sanctions regulations compliance has increased significantly since September 11. We have implemented procedures to comply with OFAC's SDN List regulations.

93

MANAGEMENT

Directors and Executive Officers

Set forth below are the names, ages and positions of our directors and executive officers as of the date hereof. Certain directors were appointed pursuant to the terms of a stockholders' agreement. See "Certain Relationships and Related Transactions — Stockholders' Agreement."

Name	Age	Positions
J. Adam Abram	49	President, Chief Executive Officer and Director (3)
Michael T. Oakes	40	Executive Vice President and Chief Financial Officer

Michael E. Crow	41	Sr. Vice President – Finance; Chief Accounting Officer
Michael P. Kehoe	39	President and Chief Executive Officer – James River Management Company, Inc.
C. Kenneth Mitchell	63	President and Chief Executive Officer – Stonewood Insurance Management Company, Inc.
Richard W. Wright	70	Chairman of the Board (3)
Matthew Bronfman	46	Director (2)
Alan N. Colner	50	Director (1)
Joel L. Fleishman	71	Director (3)
Dallas W. Luby	65	Director (1)
John T. Sinnott	66	Director (2)
Michael H. Steinhardt	64	Director (2)
A. Wellford Tabor	36	Director (1)
James L. Zech	47	Director (3)
Nicolas D. Zerbib	33	Director (1)

(1) Denotes Class I director with term to expire in 2006.
(2) Denotes Class II director with term to expire in 2007.
(3) Denotes Class III director with term to expire in 2008.

While the board of directors is not currently classified, the above classifications reflect amendments to our by-laws that will be in effect prior to the completion of this offering.

J. Adam Abram has served as President, Chief Executive Officer, and director of James River since our inception. In 1992, Mr. Abram founded Front Royal, Inc., an insurance holding company for which he served as Chief Executive Officer until it was sold in 2001. Prior to founding Front Royal, Inc., Mr. Abram founded and served as President of Adaron Group, Inc., a developer of approximately two million square feet of commercial property in North Carolina. Mr. Abram received a B.A. in history from Harvard University.

Michael T. Oakes joined James River in April 2004 as Executive Vice President and Chief Financial Officer. From 1998 until joining James River, Mr. Oakes was a Managing Director in the Insurance Investment Banking Group at Keefe, Bruyette & Woods, Inc., an investment banking firm based in New York and the lead manager of this offering. Mr. Oakes received a B.S. in business administration with a concentration in accounting from the University of North Carolina at Chapel Hill and an MBA from Harvard Business School.

Michael E. Crow joined James River in May 2003 as our Chief Financial Officer and currently serves as our Senior Vice President – Finance and Chief Accounting Officer. From October 2001 to May 2003, Mr. Crow served as Vice President, Controller and Principal Accounting Officer of Triad Guaranty Inc., a publicly traded mortgage insurance company. Mr. Crow was a senior manager with Ernst & Young LLP from 1987 until joining Triad. Mr. Crow received a B.S. in business administration with a concentration in accounting from the University of North Carolina at Chapel Hill.

94

Michael P. Kehoe has served as President and Chief Executive Officer of James River Management Company, Inc. since it commenced operating in November 2002. From 1994 to 2002, Mr. Kehoe held various positions at Colony Management Services, Inc. culminating as Vice President of Brokerage Underwriting. Colony Management Services, Inc. was part of the surplus lines operations of Front Royal, Inc. from 1994 to 2001 and was a subsidiary of Argonaut Group, Inc. from 2001 through 2002. Mr. Kehoe received a B.A. in economics from Hampden Sydney College and a J.D. from the University of Richmond School of Law.

C. Kenneth Mitchell has served as President and Chief Executive Officer of Stonewood Insurance Management Company, Inc. since its inception in October 2003. Prior to joining Stonewood Insurance Management Company, Inc., Mr. Mitchell served as President and Chief Executive Officer of Builders Mutual Insurance Company, a North Carolina-based writer of workers' compensation insurance from 1998 through 2002. From 1983 through 1999, Mr. Mitchell served as Executive Vice President of the North Carolina Home Builders Association. Mr. Mitchell earned an undergraduate and masters degree in health, physical education and recreation from the University of Alabama.

Richard W. Wright has served as the Chairman of the James River board of directors since January 2003. Mr. Wright is President of The Wright Group, Inc., a consulting firm he founded in 1992. From 1993 to 1996, Mr. Wright was a consultant for Jefferson Pilot Corporation on strategic planning and operational matters related to acquisitions. From 1993 to 1995, Mr. Wright was a special consultant to the Insurance Commissioner of Kentucky regarding the Kentucky Central Life Insurance Company. Mr. Wright is also currently the Vice Chairman of the board of directors of First Capital Bank in Glen Allen, Virginia, which he founded in 1999. Mr. Wright was Chairman of the board of directors of Front Royal from its inception until its sale in 2001.

Matthew Bronfman has served as a director of James River since June 2003. Since 2000, Mr. Bronfman has served as a Managing Director of ACI Capital, a private equity firm specializing in middle market acquisitions. Mr. Bronfman serves on the board of Tweeter Home Entertainment Group and Blue Square Israel. Mr. Bronfman served as a director of Front Royal from 1995 until its sale in 2001.

Alan N. Colner has served as a director of James River since January 2003. Since 2001, Mr. Colner has been a partner with Compass Advisors, LLP, an international investment banking firm. From 1996 to 2000, Mr. Colner served as Managing Director, Private Equity Investments at Moore Capital Management, Inc., a private investment advisor. Mr. Colner served as a director of Front Royal from 1996 until its sale in 2001.

Joel L. Fleishman has served as a director of James River since January 2003. Mr. Fleishman is currently a Senior Advisor to Atlantic Philanthropies, for which he previously served as President from 1993 to 2001. Mr. Fleishman has been a professor at Duke University Law School since 1971. Mr. Fleishman also serves on the boards of directors of Boston Scientific Corporation and Polo Ralph Lauren Corporation. Mr. Fleishman served as a director of Front Royal from 1996 until its sale in 2001.

Dallas W. Luby has served as a director of James River since September 2003. Mr. Luby retired from General Reinsurance Corporation in 2000. During his 37 year career with General Reinsurance Corporation, Mr. Luby held several senior positions, including Senior Vice President-Chief Underwriting Officer; Executive Vice President-Chief Marketing Officer North America and Executive Report for Claims Department; and Chairman, Chief Executive Officer and President of Herbert Clough (now known as General Re Intermediaries Corporation).

John T. Sinnott has served as a director of James River since June 2003. Mr. Sinnott is currently Vice Chairman, Office of the CEO of Marsh & McLennan Companies, Inc., where he was a consultant from 2004 to July 2005. From 2003 to 2004, Mr. Sinnott was a Senior Advisor to Marsh & McLennan. Mr. Sinnott joined Marsh & McLennan in 1963 and, until his retirement in 2003, held various positions at Marsh, Inc. and its predecessors including Chief Executive Officer and Chairman of the Board.

Michael H. Steinhardt has served as a director of James River since January 2003. Since 1968 Mr. Steinhardt has been the Chairman and President of Steinhardt Management Co. Inc., an investment fund management company. Since 1967, Mr. Steinhardt has been a Senior Managing Partner of Steinhardt Partners, LP, an investment partnership. He serves on the board of directors of Diamond Offshore Drilling, Inc.

95

A. Wellford Tabor has served as a director of James River since June 2003. Mr. Tabor is a Partner of Wachovia Capital Partners, the merchant banking arm of Wachovia Corporation, which he joined in 2000. Prior to that time, he was a director of the Beacon Group, an investment and advisory firm. He is currently a director of Concho Oil & Gas Corp. Wachovia Capital Markets, LLC, an affiliate of Wachovia Corporation, is acting as one of the underwriters in this offering.

James L. Zech has served as a director of James River since January 2003. Since 1995, Mr. Zech has been President of High Ridge Capital, LLC, a private equity investment company. He served as a director of Front Royal, Inc. from 1996 until its sale in 2001 and is currently a director of Max Re Capital Ltd.

Nicolas D. Zerbib has been a director of James River since April 2005. Mr. Zerbib is a Member of Stone Point Capital LLC, which was formed to acquire the private equity business of MMC Capital, Inc., a firm he joined in 1998.

Executive Officers

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships between any of our executive officers or directors.

Board of Directors

Our amended and restated by-laws provide that our board of directors shall consist of no less than one but no more than 11 directors and the number of directors constituting the entire board shall be fixed from time to time by the board of directors. Any additional directorships resulting from an increase in the number of directors may only be filled by a majority of the directors then in office. Eleven directors are presently serving on our board.

Prior to the completion of this offering, we will amend our certificate of incorporation and by-laws to divide our board of directors into three classes of approximately equal number of directors, with each director serving a three-year term and one class being elected at each annual meeting of stockholders. This classification of our board of directors will make it more difficult for a third party to acquire control of our company.

Our board of directors has determined that all of our directors, except for Mr. Abram, are "independent" as defined by the rules of the Nasdaq Stock Market.

Committees of the Board of Directors

Prior to the completion of this offering, we will have four standing committees of the board of directors: audit committee; compensation committee; nominating and corporate governance committee; and investment committee.

Audit Committee. Prior to the completion of this offering, our audit committee will be comprised entirely of independent directors. The audit committee will meet in executive session with the independent auditor at least quarterly and will assist our board of directors in fulfilling its oversight responsibilities relating to:

- the integrity of our financial statements and our financial reporting process;
- internal and external auditing and the independent registered public accounting firm's

qualifications and independence;

- the performance of our internal audit function and independent registered public accounting firm;
- the integrity of our systems of internal accounting and financial controls; and
- our compliance with legal and regulatory requirements.

In so doing, it will be the responsibility of the audit committee to maintain free and open communication between the committee, the independent registered public accounting firm and our management. In this role, the audit committee will be empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of our company and the power to retain outside counsel or other experts for this purpose.

96

The audit committee has direct responsibility for the appointment, compensation, retention and oversight of our independent registered public accounting firm. In addition, the audit committee must approve in advance any related-party transaction that creates a conflict of interest situation and all audit and non-audit services.

The audit committee will consist of Messrs. Zech (Chairman), Fleishman, Luby and Zerbib. Our board of directors has determined that each of these directors is "independent" as defined by the rules of the Nasdaq Stock Market and that Mr. Zech meets the requirements for an audit committee financial expert under the applicable rules promulgated under the Securities Exchange Act of 1934. The board of directors has determined Mr. Zech is independent notwithstanding that he does not meet the safe harbor criteria under Rule 10A-3 of the Securities Exchange Act of 1934 due to his beneficial ownership of our common stock.

Compensation Committee. Prior to the completion of this offering, our compensation committee will be comprised entirely of independent directors. The compensation committee will consist of Messrs. Wright (Chairman), Tabor and Colner. The compensation committee will assist our board of directors with reviewing the performance of our management in achieving corporate goals and objectives and assuring that our executives are compensated effectively in a manner consistent with our strategy, competitive practice and the requirements of the appropriate regulatory bodies. Toward that end, the compensation committee will, among other responsibilities, make recommendations to our board of directors regarding director and executive officer compensation, incentive compensation and equity-based compensation plans, and employee benefit plans.

Nominating and Corporate Governance Committee. Prior to the completion of this offering, we will establish a nominating and corporate governance committee comprised entirely of independent directors. The nominating and corporate governance committee will consist of Messrs. Wright (Chairman), Bronfman, Zech and Zerbib. The nominating and corporate governance committee will assist our board of directors by:

- identifying individuals qualified to become board members;
- recommending to the board of directors the director nominees for the next annual meeting of stockholders;
- recommending to the board of directors individuals from time to time to fill vacancies on the board of directors; and
- recommending a code of conduct and, if deemed appropriate by the nominating and corporate governance committee, corporate governance guidelines, to the board of directors.

Investment Committee. The investment committee is comprised of Messrs. Steinhardt (Chairman), Abram, Colner and Sinnott. The investment committee develops our investment policy and oversees our investment managers.

Compensation Committee Interlocks and Insider Participation

Messrs. Wright (Chairman) and Colner and John Clements, a former director, served as members of our compensation committee during 2004. None of our compensation committee members and none of our executive officers has had a relationship that would constitute an interlocking relationship with executive officers or directors of another entity or insider participation in compensation decisions.

Director Compensation

Directors who are also our employees will receive no compensation for serving as directors. Non-employee directors or their designees will receive an annual retainer in the amount of $20,000, and the chairman of our board will receive an additional annual retainer in the amount of $20,000. Non-employee directors or their designees will also receive $1,500 for each board meeting and $500 for each committee meeting attended in person or by telephone, except for audit committee meetings, for which they will receive $1,000. We also expect to reimburse all directors (including employee directors)

97

---

for reasonable out-of-pocket expenses they incur in connection with their service as directors. Our directors or their designees will be eligible to receive under the 2005 Incentive Plan when and if determined by the compensation committee, and have previously received under the 2003 Incentive Plan, non-qualified stock options and other equity-based awards.

In January 2003, we entered into a consulting agreement with Mr. Wright, the Chairman of our board. Pursuant to the consulting agreement, Mr. Wright currently receives an annual fee of $60,000 in exchange for services in his capacity as Chairman of the board and other services. The agreement may be terminated by either party upon 90 days written notice, and will terminate immediately prior to completion of this offering.

Executive Compensation

The following table sets forth certain information concerning the total compensation received for services rendered to us during 2004 by our Chief Executive Officer and our four other highest paid executive officers, all of whom we refer to in this prospectus as our "named executive officers."

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Position	Year	Salary	Bonus	Other Annual Compensation	Securities Underlying Options	All Other Compensation
J. Adam Abram President and Chief Executive Officer	2004	$ 475,000	$ 400,000	$ —	120,240	$ 17,544(2)
Michael T. Oakes Executive Vice President and Chief	2004	$ 193,910(1)	$ 225,000	$ —	88,500	$ 26,698(3)

Financial Officer						
Michael E. Crow Senior Vice President – Finance; Chief Accounting Officer	2004	$ 178,032	$ 100,000	$ —	—	$ 16,771(4)
Michael P. Kehoe President and Chief Executive Officer, James River Management Company, Inc.	2004	$ 204,000	$ 250,000	$ —	—	$ 16,964(5)
C. Kenneth Mitchell President and Chief Executive Officer, Stonewood Insurance Management Company, Inc.	2004	$ 346,800	$ 30,000	$ —	80,000	$ 12,671(6)

(1) Mr. Oakes joined us in April 2004.

(2) Consists of a $12,300 matching contribution under our 401(k) plan, a $4,100 profit sharing contribution under our 401(k) plan and $1,144 of taxable interest relating to a loan from James River. The loan has been repaid.

(3) Consists of a $3,878 profit sharing contribution under our 401(k) plan and $22,820 of relocation expenses.

(4) Consists of a $12,300 matching contribution under our 401(k) plan, a $4,100 profit sharing contribution under our 401(k) plan and $371 of taxable interest relating to a loan from James River. The loan has been repaid.

(5) Consists of a $12,300 matching contribution under our 401(k) plan, a $4,100 profit sharing contribution under our 401(k) plan and $564 of taxable interest relating to a loan from James River. The loan has been repaid.

(6) Consists of a $12,300 matching contribution under our 401(k) plan and $371 of taxable interest relating to a loan from James River. The loan has been repaid.

Option Grants in Last Fiscal Year

The following table sets forth information regarding stock options granted in 2004 to each of our named executive officers.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees	Per Share Exercise Price	Expiration Date	5%	10%

		in 2004					
J. Adam Abram	113,130	29%	$	10.00	3/24/14	$ 1,809,608	$ 3,279,851
	7,110	2%	$	12.50	12/16/14	$ 102,384	$ 207,530
Michael T. Oakes	88,500	23%	$	10.00	4/18/14	$ 1,426,745	$ 2,598,032
Michael E. Crow	—	—		—	—	—	—
Michael P. Kehoe	—	—		—	—	—	—
C. Kenneth Mitchell	80,000	20%	$	10.00	3/24/14	$ 1,279,666	$ 2,319,350

All options granted to these executive officers in 2004 were granted under the 2003 Incentive Plan. The percentage of total options is based on an aggregate of 391,820 options granted to employees during 2004. Options vest at the rate of approximately 25% per year and have terms of 10 years from the date of grant, but may terminate before their expiration dates if the optionee's status as an employee is terminated or upon the optionee's death or disability. The exercise price was equal to 100% of the fair market value at the date of grant.

The potential realizable value is calculated assuming the fair market value of the common stock appreciates at the indicated rate for the entire term of the option and that the option is exercised and sold on the last day of its term at the appreciated price. These gains are based on assumed rates of appreciation compounded annually from the dates the respective options were granted to their expiration date based on an assumed initial public offering price of $17.00 (the mid point of the range set forth on the cover page of this prospectus). Annual rates of stock price appreciation of 5% and 10% from the initial offering price is assumed pursuant to rules of the Securities and Exchange Commission. There is no guarantee the actual stock price will appreciate over the term of the options at the assumed 5% and 10% levels or at all. Actual gains, if any, on exercised stock options will depend on the future performance of our common stock.

Aggregate Options Exercised in the Last Fiscal Year and Year-End Values

There were no options exercised by the named executive officers in 2004. The following table sets forth the number and value of unexercised options held by each of the named executive officers on December 31, 2004. The value of "in-the-money" stock options represents the positive spread between the exercise price of stock options and the fair market value of the options, based upon an assumed public offering price of $17.00 per share (the mid-point of the range set forth on the cover page of this prospectus) minus the exercise price per share.

	Number of Shares Underlying Unexercised Options at Year End		Value of Unexercised In-The-Money Options at Year End	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
J. Adam Abram	101,510	424,790	$ 710,570	$ 2,955,755
Michael T. Oakes	—	88,500	$ —	$ 619,500
Michael E. Crow	20,300	60,910	$ 142,100	$ 426,370
Michael P. Kehoe	60,900	182,730	$ 426,300	$ 1,279,110
C. Kenneth Mitchell	—	80,000	$ —	$ 560,000

401(k) Plans

James River Management Company, Inc. and Stonewood Insurance Management Company, Inc. have each established a 401(k) plan intended to qualify under Section 401 of the Internal Revenue Code.

99

Generally, upon commencement of employment, all employees of James River Management, Stonewood Insurance Management and James River are eligible to participate. Eligible employees electing to participate may contribute up to the maximum statutorily prescribed annual limit. Such contributions are allocated to investment options at the election of the participant. Each participant is fully vested in all participant contributions and investment earnings from those contributions. We make a matching contribution of up to 6% of each participant's annual subject compensation and may make an additional discretionary contribution in an amount determined by us subject to statutory limits. Contributions by the participants or us, and the income earned on these contributions, are generally not taxable to the participants until withdrawn. Contributions by us are generally deductible by us when made. Contributions and investment earnings are held in trust as required by law.

2003 Incentive Plan

In 2003, our board of directors adopted the James River Group, Inc. 2003 Incentive Plan. The purpose of this plan is to assist us in attracting and retaining selected individuals to serve as directors, officers, consultants, advisors and employees and to achieve long-term objectives which will inure to the benefit of all of our stockholders through the additional incentive inherent in the ownership of our stock. Upon effectiveness of the 2005 Incentive Plan, described below, the Company does not intend to make future grants pursuant to the 2003 Incentive Plan. The following is a summary of the material terms of the plan, but does not include all of the provisions of the plan. For further information about the plan, we refer you to the 2003 Incentive Plan, which we have filed as an exhibit to the registration statement of which this prospectus is a part.

Types of Awards and Eligibility. The plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, non-qualified stock options, share appreciation rights, reload stock options, share purchase awards and restricted share awards to our employees, directors (or designees of directors so long as such designating director is serving as director as a representative of such designee), consultants, advisors, executive officers or other key employees selected to participate in the plan.

Administration. Presently, our board of directors has, and upon its establishment, the compensation committee will have, broad authority to administer the plan, including the authority to determine when and to whom awards will be made, to determine the type and size of awards, to determine the terms and conditions of awards, to construe and interpret the plan and award agreements, to establish rates and resolutions for the plan's administration and to amend outstanding awards.

Share Reserve/Limitation. The number of shares of common stock with respect to which awards may be granted under the plan and which may be issued upon exercise thereof may not exceed the lesser of 3,754,380 shares of common stock or 17.5% of the outstanding shares of common stock (on an as converted basis excluding dividends on preferred stock). As of December 31, 2004, we have granted awards to purchase 1,709,270 shares of common stock under the plan.

Terms of Awards. The exercise price of a stock option granted under the plan may not be less than 100% of the fair market value (as defined in the 2003 Incentive Plan) of our common stock on the date the award is granted, except that a non-qualified stock option (other than a reloaded option) may be granted at the exercise price determined by our compensation committee. Our compensation committee determines, in connection with each award grant under the plan, when awards become exercisable and when they expire, provided that the expiration date may not exceed ten years from the date of the grant. Unless our compensation committee determines otherwise, in the event of an optionee's termination of employment or separation from service for any reason (other than death or disability), any option held by such optionee, to the extent vested on the date of such termination or separation and not previously expired or exercised, shall remain exercisable until the earlier of three months from the date of such termination or separation and the expiration date of such option. In the event of an optionee's death, any option held by such optionee, to the extent vested on the date of death and not previously expired or exercised, shall remain exercisable by such optionee's estate or by any person who acquired the option by bequest or inheritance until the earlier of one year following the death of the optionee and the expiration date of such option. In the event of an optionee's termination of employment or separation from service

100

---

by reason of total disability (as defined in the 2003 Incentive Plan), any option which was vested on the first date of the optionee's total disability and not previously expired or exercised will remain exercisable until the earlier of one year from the date of termination or separation and the expiration date of such option.

Adjustments. In the event of any dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of our shares or other securities, the issuance of warrants or other rights to purchase our shares or other securities, or other similar corporate transaction or event that affects the shares under the plan, an adjustment may be made by our compensation committee to:

- the number and type of shares available for grants under the plan;
- the number and type of shares subject to outstanding awards granted under the plan; and
- the grant or exercise price with respect to any outstanding awards under the plan, or, if deemed appropriate, make provision for a cash payment to the holder of any outstanding option, to prevent dilution or enlargement of rights.

In the event of any reorganization, merger, consolidation, split-up, spin-off or other business combination, our compensation committee may cause any award outstanding as of the effective date of such event to be canceled in consideration of a cash payment or an alternate award, or a combination thereof, made to the holder of such canceled award substantially equivalent to the fair market value (as determined by our compensation committee) of the canceled award.

2005 Incentive Plan

In April 2005, our board of directors adopted, and in May 2005 our stockholders approved, the James River Group, Inc. 2005 Incentive Plan, which will be effective upon the consummation of this offering and will terminate ten years later unless sooner terminated. The purpose of this plan is to provide a means whereby employees, directors and third party service providers develop a sense of proprietorship and personal involvement in our development and financial success, and to encourage them to devote their best efforts to our business, thereby advancing our and our stockholders' interests. The following is a summary of the material terms of the plan, but does not include all of the provisions of the plan. For further information about the plan, we refer you to the 2005 Incentive Plan, which we have filed as an exhibit to the registration statement of which this prospectus is a part.

Types of Awards and Eligibility. The plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, nonqualified stock options, share appreciation rights, share purchase awards, restricted shares, restricted share units, performance units, other share-based awards and cash-based awards. Key employees, directors and third party service providers who are selected by the designated committee are eligible to participate in the plan. Third party service providers include any consultant, agent, advisor, or independent contractor who renders services to us, or to any of our subsidiaries or affiliates, that are not in connection with the offer and sale of our securities in a capital raising transaction and do not directly or indirectly promote or maintain a market for our securities.

Administration. The committee designated by our board of directors to administer the plan shall have broad authority to administer the plan, including the full and exclusive discretionary power to interpret the terms and the intent of the plan and any award thereunder or other agreement or document ancillary to or in connection with the plan, to determine eligibility for awards and to adopt such rules, regulations, forms, instruments, and guidelines for administering the plan as it may deem necessary or proper. In addition, the designated committee may delegate to one or more of its members, to one or more of our officers or to one or more agents or advisors such administrative duties or powers as it may deem advisable, and the designated committee or any individual to whom it has delegated duties or powers as aforesaid may employ one or more individuals to render advice with respect to any responsibility the designated committee or such individual may have under the plan.

Share Reserve/Limitation. The maximum number of shares of common stock available for issuance to participants under the plan equals the lesser of ten percent of the total number of outstanding shares

101

on the effective date of the plan or 2,500,000 shares. The total number of outstanding shares on the effective date of the plan will be determined on a fully diluted basis, assuming that all then outstanding options and warrants have been exercised and all securities convertible into shares of common stock have been converted, and including all shares available for issuance under the plan, but excluding all then unexercised compensatory options granted to employees or directors prior to the closing of this offering under the 2003 Incentive Plan and otherwise. We intend to grant awards to purchase up to 507,744 shares of common stock under the plan to employees, including our named executive officers, concurrently with the closing of this offering.

The plan also imposes annual per-participant award limits. The maximum number of shares for which options may be granted to any person in any calendar year is 750,000. The maximum number of shares subject to share appreciation rights granted to any person in any calendar year is 750,000. The maximum aggregate grant to any person in any calendar year of restricted shares or restricted share units is 750,000 shares. The maximum aggregate grant to any person in any calendar year of performance units or performance shares is 750,000 shares or the value of 750,000 shares determined as of the earlier of the date of vesting or payout. The maximum aggregate grant to any person in any calendar year of cash-based awards may not exceed $3.0 million. The maximum aggregate grant to any person in any calendar year of other share-based awards is 750,000 shares.

Options. The designated committee may grant both incentive stock options and nonqualified stock options under the plan. Eligibility for incentive stock options is limited to our employees and employees of our subsidiaries. The exercise price for options cannot be less than the fair market value of the shares on the date of grant (110% of the fair market value of the shares on the date of grant with respect to incentive stock options granted to a 10% stockholder). The latest expiration date cannot be later than the tenth anniversary of the date of grant (for an incentive stock option, the fifth anniversary of the date of grant if the recipient is a 10% stockholder). Fair market value under the plan may be determined by reference to market prices on a particular trading day or on an average of trading days, as determined by the designated committee. The exercise price may be paid with cash or its equivalent, with previously acquired shares (in certain circumstances, that have been held at least six months), or by other means approved by the designated committee, including by means of a broker-assisted cashless exercise.

Share Appreciation Rights. The designated committee may grant share appreciation rights under the plan either alone or in tandem with options. The grant price of a share appreciation right cannot be less than the fair market value of the shares at the date of grant. Share appreciation rights can also be granted with a grant price that is greater than the fair market value of the shares on the date of grant. The grant price of a share appreciation right granted in tandem with an option will be the same as the exercise price of the option. Share appreciation rights cannot be exercised later than the tenth anniversary of the date of grant. Share appreciation rights granted in tandem with incentive stock options are subject to special restrictions. Freestanding share appreciation rights may be exercised on such terms as the designated committee determines and tandem share appreciation rights may be exercised by relinquishing the related portion of the tandem option. Upon exercise of a share appreciation right, the holder will receive shares as determined by the designated committee, equal in value to the difference between the fair market value of the shares subject to the share appreciation rights, determined as described above, and the grant price.

Restricted Shares and Restricted Share Units. The designated committee may award restricted shares or restricted share units. Restricted share awards consist of shares that are transferred to the participant subject to restrictions that may result in forfeiture if specified conditions are not satisfied. Restricted share unit awards result in the transfer of shares to the participant only after specified conditions are satisfied. A holder of restricted shares is generally treated as a current stockholder (subject to the restrictions), whereas the holder of a restricted share unit award is treated as a stockholder with respect to the award only when the shares of our common stock are delivered in the future. The designated committee will determine the restrictions and conditions applicable to each award of restricted shares or restricted share units.

Performance Unit and Performance Share Awards. Performance unit awards will have an initial value that is determined by the designated committee. Performance shares will have an initial value that

---

is equal to the fair market value of the shares on the date of grant. Such awards will be earned only if performance goals over performance periods established by or under the direction of the designated committee are met. The performance goals may vary from participant to participant, group to group and period to period. The performance goals for performance unit and performance share awards that are intended to constitute qualified performance-based compensation will be based upon one or more of the following: (i) net earnings or net income (before or after taxes); (ii) earnings per share; (iii) net sales growth; (iv) net operating profit; (v) return measures (including, but not limited to, return on assets, capital, invested capital, equity, or sales); (vi) cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on equity); (vii) earnings before or after taxes, interest, depreciation, and/or amortization; (viii) gross or operating margins; (ix) productivity ratios; and (x) share price (including, but limited to, growth measures and total stockholder return).

The designated committee will determine whether the performance targets or goals that have been chosen for a particular performance award have been met and may provide in an award that any evaluation of performance may include or exclude any of the following that are objectively determinable and that occur during the performance period to which the award is subject: asset write-downs; litigation; claims, judgments, or settlements; the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reporting results; any reorganization and restructuring programs; extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in our annual report to stockholders for the applicable year; acquisitions or divestitures; and foreign exchange gains and losses.

Awards that are designed to qualify as performance-based compensation may not be adjusted upward. However, the designated committee has the discretion to adjust these awards downward. In addition, the designated committee has the discretion to make awards that do not qualify as performance-based compensation. Awards may be paid in the form of cash, shares, or in any combination, as determined by the designated committee.

Cash-Based Awards. The designated committee may grant cash-based awards under the plan that specify the amount of cash to which the award pertains, the conditions under which the award will be vested and exercisable or payable, and such other conditions as the designated committee may determine that are not inconsistent with the terms of the plan. Although based on a specified dollar amount, cash-based awards may be paid, in the designated committee's discretion, either in cash or by the delivery of shares.

Other Share-Based Awards. The designated committee may grant equity-based or equity-related awards, referred to as other share-based awards, other than options, share appreciation rights, restricted shares, restricted share units, or performance shares. The terms and conditions of each other share-based award shall be determined by the designated committee. Payment under any other share-based awards will be made in shares or cash, as determined by the designated committee.

Dividend Equivalents. The designated committee may provide for the payment of dividend equivalents with respect to any shares subject to an award that have not actually been issued under the award.

Termination of Employment. The designated committee will determine how each award will be treated following termination of the holder's employment with, or service for, the company, including the extent to which unvested portions of the award will be forfeited and the extent to which options, share appreciation rights, or other awards requiring exercise will remain exercisable.

Additional Provisions. Neither incentive stock options nor, except as the designated committee otherwise expressly determines, other awards may be transferred other than by will or by the laws of descent and distribution. During a recipient's lifetime, an incentive stock option and, except as the designated committee may determine, other non-transferable awards requiring exercise, may be exercised only by the recipient.

Treatment of Awards Upon a Change of Control and Related Transactions. One or more awards may be subject to the terms and conditions set forth in a written agreement between us and a participant

103

---

providing for different terms or provisions with respect to such awards upon a "change of control" (as that term may be defined therein), provided, that such written agreement may not increase the maximum amount of such awards.

Amendment of Awards or the Plan. The designated committee may at any time alter, amend, modify, suspend, or terminate the plan or any outstanding award in whole or in part, except that no amendment of the plan will be made without stockholder approval if stockholder approval is required by applicable law or Nasdaq rules. No amendment to an award previously granted may adversely affect the rights of any participant to whom such award was granted without such participant's consent, unless specifically provided for in the plan.

Adjustments. In the event of any corporate event or transaction such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of our stock or property, combination of shares, exchange of shares, dividend in kind, or other like change in our capital structure or distribution (other than normal cash dividends) to our stockholders, or any similar corporate event or transaction, the designated committee may, in order to prevent dilution or enlargement of participants' rights under the plan, substitute or adjust the number and kind of shares that may be issued under the plan or under particular forms of awards, the number and kind of shares subject to outstanding awards, the option price or grant price applicable to outstanding awards, the annual award limits, and other value determinations applicable to outstanding awards. The designated committee may also make appropriate adjustments in the terms of any awards under the plan to reflect or related to such changes or distributions and to modify any other terms of outstanding awards, including modifications of performance goals and changes in the length of performance periods. Subject to certain limitations set forth in the plan and applicable rules of the Internal Revenue Code, without affecting the number of shares reserved or available thereunder, the designated committee may authorize the issuance or assumption of benefits under the plan in connection with any merger, consolidation, spin-off, split-off, split-up, acquisition of our property or stock, or reorganization upon such terms and conditions as it may deem appropriate, or the designated committee or the board of directors may cause any award outstanding as of the effective date of the applicable event to be cancelled in consideration of a cash payment or alternate award made to the holder of such cancelled award equal in value to the fair market value of such cancelled award (other than the repricing, replacing or regranting of options or share appreciation rights through cancellation or the lowering of the option price or grant price or in violation of the Internal Revenue Code).

Plan Benefits.   Because benefits under the plan will primarily depend on the designated committee's actions and the fair market value of our common stock at various future dates, it is not possible to determine the benefits that will be received by directors, executive officers, other employees and third party service providers.

Corporate Governance

Upon completion of this offering, we believe that we will comply with all Nasdaq National Market corporate governance and listing requirements without relying on any transition periods available to companies listing in conjunction with their initial public offerings.

Employment Agreements

We have employment agreements with the following named executive officers: J. Adam Abram, Michael T. Oakes, Michael P. Kehoe and C. Kenneth Mitchell.

J. Adam Abram

In November 2002, we entered into an employment agreement with J. Adam Abram, our President and Chief Executive Officer, and amended the agreement on September 4, 2003. The agreement has an initial term of three years and automatically renews for three year terms thereafter unless written notice not to extend the term is provided by us or Mr. Abram at least 180 days prior to the end of the term. Mr. Abram's current annual base salary is $475,000, and he is eligible to receive discretionary bonuses as

---

our board may determine. Within 180 days after the close of each of our fiscal years, the board shall review Mr. Abram's performance during such fiscal year and decide whether to raise Mr. Abram's base salary and award any discretionary bonus. Mr. Abram may also participate in benefit plans generally available to our executive employees.

Upon the assent of 75% of the members of our board (excluding Mr. Abram), we may terminate the agreement for cause (as defined in the agreement) and for performance if our operating results fail to meet certain operating targets. Mr. Abram is not permitted to participate in board votes relating to his employment. We may also terminate the agreement without cause upon disability and may permit the agreement to expire at the end of a term. Mr. Abram may terminate the agreement for good reason (as defined in the agreement), resign or permit the agreement to expire at the end of a term.

If we terminate the agreement without cause or permit the term to expire (in either case other than for business performance), or if Mr. Abram terminates the agreement for good reason, Mr. Abram is entitled to his base salary for 36 months, continuation of benefits for 12 months and any discretionary bonus owed on his last day of employment. If we terminate the agreement for performance, Mr. Abram is entitled to his base salary for 18 months, continuation of benefits for 12 months and any discretionary bonus owed on his last day of employment. If we terminate the agreement for cause or disability, or if Mr. Abram resigns without good reason or permits the term to expire, we have no further obligations to Mr. Abram, except as provided in any stock option or bonus or incentive plan.

In addition, in certain circumstances, we are obligated to grant options to purchase our common stock to Mr. Abram equal to 5% of the total number of shares of common stock or securities convertible into common stock offered by us in equity financing transactions, including this offering, until invested equity capital equals or exceeds $250 million. Invested equity capital will be approximately $155.4 million upon completion of this offering (based on an assumed initial public offering price of $17.00 per share, the mid-point of the range set forth on the cover page of this prospectus). Mr. Abram's employment agreement will be amended upon this offering to provide that the options issuable thereunder subsequent to the completion of the offering be subject to the condition that James River's return on equity exceeds 10%, as measured from the closing of this offering to the end of the fiscal quarter immediately preceding the equity transaction that gave rise to the option issuance. The agreement also subjects Mr. Abram to confidentiality, non-competition and non-solicitation covenants.

Michael T. Oakes

In April 2005, we entered into an employment agreement with Michael T. Oakes, our Executive Vice President and Chief Financial Officer. The agreement has an initial term of three years and automatically renews for three year terms thereafter unless written notice not to extend the term is provided by us or Mr. Oakes at least 180 days prior to the end of the term. Mr. Oakes' annual base salary is $283,000, and he is eligible to receive discretionary bonuses as our board may determine. Within 180 days after the close of each of our fiscal years, the board shall review Mr. Oakes' performance during such fiscal year and decide whether to raise Mr. Oakes' base salary and award any discretionary bonus. Mr. Oakes may also participate in benefit plans generally available to our executive employees.

We may terminate the agreement for cause (as defined in the agreement), without cause (which may be for business performance or for any other reason), upon disability and may permit the agreement to expire at the end of a term. Mr. Oakes may terminate the agreement for good reason (as defined in the agreement), resign or permit the agreement to expire at end of a term.

If we terminate the agreement without cause or permit the term to expire (in either case other than for business performance), or Mr. Oakes terminates the agreement for good reason, Mr. Oakes is entitled to his base salary for 36 months, continuation of benefits for 12 months and any discretionary bonus owed on his last day of employment. If we terminate the agreement for performance, Mr. Oakes is entitled to his base salary for 18 months, continuation of benefits for 12 months and any discretionary bonus owed on his last day of employment. If we terminate the agreement for cause or disability, or Mr. Oakes resigns without good reason or permits the term to expire, we have no further obligations to Mr. Oakes, except as provided in any stock option or bonus or incentive plan. The agreement also subjects Mr. Oakes to confidentiality, non-competition and non-solicitation covenants.

Michael P. Kehoe

In November 2002, James River Management Company entered into an employment agreement with Michael P. Kehoe, its President and Chief Executive Officer. The agreement has an initial term of three years and automatically renews for three year terms thereafter unless written notice not to extend the term is provided by James River Management or Mr. Kehoe at least 180 days prior to the end of the term. Mr. Kehoe's annual base salary was initially $200,000, and he is eligible to receive discretionary bonuses as James River Management's board may determine. Within 180 days after the close of each of James River Management's fiscal years, the board reviews Mr. Kehoe's performance during such fiscal year and decide whether to raise Mr. Kehoe's base salary and award any discretionary bonus. Mr. Kehoe may also participate in benefit plans generally available to James River Management's executive employees.

James River Management may terminate the agreement for cause (as defined in the agreement), without cause, for performance if James River Management's operating results fail to meet certain budgetary targets, upon disability and may permit the agreement to expire at the end of a term. Mr. Kehoe may terminate the agreement for good reason (as defined in the agreement), resign or permit the agreement to expire at end of a term.

If James River Management terminates the agreement without cause or permits the term to expire, or Mr. Kehoe terminates the agreement for good reason, Mr. Kehoe is entitled to his base salary for 18 months, continuation of benefits for 18 months, and any discretionary bonus owed on his last day of employment. If James River Management terminates the agreement for performance, Mr. Kehoe is entitled to his base salary for 12 months, continuation of benefits for 12 months, and any discretionary bonus owed on his last day of employment. If James River Management terminates the agreement for cause or disability, or Mr. Kehoe resigns without good reason or permits the term to expire, James River Management has no further obligations to Mr. Kehoe, except as provided in any stock option or bonus or incentive plan. The agreement also subjects Mr. Kehoe to confidentiality, non-competition and non-solicitation covenants.

C. Kenneth Mitchell

In October 2003, Stonewood Insurance Management Company entered into an employment agreement with C. Kenneth Mitchell, its President and Chief Executive Officer. The agreement has an initial term of three years and automatically renews for three year terms thereafter unless written notice not to extend the term is provided by Stonewood Insurance Management or Mr. Mitchell at least 180 days prior to the end of the term. Mr. Mitchell's annual base salary was initially $340,000, and he is eligible to receive discretionary bonuses as Stonewood Insurance Management's board may determine. Within 180 days after the close of each of Stonewood Insurance Management's fiscal years, the board reviews Mr. Mitchell's performance during such fiscal year and decide whether to raise Mr. Mitchell's base salary and award any discretionary bonus. Mr. Mitchell may also participate in benefit plans generally available to Stonewood Insurance Management's executive employees.

Stonewood Insurance Management may terminate the agreement for cause (as defined in the agreement), without cause, for performance if Stonewood Insurance Management's operating results fail to meet certain budgetary targets, upon disability and may permit the agreement to expire at the end of a term. Mr. Mitchell may terminate the agreement for good reason (as defined in the agreement), resign or permit the agreement to expire at end of a term.

If Stonewood Insurance Management terminates the agreement without cause or permits the term to expire, or Mr. Mitchell terminates the agreement for good reason, Mr. Mitchell is entitled to his base salary for 18 months, continuation of benefits for 18 months, and any discretionary bonus owed on his last day of employment. If

Stonewood Insurance Management terminates the agreement for performance, Mr. Mitchell is entitled to his base salary for 12 months, continuation of benefits for 12 months, and any discretionary bonus owed on his last day of employment. If Stonewood Insurance Management terminates the agreement upon disability, Mr. Mitchell is entitled to his base salary for 12 months and continuation of benefits for 12 months. If Stonewood Insurance Management terminates the agreement for cause or Mr. Mitchell resigns without good reason or permits the term to expire, Stonewood Insurance Management has no further obligations to Mr. Mitchell, except as provided in any stock option or bonus or incentive plan. The agreement also subjects Mr. Mitchell to confidentiality, non-competition and non-solicitation covenants.

106

Management and Principal Stockholder Participation in this Offering

At our request, the underwriters have reserved up to 222,200 shares of our common stock for sale in this offering, at the initial offering price, to our directors, officers, employees, agents, brokers, service providers and related persons pursuant to a directed share program. J. Adam Abram, our President and Chief Executive Officer, and Michael T. Oakes, our Executive Vice President and Chief Financial Officer, have advised us that they expect to purchase up to $750,000 and $1,000,000, respectively, of our common stock pursuant to the program for investment purposes. Trident II, L.P., a principal stockholder, and Bronfman Associates III, an affiliate of both a principal stockholder and one of our directors, and related parties have also advised us that they expect to seek to purchase up to $2,000,000 and $1,000,000, respectively, of our common stock in this offering for investment purposes. Shares purchased by Messrs. Abram and Oakes and Trident II, L.P. and Bronfman Associates III and related parties would be subject to lock-up agreements as described under "Shares Eligible for Future Sale — Resale of Restricted Shares and Lock-Up Agreements." Our other named executive officers may also participate in this offering.

107

PRINCIPAL STOCKHOLDERS

The table below sets forth certain information regarding ownership of our common stock beneficially owned as of May 31, 2005 and as adjusted to reflect the sale of the shares offered by this prospectus, by:

- each beneficial owner of more than 5% of our outstanding common stock;
- each of our directors and named executive officers; and
- all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power over securities. Shares of common stock subject to options and warrants currently exercisable or exercisable within 60 days of May 31, 2005, are deemed outstanding and beneficially owned by the person holding such options for purposes of computing the number of shares and percentage beneficially owned by such person, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. The table below is adjusted to reflect a 10 for 1 split of our common stock which we intend to effect prior to the completion of this offering and the conversion of all shares of our

Series A and Series B convertible preferred stock into an aggregate of 9,849,025 shares of our common stock immediately prior to the effectiveness of this offering, including shares representing accrued but unpaid dividends on our convertible preferred stock as of May 31, 2005. There are 10 issued and outstanding shares of our common stock (on a post split basis). The table is therefore based on 9,849,035 shares of common stock outstanding before this offering and 14,293,035 shares of common stock outstanding immediately after this offering, based on the number of shares outstanding as of May 31, 2005.

Except as indicated in the footnotes to this table, and subject to applicable community property laws, the persons or entities named have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them. Unless otherwise stated, the business address for each person below is 1414 Raleigh Road, Suite 415, Chapel Hill, North Carolina 27517.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned Prior to Offering	Percentage of Shares Outstanding Prior to Offering	Number of Shares Beneficially Owned After Offering	Percentage of Shares Outstanding After Offering
Trident II, L.P. and related parties (1) Ugland House, Box 309 South Church Street George Town, Grand Cayman Cayman Islands	2,843,266	28.9%	2,843,266	19.9%
HRWCP 1, L.P. and related parties (2) c/o High Ridge Capital, LLC 672 Oenoke Ridge Road New Canaan, CT 06840	2,270,545	23.0%	2,270,545	15.9%
JRG Seven, LLC and related parties (3) c/o ACI Capital Co., Inc. 666 Third Avenue, 29th Floor New York, NY 10017	1,721,196	17.5%	1,721,196	12.0%
J. Adam Abram (4)	802,365	7.9%	802,365	5.5%
Matthew Bronfman (3)	1,721,196	17.5%	1,721,196	12.0%
Alan N. Colner (5)	84,693	*	84,693	*
Michael E. Crow (6)	51,764	*	51,764	*
Joel L. Fleishman (7)	21,233	*	21,233	*
Michael P. Kehoe (8)	185,895	1.9%	185,895	1.3%

108

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned Prior to	Percentage of Shares Outstanding Prior to Offering	Number of Shares Beneficially Owned After	Percentage of Shares Outstanding After Offering

	Offering		Offering	
Dallas W. Luby (9)	14,181	*	14,181	*
C. Kenneth Mitchell (10)	68,147	*	68,147	*
Michael Oakes (11)	112,569	1.1%	112,569	*
John T. Sinnott (12)	14,181	*	14,181	*
Michael Steinhardt (13)	219,375	2.2%	219,375	1.5%
A. Wellford Tabor	—	—	—	—
Richard W. Wright (14)	58,626	*	58,626	*
James L. Zech (2)	2,270,545	23.0%	2,270,545	15.9%
Nicolas D. Zerbib (15)	—	—	—	—
Directors and executive officers as a group (15 persons)	5,624,770	53.9%	5,624,770	37.8%

*Less than one percent.

(1) Includes (i) 2,733,232 shares of our common stock issuable upon conversion of preferred stock held by Trident II, L.P. (Trident II); (ii) 32,438 shares of our common stock issuable upon conversion of preferred stock held by Marsh & McLennan Capital Professionals Fund, L.P. (Trident PF); (iii) 74,566 shares of our common stock issuable upon conversion of preferred stock held by Marsh & McLennan Employees' Securities Company, L.P. (Trident ESC and, together with Trident II and Trident PF, the Trident II Funds); and (iv) options to purchase 3,030 shares of common stock held by Stone Point Capital LLC (Stone Point). The sole general partner of Trident II is Trident Capital II, L.P. (Trident II GP) and the general partners of Trident II GP are four single member limited liability companies, each of which is owned by a member of Stone Point (Charles Davis, Meryl Hartzband, James Carey and David Wermuth). Each of these single member limited liability companies disclaims beneficial ownership of securities that are, or may be deemed to be, beneficially owned by Trident II or Trident II GP. The sole general partner of Trident PF is Stone Point GP Ltd., a company controlled by the members of Stone Point. Although Trident ESC is not managed or controlled by Stone Point or any of its members, Trident ESC has entered into an agreement with Trident II and Trident PF, pursuant to which Trident ESC has agreed to dispose of its investment in our company in coordination with Trident II and Trident PF. Trident II disclaims beneficial ownership of securities that are, or may be deemed to be, beneficially owned by Trident ESC and Trident PF. The manager of Trident II and Trident PF is Stone Point, and the members of Stone Point are Charles Davis, Meryl Hartzband, James Carey, David Wermuth and Nicolas Zerbib. Each of Stone Point, Charles Davis, Meryl Hartzband, James Carey, David Wermuth and Nicolas Zerbib disclaims beneficial ownership of any securities that are, or may be deemed to be, beneficially owned by Trident II, Trident ESC and Trident PF. Does not include shares of our common stock that Trident II may purchase in this offering.

(2) Includes 273,712 shares of our common stock issuable upon conversion of our preferred stock held by High Ridge Capital Partners II, L.P. and 1,863,184 shares of our common stock issuable upon conversion of our preferred stock held by HRWCP 1, L.P. Also includes 128,589 shares of our common stock issuable upon conversion of our preferred stock and options to purchase 5,060 shares of common stock held by Mr. Zech. Mr. Zech and Steven J. Tynan are the members of the general partners of both High Ridge Capital Partners II, L.P. and HRWCP 1, L.P.

(3) Includes 14,216 shares of our common stock issuable upon conversion of our preferred stock and options to purchase 5,060 shares of common stock held by Mr. Bronfman. Also includes 86,919

109

shares of our common stock issuable upon conversion of our preferred stock held by Bronfman Associates III. Also includes 1,615,001 shares of our common stock issuable upon conversion of our preferred stock held by JRG Seven, LLC. Mr. Bronfman is the indirect majority owner of Bronfman Associates III and the manager of JRG Seven, LLC. Does not include shares of our common stock that Bronfman Associates III and related parties may purchase in this offering.

(4) Includes ten shares of common stock; 316,335 shares of our common stock issuable upon conversion of our preferred stock, warrants to purchase 87,500 shares of common stock and options to purchase 231,300 shares of common stock held by Mr. Abram. Also includes 125,658 shares of our common stock issuable upon conversion of our preferred stock held by Abram Investments, LLC. Also includes 41,562 shares of our common stock issuable upon conversion of our preferred stock held by Mr. Abram's mother, Jane M. Abram, for which Mr. Abram holds power of attorney. Does not include shares issuable upon exercise of options issuable to Mr. Abram pursuant to the preemptive right under his employment agreement. See "Management — Employment Agreements — J. Adam Abram." Also does not include shares of our common stock that Mr. Abram may purchase in this offering.

(5) Includes 79,633 shares of our common stock issuable upon conversion of our preferred stock and options to purchase 5,060 shares of common stock.

(6) Includes 7,664 shares of our common stock issuable upon conversion of our preferred stock, warrants to purchase 3,500 shares of common stock and options to purchase 40,600 shares of common stock.

(7) Includes 16,173 shares of our common stock issuable upon conversion of our preferred stock and options to purchase 5,060 shares of common stock.

(8) Includes 64,085 shares of our common stock issuable upon conversion of our preferred stock and options to purchase 121,810 shares of common stock.

(9) Includes 11,151 shares of our common stock issuable upon conversion of our preferred stock held by Mayfair I, LLC. Mr. Luby is the manager of Mayfair I, LLC. Also includes options to purchase 3,030 shares of common stock held by Mr. Luby.

(10) Includes 21,897 shares of our common stock issuable upon conversion of our preferred stock, warrants to purchase 26,250 shares of common stock and options to purchase 20,000 shares of common stock.

(11) Includes 90,449 shares of our common stock issuable upon conversion of our preferred stock and options to purchase 22,120 shares of common stock. Does not include shares of our common stock that Mr. Oakes may purchase in this offering.

(12) Includes 11,151 shares of our common stock issuable upon conversion of our preferred stock held jointly by Mr. Sinnott and his wife and options to purchase 3,030 shares of common stock held by Mr. Sinnott.

(13) Includes 214,315 shares of our common stock issuable upon conversion of our preferred stock and options to purchase 5,060 shares of common stock.

(14) Includes 53,566 shares of our common stock issuable upon conversion of our preferred stock and options to purchase 5,060 shares of common stock.

(15) Mr. Zerbib is a Member of Stone Point, the manager of the Trident II Funds. Mr. Zerbib disclaims beneficial ownership of all stock that is, or may be deemed to be, beneficially owned by these entities. See footnote 1.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have entered into certain transactions and contractual arrangements with certain of our stockholders and members of management, including those described below.

Stock Issuances

In January 2003, we sold 85,000 shares of our Series A convertible preferred stock (Series A shares) at a price of $100 per share, for an aggregate purchase price of $8.5 million. Each Series A share will be automatically converted into common stock immediately prior to the effectiveness of this offering at a rate determined by dividing (i) the sum of $100, representing the purchase price of each Series A share, plus all accrued but unpaid dividends thereon by (ii) 50. Assuming the 10 for 1 split of our common stock which we intend to effect prior to completion of this offering, upon the effectiveness of this offering, each Series A share will be automatically converted into 20 shares of common stock, plus additional shares representing accrued but unpaid dividends, subject to anti-dilution adjustments.

In June 2003, we sold 500,000 shares of our Series B convertible preferred stock (Series B shares) for $100 per share, for an aggregate purchase price of $50 million. In October 2003, we sold an additional 200,000 Series B shares for $100 per share, for an aggregate purchase price of $20 million. 8,550 of the shares issued in the October 2003 offering were sold as part of a unit consisting of one share of Series B shares and one warrant to purchase 1.75 shares of our common stock (17.5 shares of our common stock assuming the 10 for 1 split which we intend to effect prior to completion of this offering). For a description of the warrants, see "Description of Capital Stock." In May 2004, we sold 13,500 Series B shares for $100 per share, for an aggregate purchase price of $1.35 million. We made loans to certain of our employees and directors to purchase Series B shares. See "— Employee and Director Purchase Money Loans." Each Series B share will be automatically converted into common stock immediately prior to the effectiveness of this offering at a rate determined by dividing (i) the sum of $100, representing the purchase price of each Series B share, plus all accrued but unpaid dividends thereon by (ii) 100. Assuming the 10 for 1 split of our common stock which we intend to effect prior to completion of this offering, upon effectiveness of this offering, each Series B share will be automatically converted into ten shares of common stock, plus additional shares representing accrued but unpaid dividends, subject to anti-dilution adjustments.

The specific directors, officers and beneficial owners of more than 5% of our common stock who made purchases of our Series A shares and Series B shares are shown below.

Stockholders, Directors and Executive Officers	Series A Shares	Series B Shares	Warrants	Common Stock (as converted)
Trident II L.P. and related parties (1)	17,000	221,000	—	2,840,236
HRWCP 1, L.P. and related parties (2)	8,900	193,758	—	2,265,485
JRG Seven, LLC and related parties (3)	3,000	148,376	—	1,716,137
J. Adam Abram (4)	11,480	20,000	5,000	571,056
Matthew Bronfman (3)	3,000	148,376	—	1,716,137
Alan N. Colner	3,000	1,000	—	79.633
Michael E. Crow	—	700	200	11,164
Joel L. Fleishman	220	1,000	—	16,173
Michael P. Kehoe	1,000	3,700	—	64,085
Dallas W. Luby (5)	—	1,000	—	11,151
C. Kenneth Mitchell	—	2,000	1,500	48,147
Michael T. Oakes	—	8,500	—	90,449
John T. Sinnott	—	1,000	—	11,151
Michael Steinhardt	8,900	1,000	—	214,315
Richard W. Wright	890	3,000	—	53,566

(1) Includes 200 Series A shares and 2,512 series B shares purchased by Marsh & McLennan Capital Professional Fund, LP. Includes 457 Series A shares and 5,780 Series B shares purchased by Marsh

& McLennan Employees' Securities Company, LP. Includes 16,343 Series A shares and 212,708 Series B shares purchased by Trident II, LP.

111

---

(2) Includes 167,758 Series B shares purchased by HRWCP 1, L.P. Includes 8,900 Series A shares and 1,000 Series B shares purchased by OA Capital, LLC. Includes 25,000 Series B shares purchased by Standard American Holdings, Ltd.

(3) Includes 3,000 Series A shares and 1,684 Series B shares purchased by Bronfman Associates III. Includes 1,280 Series B shares purchased by Mr. Bronfman. Includes 145,412 Series B shares purchased by JRG Seven, LLC.

(4) Includes 7,796 Series A shares, 12,500 Series B shares and 5,000 warrants purchased by Mr. Abram. Includes 3,750 Series B shares purchased by Mr. Abram's mother, Jane Abram, for which Mr. Abram holds power of attorney. Includes 3,684 Series A shares and 3,750 Series B shares purchased by Abram Investments, LLC.

(5) Includes 1,000 Series B shares purchased by Mayfair I, LLC. Mr. Luby is the manager of Mayfair I, LLC.

Stockholders' Agreement

In connection with the offering of our Series A shares, we entered into a stockholders' agreement with the Series A investors. In connection with the Series B shares offering we amended the agreement and joined the Series B investors as parties. The amended stockholders' agreement directs the voting of shares for our board of directors and imposes transfer restrictions on our shares (including rights of first refusal and tag-along rights). Pursuant to the agreement, Messrs. Sinnott and Zerbib have been appointed as directors by Trident II, L.P. In addition, pursuant to the agreement, Mr. Tabor has been appointed by HRWCP 1, L.P., Mr. Bronfman has been appointed by JRG Seven, LLC, and Messrs. Colner, Fleishman and Wright have been appointed by holders of the Series A shares other than Trident. The agreement further provides that Mr. Abram has the right to serve as a director so long as he serves as an officer of or holds shares of James River. Messrs. Luby, Steinhardt and Zech currently serve as the board as members at large. The stockholders' agreement will automatically terminate pursuant to its terms upon the closing of this offering.

Registration Rights Agreement

We entered into an agreement with the holders of our preferred stock pursuant to which the holders of our preferred stock have registration rights relating to the common stock underlying our preferred stock. Our preferred stock will automatically convert into common stock immediately prior to the effectiveness of this offering.

Demand Registration Rights. Demand registration rights are rights that entitle stockholders to require us to register some or all of their shares of our common stock under the Securities Act at such stockholder's election. Beginning six months after completion of this offering, the holders of a majority of our common stock issued or issuable upon conversion of our preferred stock have the right to require us to register any or all of their common stock under the Securities Act. Collectively, upon completion of this offering there will be a total of 9,849,025 shares of common stock that are subject to these demand registration rights. We are not obligated to effect more than three registrations on behalf of the foregoing group pursuant to their demand registration rights. We have the right, under various circumstances, to delay the registration of the requesting stockholders' shares for a limited time period. We generally must pay all expenses incurred in connection with the exercise of these demand registration rights.

Piggyback Registration Rights. Piggyback registration rights are rights that entitle stockholders to require us to register some or all of their shares of our common stock under the Securities Act if we register any securities for public sale, subject to specified exceptions. The underwriters of any underwritten offering may have the right to limit the number of shares registered by these stockholders due to market conditions. Upon completion of this offering, there will be a total of 9,849,025 shares of common stock that are subject to these piggyback registration rights. We generally must pay all expenses incurred in connection with the exercise of these piggyback registration rights. The registration rights agreement was amended in connection with this offering to provide that the piggyback registration rights will not apply to this offering.

Form S-3 Registration Rights. If we are eligible to file a registration statement on Form S-3, holders of a majority of the common stock issued upon conversion of our preferred stock can request that we register their shares under the Securities Act on Form S-3, provided that the total proceeds of the shares of common stock offered to the public is at least $1 million. We generally must pay all expenses incurred in connection with the exercise of these Form S-3 registration rights.

Employee and Director Purchase Money Loans

As part of our offerings of Series B shares, we loaned a total of $2.6 million in principal amount to directors, director affiliates, officers and other employees to purchase shares in the respective transactions. The loans have an interest rate of 4.5% per annum, payable quarterly. Principal repayments are not required until maturity. The loans mature on the earlier of ten years, a sale of the company (as defined therein) or six months after the separation of such employee or director from us.

Each of our directors, director affiliates and executive officers fully repaid these loans in April 2005. Accordingly, only $545,000 of these loans were outstanding to employees as of May 31, 2005.

The following sets forth those directors, director affiliates and executive officers who were indebted to the company in excess of $60,000 since January 1, 2004 and the largest aggregate amount of indebtedness outstanding during such period.

Name	Relationship	Largest Amount Outstanding Since January 1, 2004		Amount Outstanding as of May 31, 2005	
J. Adam Abram	President, Chief Executive Officer and Director	$	750,000	$	0
Michael P. Kehoe	President and Chief Executive Officer, James River Management Company, Inc.	$	370,000	$	0
Matthew Bronfman	Director	$	100,000	$	0
Alan N. Colner	Director	$	100,000	$	0
Joel L. Fleishman	Director	$	100,000	$	0
HRWCP 1, L.P.	Affiliate of James L. Zech, Director	$	100,000	$	0
Mayfair I, LLC	Affiliate of Dallas Luby, Director	$	100,000	$	0
OA Capital, LLC	Affiliate of James L. Zech, Director	$	100,000	$	0
Michael H. Steinhardt	Director	$	100,000	$	0

Richard W. Wright	Chairman of the Board	$	100,000	$	0

Consulting Agreement

In January 2003, we entered into a consulting agreement with Mr. Wright, the Chairman of our board of directors. The agreement will be terminated immediately prior to completion of this offering. See "Management — Director Compensation." Upon completion of this offering, we will enter into a new consulting agreement with Mr. Wright, pursuant to which he will receive a fee of $40,000 for his consulting services.

Omega Management

From inception through March 31, 2004, we had an agreement with Omega Management, Inc., an entity fully owned by Mr. Abram, pursuant to which we agreed to reimburse Omega Management for certain organizational and operating expenses incurred on our behalf. For the years ended December 31, 2004 and 2003 and the period from September 25, 2002 (inception) through December 31, 2002, such expenses totaled approximately $0, $58,000 and $196,000, respectively. We also entered into an asset purchase agreement with Omega Management, effective as of January 1, 2004, pursuant to which we paid approximately $38,000 in cash in exchange for assets consisting of computer equipment, office furniture and certain leasehold improvements.

Investment Advisory Services

Beginning in 2003, we contracted with two investment advisory firms to manage our investment portfolio. Matthew Bronfman, a director, is a partner with Earnest Partners LLC, one of these firms.

113

Under our agreement with Earnest Partners, we pay a fee based on the average invested assets managed by Earnest Partners. In 2004 and 2003, we incurred expenses of $43,850 and $1,658, respectively, to Earnest Partners under the Agreement. Fees are comparable to fees charged by our other investment advisory service provider.

Trident II, L.P.

On May 31, 2005, Stone Point Capital LLC acquired the private equity business of MMC Capital, Inc., which is a wholly owned subsidiary of Marsh & McLennan Companies, Inc. Mr. Sinnott, a director, is an executive officer of Marsh & McLennan Companies. The members of Stone Point, including Mr. Zerbib, a director, are former employees of MMC Capital. As a result, Trident II, L.P. has not been affiliated with, or managed by, MMC Capital or Marsh & McLennan Companies since May 31, 2005. Less than 1% of our business has been originated through Marsh & McLennan Companies and its affiliated entities.

In connection with the offering of our Series B shares, we entered into an agreement with MMC Capital, the manager of Trident II, L.P. at that time, on behalf of and for the benefit of Trident II, L.P. and certain co-investment vehicles, pursuant to which we agreed, among other things, to permit Trident II to maintain its percentage ownership of our equity securities in any and all subsequent investment financings. The parties have agreed to terminate this agreement immediately prior to effectiveness of this offering.

Wachovia

Mr. Tabor, a director, is a Partner of Wachovia Capital Partners, the merchant banking arm of Wachovia Corporation. Wachovia Capital Markets LLC, an underwriter in this offering, is an affiliate of Wachovia Corporation. See "Underwriting." Wachovia Investors, Inc., an affiliate of Wachovia Capital Markets, LLC and Wachovia Corporation, owns 99.6% of the membership interests in Wachovia Capital Partners 2003, LLC, the sole limited partner of HRWCP 1, L.P. WCP Management Company 2003, LLC, an entity owned by the individual partners and professionals of Wachovia Capital Partners, including Mr. Tabor, is the managing member of Wachovia Capital Partners 2003, LLC.

114

DESCRIPTION OF CAPITAL STOCK

The following information describes our common stock and preferred stock, as well as warrants to purchase our common stock, and provisions of our amended and restated certificate of incorporation and our amended and restated by-laws, all as will be in effect upon the consummation of this offering. The following description of our capital stock does not purport to be complete and is subject to, and qualified in its entirety by, our amended and restated certificate of incorporation and amended and restated by-laws, which are exhibits to the registration statement of which this prospectus forms a part, and the outstanding options and warrants.

Prior to the completion of this offering, we will be authorized to issue up to 105,000,000 shares of capital stock, par value $.01 per share, to be divided into two classes to be designated, respectively, "common stock" and "preferred stock". Of such shares authorized, 100,000,000 shares shall be designated as common stock, and 5,000,000 shares shall be designated as preferred stock.

Common Stock

As of May 31, 2005, there were 9,849,035 shares of common stock outstanding that were held of record by approximately 74 stockholders. There will be 14,293,035 shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants, after giving effect to the sale of common stock offered in this offering.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, our common stockholders are entitled to receive ratably any dividends that may be declared from time to time by the board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, our common stockholders are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock to be issued upon the closing of this offering will be fully paid and nonassessable.

Preferred Stock

Prior to completion of this offering, our board of directors will have authority to issue shares of preferred stock in one or more series, without stockholder approval. The board of directors will also have authority to designate the rights, preferences and privileges of each series of preferred stock. The rights, preferences and privileges include dividend rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or designation of such series, any or all of which may be greater than the rights of the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the common stock until the board of directors determines the specific rights of the holders of the preferred stock. However, these effects might include:

- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; and
- delaying or preventing a change in control of our company without further action by the stockholders.

We have no present plans to issue any additional shares of preferred stock.

Registration Rights

See "Certain Relationships and Related Transactions — Registration Rights Agreement" for a description of the registration rights agreement we have entered into with the holders of our preferred stock.

115

Warrants

As of May 31, 2005, 8,550 warrants to purchase shares of our common stock were outstanding. The warrants expire on October 31, 2013. These warrants represent the right to purchase an aggregate of 149,625 shares of common stock at a per share exercise price of $10. The exercise price and the number of shares of our common stock issuable upon exercise of the warrants are subject to anti-dilution adjustments upon the occurrence of certain events.

Anti-Takeover Provisions

Provisions of Delaware law and our amended and restated certificate of incorporation and amended and restated by-laws that will be in effect prior to the completion of this offering could make the acquisition of us through a tender offer, a proxy contest or other means more difficult and could make the removal of incumbent officers and directors more difficult. We expect these provisions to discourage coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to first negotiate with our board of directors. We believe that the benefits provided by our ability to negotiate with the proponent of an unfriendly or unsolicited proposal outweigh the disadvantages of discouraging these proposals. We believe the negotiation of an unfriendly or unsolicited proposal could result in an improvement of its terms.

Effects of Some Provisions of Delaware Law. Upon the completion of this offering, we will be subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
-

the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a "business combination" for these purposes includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" for these purposes is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's outstanding voting securities. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Anti-Takeover Effects of Provisions of Our Governing Documents. Our amended and restated certificate of incorporation that will be in effect prior to the completion of this offering will provide for our board of directors to be divided into three classes serving staggered terms. Approximately one-third of the board of directors will be elected each year. The provision for a classified board could prevent a party who acquires control of a majority of the outstanding voting stock from obtaining control of the board of directors until the second annual stockholders meeting following the date the acquiring party obtains the controlling stock interest. The classified board provision could discourage a potential acquiror from making a tender offer or otherwise attempting to obtain control of our company and could increase the likelihood that incumbent directors will retain their positions.

Our amended and restated by-laws that will be in effect prior to the completion of this offering will establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board of directors. At an annual meeting, stockholders may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors. Stockholders may also consider a proposal or nomination by a person who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our Secretary written notice, not less than 90 days nor more than 120 days prior to the meeting, in proper form, of his or her intention to bring that business before the meeting. However, in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be received not later than the close of business on the 10th day following the date on which notice of the date of the annual meeting was mailed to stockholders or made public, whichever first occurs. Our amended and restated by-laws will also specify requirements as to the form and content of a stockholder's notice. The by-laws will not give the board of directors the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting of the stockholders. Our amended and restated by-laws may have the effect of precluding the conduct of business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

Under Delaware law, a special meeting of stockholders may be called by the board of directors or by any other person authorized to do so in the certificate of incorporation or the by-laws. Our by-laws will authorize a majority of our board of directors or the Chairman of the board to call a special meeting of stockholders. Because our stockholders will not have the right to call a special meeting, a stockholder will not be able to force stockholder consideration of a proposal over the opposition of the board of directors by calling a special meeting of stockholders prior to such time as a majority of our board of directors believed or the Chairman believed the matter should be considered or until the next annual meeting provided that the stockholder met the notice requirements. The restriction on the ability of stockholders to call a special meeting means that a proposal to replace the board also could be delayed until the next annual meeting.

Delaware law provides that stockholders may execute an action by written consent in lieu of a stockholder meeting. However, Delaware law also allows us to eliminate stockholder actions by written consent, and our amended and restated certificate of incorporation to be in effect prior to the completion of this offering will provide for the elimination of actions by written consent of stockholders. Elimination of written consents of stockholders may lengthen the amount of time required to take stockholder actions since actions by written consent are not subject to the minimum notice requirement of a stockholders' meeting. Without the availability of stockholders' actions by written consent, a stockholder controlling a majority of our capital stock would not be able to amend our by-laws or remove directors without holding a stockholders' meeting. The stockholder would have to obtain the consent of a majority of the board of directors or the Chairman of the board or the president to call a stockholders' meeting and satisfy the notice periods determined by the board of directors.

Our amended and restated certificate of incorporation will provide that authorized but unissued shares of common stock and preferred stock will be available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of our company by means of a proxy contest, tender offer, merger or otherwise.

Under Delaware law, the affirmative vote of a majority of the shares entitled to vote on any matter is generally required to amend the certificate of incorporation or by-laws, unless either the certificate of incorporation or by-laws requires a greater percentage. Our amended and restated certificate of incorporation and amended and restated by-laws will impose supermajority vote requirements of 66 2/3% of the voting power of our capital stock in connection with the amendment of certain provisions of our amended and restated certificate of incorporation and our amended and restated by-laws, including those

---

provisions relating to the classified board of directors, advance notice of stockholder proposals, action by written consent and the ability of stockholders to call special meetings.

Limitation of Liability and Indemnification of Directors and Officers

As permitted by the Delaware General Corporation Law, our amended and restated certificate of incorporation that will be in effect prior to completion of this offering will limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as directors. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends; or
- any transaction from which the director derived an improper personal benefit.

As permitted by the Delaware General Corporation Law, our amended and restated certificate of incorporation that will be in effect prior to completion of this offering will provide that:

- we shall indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and
- we may purchase and maintain insurance on behalf of our current or former directors, officers, employees or agents against any liability asserted against them and incurred by them in any such capacity, or arising out of their status as such.

Listing

We have applied to list our common stock on the Nasdaq National Market under the symbol "JRVR."

Transfer Agent and Registrar

The transfer agent and registrar for the common stock will be EquiServe Trust Company, N.A. The address of the transfer agent and registrar is 250 Royall Street, Canton, Massachusetts 02021 and its telephone number is (781) 575-3100.

118

SHARES ELIGIBLE FOR FUTURE SALE

Sales or the availability for sale of substantial amounts of our common stock in the public market may adversely affect the market price of our common stock. Prior to this offering, there has been no public market for our common stock, and we cannot assure you that a significant public market for our common stock will develop or be sustained after this offering. Future sales of significant amounts of our common stock in the public market after this offering could adversely affect the prevailing market price of our common stock and could impair our future ability to raise capital through the sale of our equity securities.

Resale of Restricted Shares and Lock-Up Agreements

Upon completion of this offering, we will have 14,293,035 shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option. Of these shares, all of the 4,444,000 shares of common stock sold in this offering and any shares issued upon exercise of the underwriters' over-allotment option will be freely tradable without restriction under the Securities Act, except shares purchased by our affiliates (as that term is defined in Rule 144 under the Securities Act).

The remaining 9,849,035 shares of common stock will be "restricted securities" within the meaning of Rule 144A and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemptions contained in Rule 144. However, 9,228,413 of these remaining shares are held by officers, directors and existing stockholders who are subject to lock-up agreements pursuant to which they have agreed, subject to some limited exceptions, that they will not, during the period ending 180 days after the date of this prospectus:

- offer, sell, offer to sell, contract to sell, hedge, pledge, grant any option to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any security convertible into or exercisable or exchangeable for our common stock or file any registration statement with respect to any such securities; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock,

whether any such transaction described above is to be settled by delivery of common stock or such other securities in cash or otherwise, except that we may issue shares of our common stock upon the exercise of currently outstanding options. Keefe, Bruyette & Woods, Inc., representative of the underwriters, may, in its sole discretion and at any time without notice, release all or any portion of the common shares held by our officers, directors and existing stockholders subject to these lock-up agreements.

Rule 144

In general, Rule 144 allows a stockholder who beneficially owns shares of our common stock that have been outstanding for at least one year and that were last held by an affiliate of us at least one year previously to sell within any three-month period commencing 90 days after the date of this prospectus a number of those shares that does not exceed the greater of:

- 1% of the number of common shares then outstanding, which will equal approximately shares immediately after this offering; or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of the Form 144 with respect to such sale.

Sales under Rule 144 are subject to specific manner of sale provisions, notice requirements and the availability of current public information about us. We cannot estimate the number of shares of common stock our existing stockholders will sell under Rule 144, as this will depend on the market price for our common stock, the personal circumstances of the stockholders and other factors.

Under Rule 144(k), in general, a stockholder who beneficially owns shares of our common stock that have been outstanding for at least two years and that were last held by an affiliate of us at least two years previously and who is not deemed to have been an affiliate of ours at any time during the immediately preceding 90 days may sell shares without complying with the manner of sale provisions, notice

119

---

requirements, public information requirements, or volume limitations of Rule 144. After the expiration of the 180-day period under the lock-up agreement, approximately 1,920,323 of our common shares will be eligible for sale in the public market pursuant to Rule 144(k).

As of May 31, 2005, there were outstanding warrants exercisable for 149,625 shares of common stock and options to purchase 1,694,090 shares of common stock, 688,170 of which options are fully vested.

Following the completion of this offering, we intend to file registration statements on Form S-8 to register shares of common stock subject to outstanding options or reserved for issuance under our 2003 Incentive Plan and our 2005 Incentive Plan. This will permit the resale of such shares by non-affiliates in the public market without restriction under the Securities Act, subject to any applicable lock-up agreements. Such registration statements will become effective immediately upon filing.

120

UNITED STATES TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following summary describes the material United States federal income and estate tax consequences of the purchase, ownership and disposition of common stock by a Non-U.S. Holder (as defined below) as of the date hereof. This summary applies only to non-U.S. Holders that will hold common stock as a capital asset for federal income tax purposes. This summary does not address all aspects of United States federal income and estate taxes and does not deal with foreign, state and local consequences that may be relevant to such Non-U.S. Holders in light of their personal circumstances. Special rules may apply to certain Non-U.S. Holders, such as United States expatriates, "controlled foreign corporations," "passive foreign investment companies," "foreign personal holding companies," corporations that accumulate earnings to avoid United States federal income tax, and investors in pass-through entities that are subject to special treatment under the Internal Revenue Code of 1986, as amended (the Code). Such Non-U.S. Holders are urged to consult their own tax advisors to determine the United States federal, state, local and other tax consequences that may be relevant to them. Furthermore, the summary below is based upon the provisions of the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, perhaps retroactively, so as to result in United States federal income tax consequences different from those discussed below. **Persons considering the purchase, ownership or disposition of common stock are urged to consult their own tax advisors concerning the United States federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.**

If a partnership holds the common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. This summary does not address the tax treatment for United States federal income or estate tax purposes of partnerships or pass-through entities that hold common stock or persons who hold their interests through such a partnership or pass-through entity. Such persons are urged to consult their tax advisors.

A "Non-U.S. Holder" is a holder that is not a U.S. Holder. As used herein, a "U.S. Holder" of common stock means a holder that is for United States federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust if it (X) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (Y) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

Dividends

Dividends paid to a Non-U.S. Holder of common stock generally will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the Non-U.S. Holder within the United States and, where a tax treaty applies, are attributable to a United States permanent establishment of the Non-U.S. Holder, are not subject to the withholding tax, but instead are subject to United States federal income tax on a net income basis at applicable graduated individual or corporate rates. Certain certification and disclosure requirements must be satisfied for effectively connected income to be exempt from withholding. Any such effectively connected dividends received by a foreign corporation may be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A Non-U.S. Holder of common stock who wishes to claim the benefit of an applicable treaty rate (and avoid backup withholding as discussed below) for dividends, will be required to (a) complete Internal Revenue Service (IRS) Form W-8BEN (or other applicable form) and certify under penalties of perjury, that such holder is not a United States person or (b) if the common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable United States Treasury regulations. Special certification and other requirements apply to certain Non-U.S. Holders that are entities rather than individuals.

A Non-U.S. Holder of common stock eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Gain on Disposition of Common Stock

A Non-U.S. Holder generally will not be subject to United States federal income tax with respect to gain recognized on a sale or other disposition of common stock unless (i) the gain is effectively connected with a trade or business of the Non-U.S. Holder in the United States, and, where a tax treaty applies, is attributable to a United States permanent establishment of the Non-U.S. Holder or (ii) the company is or has been a "United States real property holding corporation" for United States federal income tax purposes, provided that so long as our stock is regularly traded on an established securities market, this clause (ii) only applies to Non-U.S. Holders who have held, directly or indirectly at any time during the five-year period ending on the date of disposition or such shorter period that the shares were held, more than five percent of our common stock. The company believes it is not, has not been and does not anticipate becoming a "United States real property holding corporation" for United States federal income tax purposes.

A Non-U.S. Holder described in clause (i) above generally will not be subject to withholding tax if the Non-U.S. Holder complies with applicable IRS certification requirements and will be subject to tax on the net gain derived from the sale under regular graduated United States federal income tax rates. In addition, if a Non-U.S. Holder that is a foreign corporation falls under clause (i) above, it may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty. In the event clause (ii) applies to a Non-U.S. Holder, such person will be subject to tax on the net gain derived from the sale under regular graduated United States federal income tax rates and the gross proceeds of any such sale may be subject to a 10% withholding tax. Certain individual Non-U.S. Holders who are present in the United States for 183 days or more (and who meet certain other requirements) in the taxable year of the sale or other disposition but who are not U.S. residents at such time will be subject to a flat 30% tax on the gain derived from such sale or other disposition. In general, a foreign individual who is not a citizen or lawful permanent resident of the United States will be considered a resident of the United States for tax purposes if such individual is present in the United States at least 183 days (possibly less under certain look-back tests), unless such individual is within an exempt category of persons, such as foreign government-related individuals, teachers, students or certain professional athletes.

Federal Estate Tax

Common stock held by an individual Non-U.S. Holder at the time of death will be included in such holder's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

The company must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the Non-U.S. Holder resides under the provisions of an applicable income tax treaty.

A Non-U.S. Holder will be subject to backup withholding unless applicable certification requirements are met.

Information reporting and, depending on the circumstances, backup withholding, will apply to the proceeds of a sale of common stock within the United States or conducted through United States-related financial intermediaries unless the beneficial owner certifies under penalties of perjury that it is a Non-U.S. Holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person) or the holder otherwise establishes an exemption.

122

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such holder's United States federal income tax liability provided the required information is furnished to the IRS.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement among us and the underwriters, for whom Keefe, Bruyette & Woods, Inc. is acting as representative, the underwriters named below have agreed to purchase from us and we have agreed to sell to the underwriters, an aggregate of shares of common stock in the amounts set forth below opposite their respective names.

Underwriters	Number of Shares
Keefe, Bruyette & Woods, Inc.	
Bear, Stearns & Co. Inc.	
Friedman, Billings, Ramsey & Co., Inc.	
Wachovia Capital Markets, LLC	
Total	4,444,000

Under the terms and conditions of the underwriting agreement, the underwriters are committed to accept and pay for all of the shares offered by this prospectus, if any are taken. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or, in certain cases, the underwriting agreement may be terminated. The underwriting agreement provides that the obligations of the underwriters are conditional and may be terminated based on their assessment of the state of the financial markets. The underwriting agreement also provides that the underwriters' obligations are subject to approval of certain legal matters by their counsel, including, without limitation, the authorization and the validity of the shares, and to various other conditions customary in a firm commitment underwritten public offering, such as receipt by the underwriters of officers' certificates, legal opinions and comfort letters. The underwriters reserve the right to withdraw, cancel or modify this offer and to reject orders in whole or in part.

The underwriters propose to offer our common stock directly to the public at the public offering price set forth on the cover page of this prospectus and to selected securities dealers (that may include the underwriters) at that price less a concession not in excess of $ per share. The underwriters may allow, and the selected dealers may reallow, a concession not in excess of $ per share to certain brokers and dealers. If all the shares of common stock are not sold at the public offering price, the underwriters may change this offering price and other selling terms. After this offering, the offering price and other selling terms may from time to time be changed by the underwriters. We expect the shares of common stock will be ready for delivery on or about , 2005.

At our request, the underwriters have reserved up to 222,200 shares of our common stock for sale, at the initial public offering price, to our directors, officers, employees, agents, brokers, service providers and related persons pursuant to a directed share program. J. Adam Abram, our President and Chief Executive Officer, and Michael T. Oakes, our Executive Vice President and Chief Financial Officer, have advised us that they expect to purchase up to $750,000 and $1,000,000, respectively, of the reserved shares, with any reserved shares not purchased by Messrs. Abram and Oakes then being offered to other participants in the program. Shares purchased by Messrs. Abram and Oakes would be subject to lock-up agreements as described under "Shares Eligible for Future Sale — Resale of Restricted Shares and Lock-Up Agreements." The number of shares of our common stock available for sale to the general public will be reduced to the extent these persons purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered by this prospectus.

Trident II, L.P., a principal stockholder, and Bronfman Associates III, an affiliate of both a principal stockholder and one of our directors, and related parties have also advised us that they expect to seek to

123

---

purchase up to $2,000,000 and $1,000,000, respectively, of our common stock in this offering for investment purposes. Shares purchased by Trident II, L.P. and Bronfman Associates III and related parties would be subject to lock-up agreements as described under "Shares Eligible for Future Sale—Resale of Restricted Shares and Lock-Up Agreements."

We have granted the underwriters an option, exercisable within 30 days after the date of this prospectus, to purchase up to 666,600 additional shares solely to cover over-allotments, if any, at the same price per share to be paid by the underwriters for the other shares in this offering. If the underwriters purchase any additional shares under this option, each underwriter will be committed to purchase the additional shares at the price set forth on the cover page of this prospectus and in approximately the same proportion allocated to them in the table above.

The following table presents the per share and the total underwriting discount to be paid by us to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the over-allotment option.

	Per Share		Total	
	No Exercise	Full Exercise	No Exercise	Full Exercise
Underwriting discount to be paid	$	$	$	$

An affiliate of Wachovia Capital Markets, LLC is the sole limited partner of HRWCP 1, L.P., which beneficially owns 1,863,184 shares of common stock issuable upon conversion of our convertible preferred stock, including shares representing accrued dividends on our convertible preferred stock through May 31, 2005. These shares are issuable upon conversion of Series B shares held by HRWCP 1, L.P. An affiliate of Wachovia Capital Markets, LLC also owns options to purchase 5,060 shares of common stock. The shares of our common stock issuable upon conversion of the Series B shares held by HRWCP 1, L.P. represent 18.9% of the number of shares of our common stock outstanding immediately prior to the completion of this offering. Voting and dispositive power over the shares beneficially owned by HRWCP 1, L.P. is possessed by High Ridge GP Holdings, LLC, its general partner, whose members are James L. Zech and Steven J. Tynan. None of High Ridge GP Holdings, LLC, Mr. Zech or Mr. Tynan is affiliated with Wachovia Capital Markets, LLC. See "Principal Stockholders."

Keefe, Bruyette & Woods, Inc. has from time to time performed investment banking and other financial advisory services for us in the ordinary course of business, and in particular in connection with the December 2004 offering of our junior subordinated notes and the related offering of trust preferred securities by James River Capital Trust II, and has received customary compensation from us for these services.

The expenses of this offering, not including the underwriting discount and commissions, are estimated to be approximately $1.4 million and will be paid by us. The underwriters have agreed to reimburse us for up to $ 500,000 of these expenses.

Prior to this offering, there has been no public market for our common stock. We have applied to list our common stock on the Nasdaq National Market under the symbol "JRVR." The initial public offering price for the common stock has been determined by negotiations between the underwriters and us and this offering price of the common stock may not be indicative of the market price following this offering. Among the factors considered in determining the initial public offering price of the shares, in addition to prevailing market conditions, were our historical performance, estimates regarding our business potential and earnings prospects, an assessment of our management and the consideration of the above factors in relation to the market valuation of other companies in related businesses.

In connection with this offering, the underwriters may engage in transactions that are intended to stabilize, maintain or otherwise affect the market price of our common stock during and after this offering, such as the following:

- the underwriters may over-allot or otherwise create a short position in the common stock for their own account by selling more shares of common stock than they are obligated to purchase in the offering;

-

in respect of any "covered" short position (i.e., short sale or sales made in an amount not greater than the number of shares in the over-allotment option), the underwriters may elect to cover any such short position by purchasing shares of common stock in the open market or by exercising the over-allotment option. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option;

- in respect of any "naked" short position (i.e., short sale or sales in excess of the number of shares in the over-allotment option), the underwriters will cover any such naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering;
- the underwriters may stabilize or maintain the price of the common stock by bidding; and
- the underwriters may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in this offering are reclaimed if shares of common stock previously distributed in this offering are repurchased in connection with stabilization transactions or otherwise.

The effect of these transactions may be to stabilize or maintain the market price of our common stock at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of our common stock to the extent that it discourages resales of the common stock. The magnitude or effect of any stabilization or other transactions is uncertain. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

In connection with this offering, the underwriters and dealers may engage in passive market making transactions in the shares of our common stock in accordance with Rule 103 of Regulation M promulgated by the SEC. In general, a passive market maker may not bid for, or purchase, shares of common stock at a price that exceeds the highest independent bid. In addition, the net daily purchases made by any passive market maker generally may not exceed 30% of its average daily trading volume in the common stock during a specified two month prior period, or 200 shares, whichever is greater. A passive market maker must identify passive market making bids as such on the Nasdaq electronic inter-dealer reporting system. Passive market making may stabilize or maintain the market price of the common stock above independent market levels. Underwriters and dealers are not required to engage in passive market making and may end passive market making activities at any time.

We have agreed to indemnify the underwriters and their controlling persons against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments that the underwriters may be required to make in connection with those liabilities.

We have agreed that, without the prior written consent of Keefe, Bruyette & Woods, Inc., we will not, during the period ending 180 days after the date of this prospectus:

- offer, sell, offer to sell, contract to sell, hedge, pledge, grant any option to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any security convertible into or exercisable or exchangeable for our common stock or file any registration statement with respect to any such securities; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock,

whether any such transaction described above is to be settled by delivery of common stock or such other securities in cash or otherwise, except that we may issue shares of our common stock upon the exercise of currently outstanding options.

Our officers, directors and certain of our stockholders holding in the aggregate 93.7% of our common stock prior to this offering have made the same agreement, subject to some limited exceptions.

125

A prospectus in electronic format may be made available on the websites maintained by one or more of the representatives of the underwriters of this offering and may also be made available on websites maintained by other underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The lead managers will allocate Internet distributions to underwriters that may make Internet distributions on the same basis as other allocations.

Because an affiliate of Wachovia Capital Markets, LLC, one of the underwriters, is a limited partner in HRWCP 1, L.P. and by reason of such economic interest beneficially owns (within the meaning of NASD Rule 2720) more than 10% of our common stock resulting in a conflict of interest, this offering is being conducted in accordance with NASD Rule 2720(c). The rule requires that the initial public offering price can be no higher than that recommended by a "qualified independent underwriter," as defined by the NASD. Keefe, Bruyette and Woods, Inc. has served in that capacity and performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part. Keefe, Bruyette & Woods, Inc. will receive no compensation for acting in this capacity; however, we have agreed to indemnify Keefe, Bruyette & Woods, Inc. for acting as the qualified independent underwriter against specified liabilities under the Securities Act of 1933.

LEGAL MATTERS

The validity of the common stock offered by us hereby will be passed upon for us by Bryan Cave LLP, New York, New York. Herbert Teitelbaum, a partner of Bryan Cave LLP, is the brother-in-law of J. Adam Abram, our President and Chief Executive Officer. Certain partners of Bryan Cave LLP may purchase shares in the offering pursuant to the directed share program. Certain legal matters will be passed upon for the underwriters by LeBoeuf, Lamb, Greene & MacRae, L.L.P., New York, New York.

EXPERTS

The consolidated financial statements of James River Group, Inc. at December 31, 2004 and 2003, and for each of the two years in the period ended December 31, 2004 and the period from September 25, 2002 (inception) through December 31, 2002, appearing in this prospectus and the registration statement of which this prospectus is a part have been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

AVAILABLE INFORMATION

We have filed with the Securities and Exchange Commission, a registration statement on Form S-1 under the Securities Act with respect to the common stock offered in this prospectus. This prospectus, filed as part of the registration statement, does not contain all of the information set forth in the registration statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the SEC. You can find further information about us in the registration statement and its exhibits and schedules. Statements in this prospectus about the contents of any contract, agreement or other document are not necessarily complete and, in each instance, we refer you to the copy of such contract, agreement or document filed as an exhibit to the registration statement, with each such statement being qualified in all respects by reference to the document to which it refers. Anyone may inspect the registration statement and its exhibits and schedules without charge at the SEC's public reference facilities at 100 F Street, N.E., Washington, D.C. 20549. You may obtain copies of all or any part of these materials from the SEC upon the payment of certain fees prescribed by the SEC. You may obtain further information about the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect these reports and other information without charge at the SEC's web site (http://www.sec.gov).

Upon the closing of this offering, we will become subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and will be required to file periodic current reports, proxy statements and other information with the SEC. You will be able to inspect and copy these reports, proxy statements and other information at the SEC's public reference facilities at the address noted above. You also will be able to inspect this material without charge at the SEC's web site. We intend to furnish our stockholders with annual reports containing financial statements audited by an independent accounting firm.

In addition, following the closing of this offering, we will make the information filed with or furnished to the SEC available free of charge through our web site (http://www.james-river-group.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on our website is not a part of this prospectus.

JAMES RIVER GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2004 and 2003 and for the years ended December 31, 2004 and 2003
and the period from September 25, 2002 (inception) through December 31, 2002

Contents

As of March 31, 2005 and December 31, 2004 and
for the three-month periods ended March 31, 2005 and 2004
Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
James River Group, Inc.

We have audited the accompanying consolidated balance sheets of James River Group, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2004 and 2003 and for the period from September 25, 2002 (inception) through December 31, 2002. Our audits also included the financial statement schedules listed in the Index at Item 16(b). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of James River Group, Inc. and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years ended December 31, 2004 and 2003 and for the period from September 25, 2002 (inception) through December 31, 2002, in conformity with United States generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Richmond, Virginia
March 18, 2005

JAMES RIVER GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	(In thousands)	
Assets		
Investments:		