21ST CENTURY INSURANCE GROUP
Form PREM14A
June 11, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

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

21st Century Insurance Group

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

o	No fee required.	
x	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies: 21st Century Insurance Group (the Company) common stock, par value $0.001 per share (Common Stock)
	(2)	Aggregate number of securities to which transaction applies: 41,688,468* * Pursuant to the Agreement and Plan of Merger, dated as of May 15, 2007, among the Company, American International Group, Inc. (AIG), and AIG TW Corp. (Merger Sub), as amended pursuant to Amendment No. 1 to Agreement and Plan of Merger, dated as of June 8, 2007, among the Company, AIG and Merger Sub, providing for the merger of Merger Sub with and into the Company (the Merger), shares of Common Stock (i) owned by AIG, Merger Sub or any other direct or indirect wholly owned subsidiary of AIG (except for shares held by any mutual fund advised or managed by any of AIG, Merger Sub or any other direct or indirect wholly owned subsidiary of AIG) at the effective time of the merger will remain outstanding and no consideration will be received therefor and (ii) owned by the Company or any direct or indirect wholly owned subsidiary of the Company (other than shares held on behalf of third parties) at the effective time of the Merger are to be cancelled without any consideration payable therefor. Accordingly, the aggregate number of securities to which the transaction applies excludes the anticipated number of such shares.
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): The proposed maximum aggregate value of the transaction, for purposes only of calculating the filing fee, is $811,083,026, which is the sum of (a) the product of (i) the 34,657,198 shares of Common Stock that are proposed to be converted into the right to receive the merger consideration, multiplied by (ii) the merger consideration of $22.00 per share of Common Stock, plus (b) the product of (i) 6,934,391, the number of shares of Common Stock underlying certain options to purchase such shares at a per-share exercise price of less than $22.00, multiplied by (ii) the amount by which the per-share merger consideration of $22.00 exceeds the $15.1952 per share weighted average exercise price of such options, plus (c) the product of (i) 96,879, the number of certain shares of restricted Common Stock multiplied by (ii) the per-share merger consideration of $22.00. The filing fee equals the proposed maximum aggregate value of the transaction multiplied by .0000307.
	(4)	Proposed maximum aggregate value of transaction: $811,083,026

(5) Total fee paid: $24,900.25

o Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

21ST CENTURY INSURANCE GROUP
6301 OWENSMOUTH AVENUE
WOODLAND HILLS, CALIFORNIA 91367

, 2007

To the stockholders of 21st Century Insurance Group:

You are cordially invited to attend a special meeting of the stockholders of 21st Century Insurance Group (the Company) to be held on , 2007 at 10:00 a.m., local time, at the Warner Center Marriott Hotel, 21850 Oxnard Street, Woodland Hills, California 91367.

At the special meeting, you will be asked to consider and vote upon a proposal to approve a merger agreement among the Company, American International Group, Inc. (AIG), and AIG TW Corp. (Merger Sub).

The merger agreement provides for the merger of Merger Sub with and into the Company, with the Company continuing as the surviving corporation in the merger.

If the merger is completed, each share of Company common stock outstanding at the effective time of the merger (other than any shares held by AIG, Merger Sub or any other direct or indirect wholly owned subsidiary of AIG (except for shares held by any mutual fund advised or managed by any of AIG, Merger Sub or any direct or indirect wholly owned subsidiary of AIG), shares owned by the Company or any other direct or indirect wholly owned subsidiary of the Company (except for shares held on behalf of third parties), shares subject to certain Company benefit plans and shares owned by stockholders who have perfected and not withdrawn a demand for appraisal rights under Delaware law) will be cancelled and converted into the right to receive $22.00 in cash, without interest. As a result of the merger, the Company will be wholly owned by AIG.

To evaluate the proposed acquisition by AIG of all of the outstanding shares of our common stock not already owned by them, our board of directors formed a special committee consisting of John B. De Nault III, Carlene M. Ellis, Dr. R. Scott Foster and Keith W. Renken (the Special Committee). In its evaluation of the merger and the merger agreement, the Special Committee considered the opinion of its financial advisor, Lehman Brothers Inc. (Lehman Brothers), to the effect that, as of the date of the opinion and based on and subject to the assumptions, limitations and qualifications set forth in the opinion, the cash consideration of $22.00 per share to be offered to stockholders of the Company (other than AIG and its subsidiaries) in the merger was fair, from a financial point of view, to such stockholders. The Lehman Brothers fairness opinion is attached as Annex B to the enclosed proxy statement. Our board of directors, acting on the recommendation of the Special Committee, has unanimously approved a resolution adopting the merger agreement.

Both the Special Committee and our board of directors have determined that the merger and the merger agreement are advisable, fair to and in the best interests of our stockholders (other than AIG and its subsidiaries). Therefore, acting on the recommendation of the Special Committee, our board of directors unanimously recommends that you vote FOR the approval of the merger agreement.

The merger cannot occur unless the merger agreement is approved by the affirmative vote of at least a majority of the votes entitled to be cast by the holders of our common stock. AIG has agreed to vote, or cause to be voted, all shares of Company common stock owned by AIG and its subsidiaries, in favor of the proposal to adopt and approve the merger agreement.

Regardless of the number of shares you own, your vote is very important. Whether or not you plan to attend the meeting, please complete, sign, date and return the enclosed proxy card or complete your proxy by following the instructions supplied on the proxy card for voting by telephone or via the Internet (or, if your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares). You retain the right to revoke the proxy at any time before it is actually voted by giving notice in writing to the Secretary of the Company, by giving notice in open meeting at the special meeting or by submitting a duly executed proxy bearing a later date. If you have instructed a broker, nominee, fiduciary or other custodian to vote your shares, you must follow directions received from the broker, nominee, fiduciary or other custodian to change or revoke your voting instructions. **The failure to vote will have the same effect as a vote against the merger agreement.** If you do not vote in favor of approval of the merger agreement and you fulfill other procedural requirements which are summarized in the accompanying proxy statement, Delaware law entitles you to a judicial appraisal of the fair value of your shares.

The enclosed proxy statement provides you with detailed information about the proposed merger, the merger agreement and the special meeting. We urge you to read the entire document carefully, including information incorporated by reference and included in annexes.

Michael J. Cassanego
Secretary

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction or passed upon the merits or fairness of this transaction or the adequacy or accuracy of the disclosure in the enclosed proxy statement. Any representation to the contrary is a criminal offense.

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

21ST CENTURY INSURANCE GROUP
6301 OWENSMOUTH AVENUE
WOODLAND HILLS, CALIFORNIA 91367

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD , 2007

To the stockholders of 21st Century Insurance Group:

We will hold a special meeting of stockholders of 21st Century Insurance Group (the Company) on , 2007 at 10:00 a.m., local time, at the Warner Center Marriott Hotel, 21850 Oxnard Street, Woodland Hills, California 91367. The purpose of the meeting is:

1. to consider and vote upon a proposal to adopt and approve the Agreement and Plan of Merger, dated as of May 15, 2007, among the Company, American International Group, Inc. (AIG), and AIG TW Corp. (Merger Sub), as amended pursuant to Amendment No. 1 to Agreement and Plan of Merger, dated as of June 8, 2007, among the Company, AIG and Merger Sub; and

2. to transact such other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

We have described the merger agreement and the related merger in the accompanying proxy statement, which you should read in its entirety before voting. A copy of the merger agreement and the amendment thereto are attached as Annex A and Annex D, respectively to the proxy statement. The record date to determine who is entitled to vote at the special meeting is , 2007. Only holders of Company common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting.

Your vote is important. To make sure your shares are represented at the special meeting, you should, as soon as possible, complete, sign, date and return the enclosed proxy card or complete your proxy by following the instructions supplied on the proxy card for voting by telephone or via the Internet (or, if your shares are held in street name, by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares). You retain the right to revoke the proxy at any time before it is actually voted by giving notice in writing to the Secretary of the Company, by giving notice in open meeting at the special meeting or by submitting a duly executed proxy bearing a later date. If you have instructed a broker, nominee, fiduciary or other custodian to vote your shares, you must follow directions received from the broker, nominee, fiduciary or other custodian to change or revoke your voting instructions. **The failure to vote will have the same effect as a vote against the merger agreement.** If you do not vote in favor of approval of the merger agreement and you fulfill other procedural requirements which are summarized in the accompanying proxy statement, Delaware law entitles you to a judicial appraisal of the fair value of your shares.

By Order of the Board of Directors,

Michael J. Cassanego
Secretary

Woodland Hills, California
, 2007

Whether or not you plan to attend the special meeting in person, please complete, sign, date and return the enclosed proxy in the accompanying self-addressed postage pre-paid envelope (or, if your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares) as soon as possible.

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SUMMARY TERM SHEET

You are being asked to consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of May 15, 2007, among 21st Century Insurance Group (the Company), American International Group, Inc. (AIG), and AIG TW Corp. (Merger Sub), as amended pursuant to Amendment No. 1 to Agreement and Plan of Merger, dated as of June 8, 2007, among the Company, AIG and Merger Sub, which is referred to in this proxy statement as the merger agreement. The merger agreement provides for the merger of Merger Sub with and into the Company. The Company would be the surviving corporation in the merger, and, immediately following the merger, AIG and its subsidiaries would have direct or indirect ownership of all of the outstanding capital stock of the Company. This summary term sheet briefly describes the most material terms of the proposed merger and may not contain all of the information that is important to you. The Company urges you to read carefully the entire proxy statement, including the information incorporated by reference and the annexes. You may obtain without charge copies of documents incorporated by reference into this proxy statement by following the instructions under WHERE YOU CAN FIND MORE INFORMATION, beginning on page105. Each item in this summary term sheet includes a page reference directing you to a more complete description of that item.

Parties Involved in the Proposed Transaction (page 16)

- **21st Century Insurance Group.** Founded in 1958, the Company is a Delaware corporation engaged in the business of providing direct-to-consumer personal auto insurance through its subsidiaries. With $1.4 billion of revenue in 2006, the Company insures over 1.5 million vehicles in 18 states, including California, Florida, New Jersey, Texas and the Company s newest market, New York. The Company is executing a multi-year geographic expansion strategy. As a result, the Company now operates in markets that total approximately 66% of the U.S. private passenger automobile market. The Company increased the percentage of the U.S. private passenger automobile market in which it operates, up from approximately 18% in 2003. Customers can purchase insurance, service their policy or report a claim at www.21st.com or by phone with our licensed insurance professionals at 1-800-211-SAVE, 24 hours a day, 365 days a year. Service is offered in English and Spanish, both on the phone and on the web. 21st Century Insurance Company, 21st Century Casualty Company and 21st Century Insurance Company of the Southwest, all wholly owned subsidiaries of the Company, are rated A+ by A. M. Best, Fitch Ratings and Standard & Poor s. Since July 27, 1998, AIG and its related entities have owned a controlling equity interest in the Company.

- **American International Group, Inc.** AIG is a holding company which, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG s primary activities include both general insurance and life insurance & retirement services operations. AIG s subsidiaries serve commercial, institutional and individual customers through an extensive worldwide property-casualty and life insurance network. Other significant activities include financial services and asset management. As a result of the merger, AIG and its subsidiaries will collectively acquire 100% ownership of the Company.

- **AIG TW Corp.** Merger Sub, a newly formed Delaware corporation and a wholly owned subsidiary of AIG, has been organized by AIG for the sole purpose of facilitating the merger. Merger Sub s corporate existence will terminate upon consummation of the merger.

The Special Meeting (page 14)

- **Matters to be Considered (page 14).** At the special meeting, stockholders will consider and vote upon a proposal to adopt and approve the merger agreement.

- **Date, Time, Place (page 14).** The special meeting will be held on , 2007 at 10:00 a.m., local time, at the Warner Center Marriott Hotel, 21850 Oxnard Street, Woodland Hills, California 91367.

- **Record Date and Quorum (page 14).** The Company has fixed , 2007 as the record date for the special meeting. Only holders of record of the Company s common stock as of the close of business on the record date are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. The presence at the special meeting, in person or by proxy, of the holders of a majority of shares of common stock outstanding on the record date will constitute a quorum, permitting the Company to conduct its business at the special meeting.

- **Required Vote and Voting Rights (pages 15 and 14).** Stockholder adoption and approval of the merger agreement requires the affirmative vote of at least a majority of the votes entitled to be cast at the special meeting. Each share of the Company s common stock is entitled to one vote. AIG has agreed to vote, or cause to be voted, all shares of Company common stock owned by AIG and its subsidiaries, in favor of the proposal to adopt and approve the merger agreement. This agreement by AIG ensures that the merger agreement will be adopted and approved by the holders of a majority of the votes entitled to be cast by the holders of the Company s common stock, as required by Delaware law. A failure to vote your shares of Company common stock or an abstention from voting will have the same effect as a vote against the merger.

- **How Shares are Voted (page 15).** You may vote by attending the special meeting and voting in person by ballot, by completing the enclosed proxy card and then signing, dating and returning it in the self-addressed postage pre-paid envelope provided or by completing your proxy by following the instructions supplied on the proxy card for voting by telephone or via the Internet. Submitting a proxy now will not limit your right to vote at the special meeting if you decide to attend in person. If your shares are held of record in street name, by a broker, nominee, fiduciary or other custodian and you wish to vote in person at the special meeting, you must obtain from the record holder a proxy issued in your name.

- **Revocation of Proxies (page 15**). You may revoke your proxy at any time before it is actually voted by giving notice in writing to the Secretary of the Company, by giving notice in open meeting at the special meeting or by submitting a duly executed proxy bearing a later date. Attendance at the special meeting will not, by itself, revoke a proxy. If you have given voting instructions to a broker, nominee, fiduciary or other custodian that holds your shares in street name, you may revoke those instructions by following the directions given by the broker, nominee, fiduciary or other custodian.

Structure of the Transaction (page 17)

The proposed transaction is a merger of Merger Sub with and into the Company, with the Company continuing as the surviving corporation in the merger.

The Merger. Following the satisfaction or waiver of other conditions to the merger, the following will occur in connection with the merger:

- all shares of the Company s common stock that are held by the Company or any other direct or indirect wholly owned subsidiary of the Company (except for shares held on behalf of third parties) will be cancelled and retired without any consideration payable therefor;

- all shares of the Company s common stock that are held by AIG, Merger Sub or any other direct or indirect wholly owned subsidiary of AIG (except for shares held by any mutual fund advised or managed by any of AIG, Merger Sub or any other direct or indirect wholly owned subsidiary of AIG) will remain outstanding and receive no consideration therefor;

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- each outstanding vested stock option (including those options that will vest on or before the first anniversary of the effective time of the merger) at the effective time of the merger issued under a Company stock option plan will be cancelled and each holder thereof will receive from the Company, on the closing date, an amount in cash equal to the product of (1) the excess, if any, of the per-share merger consideration of $22.00 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option, less applicable taxes required to be withheld with respect to such payment;

- each stock option that is scheduled to vest following the first anniversary of the effective time will be terminated and, as soon as practicable following the effective time, each holder thereof will receive from AIG restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to the product of (1) the number of shares subject to such options multiplied by (2) the excess of the per-share merger consideration over the exercise price per share under such Company option;

- each compensatory right of any kind, contingent or accrued, to acquire or receive shares or benefits measured by the value of shares, and each award of any kind consisting of shares that may be held, awarded, outstanding, payable or reserved for issuance under Company stock plans or benefit plans (other than stock options) (the Company Awards) that have vested or will vest on or before the first anniversary of the effective time of the merger will be cancelled and each holder thereof will receive from AIG an amount of cash equal to the product of (1) the number of shares actually or nominally subject to such Company Award immediately prior to the effective time multiplied by (2) the per-share merger consideration of $22.00, less applicable taxes required to be withheld with respect to such payment;

- each Company Award that is scheduled to vest following the first anniversary of the effective time will be terminated and, as soon as practicable following the effective time, each holder thereof will receive from AIG restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to the product of (1) the number of shares actually or nominally subject to such Company Awards multiplied by (2) the per-share merger consideration of $22.00;

- each other share of Company common stock issued and outstanding immediately before the effective time of the merger (other than any share as to which a dissenting stockholder has perfected and not withdrawn appraisal rights under Delaware law) will be converted into the right to receive $22.00 in cash without interest;

- each share of Merger Sub common stock will be converted into a specified number of shares of common stock of the Company, as the surviving corporation in the merger; and

- each share of Company common stock the holders of which perfect their appraisal rights and strictly follow certain procedures in the manner prescribed by Section 262 of the General Corporation Law of the State of Delaware, or DGCL, will be cancelled and the holders of such shares will be entitled to receive payment of the fair value as determined pursuant to court appraisal proceedings of their shares in cash from the Company, as the surviving corporation of the merger.

Purpose and Reasons for the Merger (page 19)

The Company s purpose in undertaking the merger is to allow its stockholders (other than AIG and its subsidiaries) to realize the value of their investment in the Company in cash at a price that represents a 32.6% premium to the market price of Company common stock before the public announcement of the initial proposal by AIG to acquire 100% ownership of the Company.

AIG s and Merger Sub s purpose for engaging in the merger is to increase AIG s and its subsidiaries ownership of Company common stock from their current position of approximately 60.7% of the

outstanding shares to 100%. Upon completion of the merger, the Company would become a privately held company wholly owned by AIG and its subsidiaries.

Certain Effects of the Merger (page 56)

Among other results of the merger, the stockholders of the Company (other than AIG and its subsidiaries) will no longer have any interest in, and will no longer be stockholders of, the Company and will not participate in any future earnings or growth of the Company, and AIG will own, directly or indirectly, all of the outstanding shares of the Company. Following the merger, Company common stock will no longer be publicly traded, and the Company will no longer file periodic reports with the Securities and Exchange Commission (SEC).

The Company s Position as to the Fairness of the Merger; Recommendations of the Special Committee and the Board of Directors (pages 38 and 31)

Because certain members of the Company s board of directors have actual or potential conflicts of interest in evaluating the merger, the board of directors appointed a Special Committee of independent directors, consisting of John B. De Nault III, Carlene M. Ellis, Dr. R. Scott Foster and Keith W. Renken (the Special Committee), to evaluate the merger and the merger agreement and make a recommendation to the board of directors with respect to the merger agreement.

Both the Special Committee and the board of directors of the Company, after careful consideration of numerous factors, have determined that the merger agreement and the merger are advisable, fair to and in the best interests of the Company s stockholders (other than AIG and its subsidiaries).

Acting on the recommendation of the Special Committee, the board of directors has unanimously adopted a resolution approving the merger agreement and approved the merger. The board of directors, based in part on the recommendation of the Special Committee, recommends that the Company s stockholders vote for the approval of the merger agreement.

Opinion of Financial Advisor to the Special Committee (page 40)

Lehman Brothers has delivered an opinion to the Special Committee to the effect that, based on and subject to the assumptions, limitations and qualifications set forth in the opinion, as of the date of the opinion, from a financial point of view, the consideration to be offered to the stockholders of the Company (other than AIG and its subsidiaries) in the merger is fair to such stockholders. The full text of Lehman Brothers written opinion is included in this proxy statement as Annex B. You should read the opinion carefully in its entirety.

As compensation for its services in connection with the merger, the Company agreed to pay Lehman Brothers a retainer of $200,000 and an opinion fee of $1 million upon the delivery of Lehman Brothers opinion. Additional compensation of $2,800,000 will be payable upon completion of the merger. In addition, the Company has agreed to reimburse Lehman Brothers for reasonable out-of-pocket expenses incurred in connection with the merger and to indemnify Lehman Brothers for certain liabilities that may arise out of its engagement by the Special Committee and the rendering of the Lehman Brothers opinion.

Position of AIG and Merger Sub as to the Fairness of the Merger (page 36)

AIG and Merger Sub believe that the merger is substantively and procedurally fair to the stockholders of the Company (other than AIG and its subsidiaries). In arriving at their position as to the fairness of the merger, AIG and Merger Sub considered the factors discussed in the section entitled SPECIAL FACTORS Position of AIG as to the Fairness of the Merger to the Company s Stockholders (other than AIG and its subsidiaries).

Interests of Certain Persons in the Merger (page 58)

In considering the recommendation of the board of directors, you should be aware that certain of the Company s executive officers and directors and AIG and its subsidiaries have interests in the transaction that are different from, or are in addition to, the interests of the Company s stockholders (other than AIG and its subsidiaries) generally. The Special Committee and the board of directors were aware of these potential or actual conflicts of interest and considered them along with other matters when they determined to recommend the merger. These interests, which are discussed in detail in the section entitled SPECIAL FACTORS Interests of Certain Persons in the Merger, include the following:

- certain members of the Company s board of directors are affiliated with AIG and have actual or potential conflicts of interest in evaluating the merger;

- Bruce Marlow is the Company s President, Chief Executive Officer and Vice-Chairman, and a member of the board of directors. Upon consummation of the merger, it is anticipated that Mr. Marlow will continue in the position of President of the combined entity of the Company and the profit center of AIG s subsidiaries called AIG Direct. At the request of AIG, Mr. Marlow has entered into a new employment agreement with the Company and AIG, which will be effective upon the consummation of the merger. The employment agreement supersedes both Mr. Marlow s current retention agreement with the Company, as well as the Company s 1998 Executive Severance Plan. Mr. Marlow s employment agreement has a term through December 31, 2009, and provides for an annual base salary of not less than $950,000 and a target annual bonus of 100% of base salary. In addition, if Mr. Marlow remains employed for one year after the consummation of the merger or is otherwise terminated under certain circumstances within three years, he will receive retention and/or severance payments;

- each member of management and the board of directors who holds a vested stock option (including those that will vest on or before the first anniversary of the effective time of the merger) at the effective time of the merger that was issued under a Company stock option plan will have the right to receive cash in respect of such stock option in an amount equal to the product of (1) the excess, if any, of the per-share merger consideration of $22.00 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option, less applicable taxes required to be withheld with respect to such payment;

- each member of management and the board of directors who holds a stock option scheduled to vest following the first anniversary of the effective time of the merger shall receive from AIG restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to the product of (1) the number of shares subject to such option multiplied by (2) the excess, if any, of the per-share merger consideration of $22.00 over the exercise price per share under such Company option;

- each member of management and the board of directors who holds a vested Company Award (including those that will vest on or before the first anniversary of the effective time of the merger) at the effective time of the merger issued under a Company Award plan will have the right to receive cash in respect of such Company Award in an amount equal to the product of (1) the number of shares actually or nominally subject to such Company Award immediately prior to the effective time multiplied by (2) the per-share merger consideration of $22.00, less applicable taxes required to be withheld with respect to such payment;

- each member of management and the board of directors who holds a Company Award that is scheduled to vest following the first anniversary of the effective time of the merger shall receive from AIG restricted stock units of AIG s common stock with a value (as reasonably determined in

good faith by AIG) equal to the product of (1) the number of shares actually or nominally subject to such Company Awards multiplied by (2) the per-share merger consideration of $22.00;

- in connection with the merger agreement, the Company has entered into retention and severance agreements with the following officers of the Company: Richard A. Andre; Michael J. Cassanego; Chong Ha; Marlis S. Kerby; Allen Lew; John M. Lorentz; Michael T. Ray; Caren L. Silvestri; Dean E. Stark; Anthony W. Tomich; and Jesus C. Zaragoza. The retention and severance agreements are effective upon the effective time of the merger and provide that, among other things, (i) each executive shall be entitled to receive a cash retention payment if the executive remains employed by the Company on the first anniversary of the effective time of the merger, (ii) if the executive is terminated without cause or terminates his employment for good reason before the third anniversary of the effective time of the merger, the executive will be entitled to receive a cash severance payment, as well as specified health and insurance benefits, and (iii) the executive agrees not to compete with the Company or solicit any Company employees for employment during the period the executive is employed with the Company and for a twelve-month period thereafter;

- the merger agreement provides that the merger shall be treated as a change in control for purposes of the Company s Supplemental Executive Retirement Plan (the SERP) and benefits under the SERP will cease to accrue as of the effective time of the Merger. Participants in the SERP who were actively employed by the Company as of the date of the merger will have the opportunity prior to the effective time of the Merger to make an election to have their benefits under the SERP be paid out to them in cash on January 4, 2008;

- the merger agreement provides that following the merger indemnification and insurance arrangements will be maintained for the persons serving as the Company s directors and officers; and

- each member of the Special Committee received a fee of $1,500 for each Special Committee meeting attended in connection with the proposed merger. Such fees amounted to up to $6,000 per meeting and $237,000 in the aggregate, without regard to whether the Special Committee ultimately recommended approval of the merger agreement or whether the merger is consummated. The members of the Special Committee will also be reimbursed for their reasonable out-of-pocket travel and other expenses in connection with their service on the Special Committee.

No Solicitation of Transactions (page 78)

The merger agreement contains restrictions on the Company s ability to (i) initiate, solicit, knowingly encourage or facilitate any inquiries or the making of any acquisition proposal, (ii) engage in, continue or otherwise participate in any discussions or negotiations regarding, or provide any confidential or non-public information to any person relating to, any acquisition proposal (except solely to provide written notice of the existence of these provisions), or (iii) otherwise knowingly facilitate any effort or attempt to make an acquisition proposal.

The Company may, however, if specified conditions are satisfied and the board of directors or Special Committee, as the case may be, determines in good faith after consultation with outside legal counsel that the failure to take such action would reasonably be expected to result in a violation of the directors fiduciary duties under applicable law, engage in negotiations or discussions with, and provide information about the Company to, any third party that makes an unsolicited bona fide written acquisition proposal that the board of directors or the Special Committee in good faith determines constitutes a superior proposal or is reasonably likely to result in a superior proposal. The board of directors or Special Committee may also withhold, withdraw or modify its recommendation of the merger agreement at any time prior to the time the Company requisite vote is obtained if it determines in good faith, after consultation with legal and financial advisors, that the failure to do so would reasonably be expected to result in a violation of the directors fiduciary duties under applicable laws.

Conditions to Completion of the Merger (page 82)

The obligations of the Company and/or AIG to complete the merger are subject to the satisfaction or waiver of various conditions specified in the merger agreement, including conditions relating to, among other things:

- approval of the merger agreement by the Company s stockholders;
- the absence of any court or governmental entity enacting, issuing, promulgating, enforcing or entering any law that is in effect which restrains, enjoins or otherwise prohibits consummation of the merger;
- obtaining necessary governmental consents and approvals for the transactions contemplated under the merger agreement;
- the absence of any suit, action or proceeding in which a governmental entity is seeking an Adverse Condition (as defined in the merger agreement), or any law deemed applicable to the merger that is reasonably likely to result in an Adverse Condition;
- performance by the parties of their obligations under the merger agreement; and
- the accuracy of the parties representations and warranties under the merger agreement.

Termination of the Merger Agreement (page 84)

The merger agreement may be terminated at any time and for any reason prior to the effective time of the merger by mutual written consent of the Company (acting through the Special Committee, if then in existence) and AIG. Either the Company (acting through the Special Committee, if then in existence) or AIG may terminate the merger agreement at any time prior to the effective time of the merger if:

- the merger is not consummated by November 30, 2007; *provided*, *however*, that if the Company or AIG determines that additional time is necessary in order to forestall any action to restrain, enjoin or prohibit the merger by any governmental entity, the termination date may be extended to a date not beyond February 29, 2008;
- there is a failure to obtain approval of the merger agreement by the Company s stockholders at the special meeting;
- the board of directors of the Company (upon the recommendation of the Special Committee, if then in existence) or the Special Committee changes its recommendation of the transaction; or
- any order or other governmental action prohibits the merger.

In addition, the Company (acting through the Special Committee, if then in existence) may terminate the merger agreement at any time prior to the effective time of the merger under specified circumstances relating to:

- a breach of any representation, warranty, covenant or agreement made by AIG in the merger agreement which renders certain conditions to the completion of the merger incapable of being satisfied.

In addition, AIG may terminate the merger agreement at any time prior to the effective time of the merger under specified circumstances relating to:

- a breach of any representation, warranty, covenant or agreement made by the Company in the merger agreement which renders certain conditions to the completion of the merger incapable of being satisfied.

In the event that the merger agreement is terminated by the Company or AIG as a result of a change in the board of directors or the Special Committee s recommendation of the merger agreement, then the Company is required to pay AIG a termination fee of $24,300,000 no later than two (2) days after the date of such termination.

Litigation Related to the Merger (page 63)

Edward Bronstein v. 21st Century Insurance Group, et al. and Francis A. Sliwinski v. 21st Century Insurance Group, et al. allege that the Company, its directors and AIG have breached, or will breach, fiduciary duties as a result of AIG s January 24, 2007 merger proposal to acquire the remaining shares of Company stock which AIG does not own. Both actions were filed in the Los Angeles Superior Court in January 2007 and seek class action certification and equitable relief. The Bronstein and Sliwinski actions have been consolidated into a single action captioned In re 21st Century Shareholder Litigation.

On May 23, 2007, a third action, Paul Roberts v. 21st Century Insurance Group, et al. was filed in Los Angeles Superior Court. The Roberts action alleges that the Company, its directors and AIG are breaching fiduciary duties by entering into the merger agreement dated May 15, 2007 and completing the contemplated merger. The Roberts action seeks class certification and equitable relief. The parties have agreed that the Roberts action should be consolidated with In re 21st Century Shareholder Litigation, and a consolidation motion has been filed.

The Company believes that each of the actions is without merit.

Federal Income Tax Consequences (page 63)

The receipt of cash in exchange for Company common stock will be a taxable transaction for U.S. federal income tax purposes and may also be taxable under applicable state, local, foreign or other tax laws. In general, United States holders of Company common stock who receive cash in exchange for their shares pursuant to the merger (including any cash received in connection with the exercise of appraisal rights) will recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the holder s adjusted tax basis in the shares and the amount of cash received. If the United States holder holds Company common stock as a capital asset, any gain or loss should generally be a capital gain or loss. If the United States holder has held the shares for more than one (1) year, any gain or loss should generally be a long-term gain or loss. The deductibility of capital losses is subject to limitations. Tax matters are very complex, and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you, including the federal, state, local and foreign tax consequences of the merger. See SPECIAL FACTORS Federal Income Tax Consequences.

Appraisal Rights (page 65)

If you do not vote in favor of approval of the merger agreement and you fulfill other procedural requirements, Delaware law entitles you to a judicial appraisal of the fair value of your shares. See SPECIAL FACTORS Appraisal Rights.

QUESTIONS AND ANSWERS ABOUT THE MERGER

The following questions and answers, presented for your convenience only, briefly address some commonly asked questions about the merger. You should still carefully read the entire proxy statement, including the information incorporated by reference and the annexes.

Q: Why am I receiving these materials?

A: The board of directors is providing these proxy materials to give you information for use in determining how to vote on the merger agreement in connection with the special meeting.

Q: When and where is the special meeting?

A: The special meeting will be held on , 2007 at 10:00 a.m., local time, at the Warner Center Marriott Hotel, 21850 Oxnard Street, Woodland Hills, California 91367.

Q: What am I being asked to vote upon?

A: You are being asked to consider and vote upon a proposal to adopt and approve the merger agreement, pursuant to which Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation in the merger.

Q: Who can vote on the proposal to adopt and approve the merger agreement?

A: All holders of Company common stock at the close of business on , 2007, the record date for the special meeting, may vote in person or by proxy on the proposal to adopt and approve the merger agreement at the special meeting.

Q: What vote is required to approve the merger agreement?

A: Stockholder approval of the merger agreement requires the affirmative vote of at least a majority of the votes entitled to be cast at the special meeting by holders of Company common stock.

Q: What will happen in the merger?

A: Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation in the merger. Merger Sub was formed by AIG solely for the purpose of acquiring all of the outstanding shares of Company common stock not already owned by AIG or its subsidiaries. After the merger, the Company will become a wholly owned subsidiary of AIG.

Q: What will I receive in the merger?

A: You will receive $22.00 in cash, without interest, in exchange for each share of common stock owned by you at the effective time of the merger, unless either (1) you are AIG, Merger Sub or any direct or indirect wholly owned subsidiary of AIG or (2) you vote against approval of the merger agreement and perfect your appraisal rights under Delaware law.

Q: What are the reasons for the merger?

A: The Company s purpose in undertaking the merger is to allow its stockholders (other than AIG and its subsidiaries) to realize the value of their investment in the Company in cash at a price that represents a 32.6%

premium to the market price of Company common stock before the public announcement of the initial proposal by AIG to acquire 100% ownership of the Company.

AIG s and Merger Sub s purpose for engaging in the merger is to increase AIG s and its subsidiaries ownership of Company common stock from their current position of approximately 60.7% of the Company s outstanding shares to 100%. Upon completion of the merger, the Company would become a privately held company wholly owned by AIG and its subsidiaries.

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Q: What was the role of the Special Committee?

A: Because certain directors of the Company have actual or potential conflicts of interest in evaluating the merger, the board of directors appointed a Special Committee of independent directors to review and evaluate the proposed merger.

Q: What is the recommendation of the Special Committee?

A: The Special Committee has determined that the merger and the merger agreement are advisable, fair to and in the best interests of the Company and its stockholders (other than AIG and its subsidiaries) and recommended to the Company s board of directors that the merger and the merger agreement be approved and adopted. In arriving at its conclusion, the Special Committee considered the opinion of Lehman Brothers, its independent financial advisor, that, as of the date of such opinion and based upon and subject to the limitations, qualifications and assumptions set forth in the opinion, from a financial point of view, the consideration to be offered to the stockholders of the Company (other than AIG and its subsidiaries) in the merger is fair to such stockholders.

Q: What is the recommendation of the board of directors?

A: The board of directors, based in part on the recommendation of the Special Committee, unanimously recommends that the Company s stockholders vote FOR the approval of the merger agreement. Both the Special Committee and the board of directors of the Company, after careful consideration of numerous factors, have determined that the merger agreement and the merger are advisable, fair to and in the best interests of the stockholders of the Company (other than AIG and its subsidiaries). See SPECIAL FACTORS Recommendations of the Special Committee and the Board of Directors; Reasons for Recommending the Approval and Adoption of the Merger Agreement on page 31.

Q: What are the consequences of the merger to present members of management and the board of directors?

A: Immediately following the merger it is expected that the Company s existing members of management will continue as management of the surviving corporation. Like other stockholders, members of management and the board of directors will be entitled to receive $22.00 per share in cash for each of their shares of Company common stock. The directors of Merger Sub at the effective time of the merger will be the initial directors of the Company, as the surviving corporation, until their successors have been duly elected and qualified or until their earlier death, resignation or removal.

Each member of management and the board of directors who holds a stock option or Company Award at the effective time of the merger that was issued under a Company stock option or benefit plan will have the right to receive a predetermined amount of cash or restricted stock units of AIG s common stock, as applicable, in respect of such stock option or Company Award.

In connection with the merger agreement, the Company and AIG have entered into a new employment agreement with Bruce W. Marlow, the Company s President, Chief Executive Officer and Vice-Chairman, and a member of the board of directors, which will be effective upon the closing of the merger. In addition, the Company has also entered into retention and severance agreements with certain of its executive officers, which will be effective upon the consummation of the merger.

For more information, see SPECIAL FACTORS Interests of Certain Persons in the Merger on page 58.

Q: Is the Merger subject to the satisfaction of any conditions?

A: Yes. Before completion of the transactions contemplated by the merger agreement, a number of closing conditions must be satisfied or waived. These conditions are described in this proxy statement in the section entitled THE MERGER AGREEMENT Conditions to the Merger. These conditions include, among others, no order being entered which prevents the consummation of the merger; the obtaining of necessary governmental consents and approvals for the transactions contemplated by the merger agreement; the accuracy of the parties representations and warranties under the merger agreement; and the approval and adoption of the merger agreement and the merger by the stockholders of the Company. If these conditions are not satisfied or waived, the merger will not be completed even if the Company s stockholders vote to adopt the merger agreement.

Q: When do you expect the merger to be completed?

A: We are working toward completing the merger as quickly as possible after the special meeting. We hope to complete the merger during the third quarter of 2007, although there can be no assurance that we will be able to do so.

Q: What are the U.S. federal income tax consequences of the merger to holders of Company common stock (other than AIG and its subsidiaries)?

A: The receipt of cash in exchange for Company common stock will be a taxable transaction for U.S. federal income tax purposes and may also be taxable under applicable state, local, foreign or other tax laws. In general, United States holders of Company common stock who receive cash in exchange for their shares pursuant to the merger (including any cash received in connection with the exercise of appraisal rights) will recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the holder s adjusted tax basis in the shares and the amount of cash received. If the United States holder holds Company common stock as a capital asset, any gain or loss should generally be a capital gain or loss. If the United States holder has held the shares for more than one (1) year, any gain or loss should generally be a long-term gain or loss. The deductibility of capital losses is subject to limitations. Tax matters are very complex, and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you, including the federal, state, local and foreign tax consequences of the merger. See SPECIAL FACTORS Federal Income Tax Consequences.

Q: How do I vote my Company common stock?

A: After carefully reading and considering the information contained in this proxy statement, and whether or not you plan to attend the special meeting in person, please complete, sign, date and return the enclosed proxy in the accompanying self-addressed postage pre-paid envelope or complete your proxy by following the instructions supplied on the proxy card for voting by telephone or via the Internet (or, if your shares are held in street name by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct it to vote your shares) as soon as possible. For more information on how to vote your shares, see the section entitled THE SPECIAL MEETING How Shares are Voted; Proxies; Revocation of Proxies on page 15.

Q: What happens if I do not return a proxy card?

A: If you neither vote at the meeting nor grant your proxy as described in this proxy statement, your shares will not be voted, which will have the effect of voting against the approval of the merger agreement.

Q: May I vote in person?

A: Yes. You may attend the special meeting and vote your shares in person whether or not you sign and return your proxy card. If your shares are held of record in street name by a broker, nominee, fiduciary or other custodian and you wish to vote in person at the special meeting, you must obtain from the record holder a proxy issued in your name.

Q: May I change my vote after I have mailed my signed proxy card?

A: Yes. You may revoke your proxy at any time before it is actually voted by giving notice in writing to the Secretary of the Company, by giving notice in open meeting at the special meeting or by submitting a duly executed proxy bearing a later date. Attendance at the special meeting will not, by itself, revoke a proxy. If you have given voting instructions to a broker, nominee, fiduciary or other custodian that holds your shares in street name, you may revoke those instructions by following the directions given by the broker, nominee, fiduciary or other custodian.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedures provided by your broker. Failure to instruct your broker to vote your shares will have the effect of voting against adoption of the merger agreement.

Q: What does it mean if I receive more than one set of materials?

A. This means you own shares of Company common stock that are registered under different names. For example, you may own some shares directly as a stockholder of record and other shares through a broker; or you may own shares through more than one broker. In these situations, you will receive multiple sets of proxy materials. You must complete, sign, date and return all of the proxy cards or follow the instructions for any alternative voting procedure on each of the proxy cards that you receive in order to vote all of the shares you own. Each proxy card you receive comes with its own prepaid return envelope; if you vote by mail, make sure you return each proxy card in the return envelope that accompanies that proxy card.

Q: If the merger is completed, how will I receive the cash for my shares?

A. If the merger is completed, you will be contacted by the bank or trust company designated by AIG to act as paying agent in connection with the merger. The paying agent will provide instructions that will explain how to surrender stock certificates. You will receive cash for your shares from the paying agent after you comply with these instructions. If your shares are held for you in street name by a broker, nominee, custodian or other fiduciary, you will receive instructions from the broker, nominee, custodian or other fiduciary as to how to effect the surrender of your shares and receive cash for those shares.

Q: Should I send in my stock certificates now?

A: No. If the merger is completed, you will receive written instructions for exchanging your Company stock certificates for cash.

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Q: What rights do I have to seek appraisal of my shares?

A: The Company s stockholders (other than AIG and its subsidiaries) are entitled to exercise appraisal rights in connection with the merger. If you do not vote in favor of the merger and it is completed, you may seek payment of the fair value of your shares under Delaware law. To do so, however, you must strictly comply with all of the required procedures under Delaware law. See THE MERGER AGREEMENT Appraisal Rights beginning on page 69.

Q: Who can help answer my questions?

A: If you would like additional copies, without charge, of this proxy statement, or if you have questions about the merger agreement or the merger, including the procedures for voting your shares, you may contact us in writing at 21st Century Insurance Group, 6301 Owensmouth Avenue, Woodland Hills, California, 91367, or by telephone at (818) 704-3700.

FORWARD-LOOKING STATEMENTS

Any statements in this proxy statement about future expectations, plans and prospects, including statements regarding consummation of the proposed merger, constitute forward-looking statements. In some cases, forward-looking statements may be identified by their incorporation of forward-looking terminology such as anticipate, believe, continue, estimate, expect, intend, should or will and other comparable ex Forward-looking statements are subject to risks and uncertainties, which could cause actual results or outcomes to differ materially from those currently anticipated. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including the matters discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements in the Company s most recent quarterly or annual report filed with the SEC, as well as factors relating to the proposed merger, including (i) diversion of management attention from the operations of the business as a result of preparations for the proposed merger and the defense of litigation in connection with the proposed merger and (ii) the cost of litigation and other transaction related expenses that are expected to be incurred regardless of whether the proposed merger is consummated. Stockholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are made only as of the date of this proxy statement, and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. Notwithstanding the foregoing, in the event of any material change in any of the information previously disclosed, the Company will, where relevant and if required by applicable law, (i) update such information through a supplement to this proxy statement and (ii) amend the Transaction Statement on Schedule 13E-3 filed in connection with the merger, in each case, to the extent necessary.

THE SPECIAL MEETING

Date, Time and Place

The special meeting will be held on , 2007 at 10:00 a.m., local time, at the Warner Center Marriott Hotel, 21850 Oxnard Street, Woodland Hills, California 91367.

Matters to be Considered

At the special meeting, stockholders will be asked to:

- consider and vote upon a proposal to adopt and approve the merger agreement; and
- transact such other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

Record Date; Voting Rights

The Company has fixed , 2007 as the record date for the special meeting. Only holders of record of Company common stock as of the close of business on the record date are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. As of the close of business on the record date, there were shares of Company common stock issued and outstanding held by approximately holders of record.

Quorum

The presence in person or by proxy of a majority of the votes entitled to be cast by the holders of Company common stock will constitute a quorum at the special meeting.

Any shares of Company common stock held in treasury by the Company or by any of its subsidiaries are not considered to be outstanding on the record date or otherwise entitled to vote at the special meeting for purposes of determining a quorum.

Shares represented by proxies reflecting abstentions and properly executed broker non-votes will be counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote arises when a bank, broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received voting instructions from the beneficial owner.

Required Vote

Stockholder adoption and approval of the merger agreement requires the affirmative vote of at least a majority of the votes entitled to be cast at the special meeting by holders of Company common stock.

AIG and its subsidiaries have agreed to vote in favor of the merger agreement shares beneficially owned by them representing approximately 60.7% of the Company s outstanding common stock entitled to vote at the meeting.

A failure to vote, a vote to abstain or a broker non-vote will have the same effect as a vote AGAINST the proposal to adopt and approve the merger agreement.

If the special meeting is adjourned or postponed for any reason, at any subsequent reconvening of the special meeting, all proxies will be voted in the same manner as they would have been voted at the original convening of the meeting (except for any proxies that have been revoked or withdrawn).

How Shares are Voted; Proxies; Revocation of Proxies

You may vote by attending the special meeting and voting in person by ballot, by completing the enclosed proxy card and then signing, dating and returning it in the postage pre-paid envelope provided or by completing your proxy by following the instructions supplied on the proxy card for voting by telephone or via the Internet. Submitting a proxy now will not limit your right to vote at the special meeting if you decide to attend in person. If your shares are held of record in street name by a broker, nominee, fiduciary or other custodian and you wish to vote in person at the special meeting, you must obtain from the record holder a proxy issued in your name.

Shares represented by a properly executed proxy on the accompanying proxy card will be voted at the special meeting and, when instructions have been given by the stockholder, will be voted in accordance with those instructions. If you submit a proxy by signing and returning a proxy card without giving voting instructions, the persons named as proxies on the proxy card will vote your shares FOR the approval of the merger agreement.

As of the date of this proxy statement, the Company does not expect a vote to be taken on any matters at the special meeting other than the proposal to adopt and approve the merger agreement. The accompanying proxy card gives the persons named as proxies on the proxy card authority to vote in their discretion with respect to any other matters that properly come before the special meeting.

You may revoke your proxy at any time before it is actually voted by giving notice in writing to the Secretary of the Company, by giving notice in open meeting at the special meeting or by submitting a duly executed proxy bearing a later date. Attendance at the special meeting will not, by itself, revoke a proxy. If you have given voting instructions to a broker, nominee, fiduciary or other custodian that holds your shares in street name, you may revoke those instructions by following the directions given by the broker, nominee, fiduciary or other custodian.

Solicitation of Proxies

This proxy statement is being furnished in connection with the solicitation of proxies by the Company s board of directors. The Company will bear the costs of soliciting proxies. These costs include the preparation, assembly and mailing of the proxy statement, the notice of the special meeting of stockholders and the enclosed proxy, as well as the cost of forwarding these materials to the beneficial owners of Company common stock. The Company s directors, officers and regular employees may, without compensation other than their regular compensation, solicit proxies by mail, e-mail or telephone, in person or via the Internet.

Appraisal Rights

Stockholders who do not vote in favor of approval of the merger agreement and who otherwise strictly comply with the procedures for perfecting appraisal rights under the applicable statutory provisions of Delaware law summarized elsewhere in this proxy statement may demand payment of the fair value of their shares in cash in connection with the consummation of the merger. See SPECIAL FACTORS Appraisal Rights.

Adjournment

If the special meeting is adjourned to a different place, date or time, the Company need not give notice of the new place, date or time if the new place, date or time is announced at the meeting before adjournment, unless a new record date is or must be set for the adjourned meeting, or if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed.

Attending the Special Meeting

In order to attend the special meeting in person, you must be a stockholder of record on the record date, hold a valid proxy from a record holder or be an invited guest of the Company. You will be asked to provide proper identification at the registration desk on the day of the meeting or any adjournment of the meeting.

PARTIES INVOLVED IN THE PROPOSED TRANSACTION

21st Century Insurance Group
6301 Owensmouth Avenue
Woodland Hills, CA 91367
Telephone: 818-704-3700

Founded in 1958, the Company is a Delaware corporation engaged in the business of providing direct-to-consumer personal auto insurance through its subsidiaries. With $1.4 billion of revenue in 2006, the Company insures over 1.5 million vehicles in 18 states, including California, Florida, New Jersey, Texas and the Company s newest market, New York. The Company is executing a multi-year geographic expansion strategy. As a result, the Company now operates in markets that total approximately 66% of the U.S. private passenger automobile market. The Company increased the percentage of the U.S. private passenger automobile market in which it operates, up from approximately 18% in 2003. Customers can purchase insurance, service their policy or report a claim at www.21st.com or by phone with our licensed insurance professionals at 1-800-211-SAVE, 24 hours a day, 365 days a year. Service is offered in English and Spanish, both on the phone and on the web. 21st Century Insurance Company, 21st Century Casualty Company and 21st Century Insurance Company of the Southwest, all wholly owned subsidiaries of the Company, are rated A+ by A. M. Best, Fitch Ratings and Standard & Poor s. Since July 27, 1998, AIG and its related entities have owned a controlling equity interest in the Company.

Additional information about the Company is contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, its Form 10-K/A statement filed with the SEC on April 26, 2007, and its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, each of which is incorporated in this proxy statement by reference. See WHERE YOU CAN FIND MORE INFORMATION on page 105.

American International Group, Inc.
70 Pine Street
New York, NY 10270
Telephone: 212-770-7000

AIG is a holding company which, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG s primary activities include both general insurance and life insurance and retirement services operations. AIG and its subsidiaries serve commercial, institutional and individual customers through an extensive worldwide property-casualty and life insurance network. Other significant activities include financial services and asset management. As a result of the merger, AIG and its subsidiaries will collectively own 100% of the Company.

AIG TW Corp.
c/o American International Group, Inc.
70 Pine Street
New York, NY 10270
Telephone: 212-770-7000

Merger Sub, a newly formed Delaware corporation and a wholly owned subsidiary of AIG, has been organized by AIG for the sole purpose of facilitating the merger. Merger Sub s corporate existence will terminate upon consummation of the merger.

SPECIAL FACTORS

Structure of the Transaction

The proposed transaction is a merger of Merger Sub with and into the Company, with the Company continuing as the surviving corporation in the merger.

The principal steps that will accomplish the merger are as follows:

The Merger. Following the satisfaction or waiver of other conditions to the merger, the following will occur in connection with the merger:

- all shares of Company common stock that are held by the Company or any other direct or indirect wholly owned subsidiary of the Company (except for shares held on behalf of third parties) will be cancelled and retired without any consideration payable therefor;

- all shares of Company common stock that are held by AIG, Merger Sub or any other direct or indirect wholly owned subsidiary of AIG (except for shares held by any mutual fund advised or managed by AIG, Merger Sub or any other direct or indirect wholly owned subsidiary) will remain outstanding and receive no consideration therefor;

- each outstanding vested stock option (including those options that will vest on or before the first anniversary of the effective time of the merger) at the effective time of the merger issued under a Company stock option plan will be cancelled and each holder thereof will receive from the Company, on the closing date, an amount in cash equal to the product of (1) the excess, if any, of the per-share merger consideration of $22.00 over the per-share exercise price of such stock option,

multiplied by (2) the number of shares subject to such stock option, less applicable taxes required to be withheld with respect to such payment;

- each stock option that is scheduled to vest following the first anniversary of the effective time will be terminated and, as soon as practicable following the effective time, each holder thereof will receive from AIG restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to (1) the number of shares subject to the Company options multiplied by (2) the excess of the per-share merger consideration over the exercise price per share under such Company option;

- each Company Award that has vested or will vest on or before the first anniversary of the effective time of the merger will be cancelled and each holder thereof will receive from AIG an amount of cash equal to the product of (1) the number of shares actually or nominally subject to such Company Award immediately prior to the effective time multiplied by (2) the per-share merger consideration of $22.00, less applicable taxes required to be withheld with respect to such payment;

- each Company Award that is scheduled to vest beyond the first anniversary of the effective time will be terminated and, as soon as practicable following the effective time, each holder thereof will receive from AIG restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to (1) the number of shares actually or nominally subject to such Company Awards multiplied by (2) the per-share merger consideration of $22.00;

- each other share of Company common stock issued and outstanding immediately before the merger becomes effective (other than any share as to which a dissenting stockholder has perfected and not withdrawn appraisal rights under Delaware law) will be converted into the right to receive $22.00 in cash without interest;

- each share of Merger Sub common stock will be converted into a specified number of shares of common stock of the Company, as the surviving corporation in the merger; and

- each share of Company common stock the holders of which perfect their appraisal rights and strictly follow certain procedures in the manner prescribed by Section 262 of the General Corporation Law of the State of Delaware, or DGCL, will be cancelled and the holders of such shares will be entitled to receive payment of the fair value as determined pursuant to court appraisal proceedings of their shares in cash from the Company, as the surviving corporation of the merger.

See THE MERGER AGREEMENT. As a result of the merger:

- the stockholders of the Company (other than AIG and its subsidiaries) will no longer have any interest in, and will no longer be stockholders of, the Company and will not participate in any future earnings or growth of the Company;

- AIG will own, directly or indirectly, all of the outstanding shares of the Company;

- shares of Company common stock will no longer be listed on the New York Stock Exchange, and price quotations with respect to sales of shares of Company common stock in the public market will no longer be available; and

- the registration of Company common stock under the Securities Exchange Act of 1934, or Exchange Act, will be terminated, and the Company will cease filing reports with the SEC.

Board of Directors of the Company. The board of directors of the Company after the completion of the merger will initially consist of the directors of Merger Sub at the effective time.

For additional details regarding the merger and interests of AIG in the transaction, see SPECIAL FACTORS Interests of Certain Persons in the Merger and THE MERGER AGREEMENT.

Purpose and Reasons for the Merger

Purposes and Reasons for the Merger of the Company

The Company s purpose in undertaking the merger is to allow its stockholders (other than AIG and its subsidiaries) to realize the value of their investment in the Company in cash at a price that represents a 32.6% premium to the market price of Company common stock before the public announcement of the initial proposal by AIG to acquire 100% ownership of the Company.

Purposes and Reasons for the Merger of AIG and Merger Sub

Under the SEC rules governing going private transactions, AIG and Merger Sub are deemed to be engaged in a going private transaction and therefore are required to express their reasons for the merger to the Company s unaffiliated stockholders, as defined in Rule 13e-3 to the Exchange Act. AIG and Merger Sub are making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

As part of its ordinary course operations, AIG continuously considers strategic opportunities and alternatives for its portfolio of businesses. As outlined in the amended Schedule 13D that AIG filed with the SEC on January 24, 2007, the proposal AIG made on that date marked a change in AIG s intent with regard to its ownership position in the Company. For AIG and Merger Sub, the primary purpose for the merger is to increase AIG s and its subsidiaries ownership of the Company common stock from their current position of approximately 60.7% of the outstanding shares to 100%. AIG and Merger Sub will achieve this purpose by way of the merger of Merger Sub with and into the Company, pursuant to which all of the shares of Company common stock not already owned by AIG and its subsidiaries will be cancelled in exchange for $22.00 per share in cash, so that the Company can be operated as a wholly owned and privately held company by AIG and its subsidiaries. AIG and Merger Sub believe that structuring the transaction in such manner will enable AIG to acquire all of the outstanding shares of the Company, and at the same time, represents an opportunity for the Company s unaffiliated stockholders to monetize their investment at a full, compelling and fair cash value for their shares. AIG and its subsidiaries will benefit from any future earnings and growth of the Company after the merger, and they will bear the risk of their investment in the Company. The Company s unaffiliated stockholders will not benefit from any future earnings and growth of the Company after the merger, and they will not bear the risk of investment in the Company. For federal income tax consequences of the transaction for the Company s unaffiliated stockholders you should read the Federal Income Tax Consequences section of this proxy statement. Early in the process, AIG considered the potential for alternative transactions involving the Company, including a sale of or reduction of its controlling interest in the Company, but prior to making its initial public proposal, AIG dismissed all other alternatives except for the acquisition of the remaining shares of the Company not currently owned by it or by its subsidiaries. Other than with respect to the form of the transaction to be used and the form of the consideration to be used as described under Special Factors Background of the Merger , AIG and Merger Sub did not consider other alternatives to acquire the remaining shares of the Company. AIG and Merger Sub believe that structuring the transaction as a merger is preferable to a tender offer structure because a merger allows for a prompt and orderly transfer of ownership of the shares in a single step, without uncertainty as to the probability of acquiring enough shares to execute a back-end short-form merger associated with a tender offer.

AIG knows the Company s business well. AIG believes that by acquiring ownership of all of the outstanding stock of the Company it will have the opportunity to enhance the Company s performance by combining AIG s and the Company s expertise and resources in the personal auto insurance industry.

AIG believes that the combination of AIG s and the Company s personal auto insurance businesses will create the scale and sophistication to enable both companies to continue to respond effectively to the marketplace. For instance, since the Company s premium volume is almost the same as AIG Direct s, the premium base over which fixed costs can be spread will effectively double. AIG also anticipates being able to consolidate the IT infrastructure and certain other functions common to each operation. Finally, AIG expects that the total capital allocated to a combined AIG Direct and Company business will be less than the sum of the capital required for the two businesses to operate independently. Due to the challenges associated with combining two businesses in any acquisition, AIG cannot determine the magnitude of these financial benefits, or the time frame in which it expects to generate them. While AIG has not yet developed specific plans or proposals in this regard, AIG has formed a transition team to develop an integration plan that AIG and the Company will implement once the merger is completed. AIG is fully committed to maximizing the long-term business potential and customer servicing capabilities of the combined platform.

In addition, AIG believes that, as a privately held entity, the Company will have the flexibility and ability to devote its efforts and resources and to focus on improving its business without the constraints and distractions caused by the public equity market s valuation of the Company and regulatory burdens imposed by federal securities laws and regulations. AIG and Merger Sub believe that the merger, when completed, would serve the long-term interests of the Company and its policyholders.

Background of the Merger

As a result of the Northridge, California earthquake in January 1994, the Company s financial position was negatively impacted. Therefore, the Company determined that it would be advisable to receive an infusion of capital in exchange for the issuance of additional equity in the Company. In December 1994, AIG and the Company (formerly known as 20th Century Industries) entered into an Investment and Strategic Alliance Agreement whereby AIG acquired beneficial ownership of 40.59% of the Company s common stock through the acquisition of Series A Convertible Preferred Stock and Series A Warrants. Subsequently, in July 1998, through a combination of converting the Series A Preferred Stock, exercising the Series A Warrants, and open market purchases as well as privately negotiated transactions, AIG accumulated beneficial ownership of additional shares of Company common stock resulting in AIG owning a majority of the outstanding shares of Company common stock. Since that time, AIG has beneficially owned a majority of the outstanding shares of Company common stock.

In June 2006, AIG retained Sullivan & Cromwell LLP (S&C) as its legal advisor, to assist it in connection with a possible transaction involving the Company. Also in June 2006, AIG retained Banc of America Securities LLC (BAS) to act as its financial advisor in connection with a possible transaction with the Company. In July 2006, AIG retained J.P. Morgan Securities Inc. (JPMorgan , collectively with BAS AIG s Banking Representatives) to act as its financial advisor in connection with a possible transaction with the Company.

On July 26, 2006, Robert M. Sandler, Chairman of the Company and an Executive Vice President of AIG, as a courtesy, began informing the Company s independent directors of AIG s potential interest in acquiring the outstanding shares of the Company not owned by AIG and its subsidiaries.

On July 27, 2006, Brian T. Schreiber, AIG s Senior Vice President Strategic Planning, contacted Bruce W. Marlow, the Company s President and Chief Executive Officer, regarding AIG s potential interest in acquiring the outstanding shares of Company common stock not owned by AIG and its subsidiaries. Mr. Schreiber sent Mr. Marlow the following letter outlining a preliminary data request to allow AIG to refine its analysis in furtherance of potentially putting forth a valuation proposal with respect to the Company, as well as a confidentiality agreement.

AMERICAN INTERNATIONAL GROUP, INC.
70 PINE STREET
NEW YORK, NEW YORK 10270

Brian T. Schreiber
Senior Vice President
Strategic Planning

July 27, 2006

Mr. Bruce Marlow
President and CEO
21st Century Insurance Group
6301 Owensmouth Avenue
11th Floor
Woodland Hills, CA 91367

Dear Bruce:

Per our conversation, I have attached a preliminary information request. The information requested will allow AIG to refine its analysis and, should it decide to proceed, to put forth a valuation proposal in which it has a high degree of confidence. We may request additional confirmatory information once a valuation proposal has been made.

Once the requested information has been provided we also would hope to arrange a limited number of brief conference calls with a smaller number of senior executives to discuss key issues. Bob Sandler, Steve Bensinger and Jeff Hayman may participate in internal AIG discussions in formulating our valuation proposal. We would hope to get back to you with a valuation proposal within two weeks following the conference calls.

I have also attached a proposed confidentiality agreement. I understand that you have or will inform the non-AIG directors that AIG is conducting the information review described above and that all such information would be subject to the terms of the confidentiality agreement.

Please call me after you have reviewed the attached information request and confidentiality agreement so that we can discuss process and any questions you may have.

Very truly yours,
/s/ Brian T. Schreiber

On August 9, 2006, an ad hoc committee of the Company s independent board members, including John B. De Nault III, Carlene M. Ellis, Dr. R. Scott Foster, Phillip L. Isenberg and Keith W. Renken (the ad hoc committee) met at the Los Angeles office of Skadden, Arps, Slate, Meagher & Flom LLP (Skadden Arps) with representatives of the Company s management and Skadden Arps. At the meeting, the ad hoc committee and Skadden Arps discussed the Company s process for evaluating and responding to AIG s potential interest in making a proposal for a transaction, including potentially forming a special committee of independent directors of the Company s board of directors (the Board).

Between August 9, 2006 and August 17, 2006, Skadden Arps and S&C negotiated the terms of the confidentiality agreement.

During the weeks of August 14, 2006 and August 21, 2006, the ad hoc committee, the Company s management and Skadden Arps engaged in pre-interviews with investment banking firms under consideration to provide financial advice to the ad hoc committee and eventually a special committee of the Board.

On August 17, 2006, the ad hoc committee and the Company s management participated in a conference call with Skadden Arps regarding AIG s proposed confidentiality agreement, which was effective as of the same day.

Following the execution of the confidentiality agreement, during late August and early September of 2006, the Company s management responded to AIG s initial data requests by sending summary materials regarding the Company s business to AIG, including financial statements, expansion plans, expense breakdowns, tax information and information relating to legal and regulatory issues and litigation matters affecting the Company. During this time, AIG s Banking Representatives and legal advisors held due diligence calls with Company representatives and advisors to discuss certain of AIG s due diligence questions.

On September 11, 2006, the Company s management provided its projections to AIG.

In mid- to late-September 2006, the ad hoc committee and Skadden Arps held numerous telephonic meetings to discuss AIG s due diligence requests, the Company s financial projections prepared by the Company s management and the process of forming a special committee of the Board. Skadden Arps described the fiduciary duty standards applicable to a transaction in which AIG would purchase all of the outstanding shares not owned by it or its subsidiaries, as well as the independence standards for serving on a special committee formed to evaluate such a transaction.

On October 4, 2006, the Board held a meeting to establish a special committee of independent members of the Board (the Special Committee). The Special Committee was delegated authority to, among other things, (a) receive, review, evaluate and study the potential transaction with AIG; (b) disclose, or direct the officers of the Company to disclose, to AIG and its representatives subject to appropriate confidentiality arrangements, such confidential information as the Special Committee deems appropriate; (c) negotiate on behalf of the Company the terms and conditions of the potential transaction with AIG; (d) negotiate a definitive agreement, subject to Board approval, with respect to the potential transaction if the Special Committee determines such transaction is fair to and in the best interests of the Company and its stockholders other than AIG; (e) make a recommendation to the Board at the appropriate time as to whether the Special Committee finds that the potential transaction is fair to and in the best interests of the Company and its stockholders other than AIG; (f) select and retain legal counsel to assist the Special Committee and independent financial advisors to assist the Special Committee and the Board; (g) if determined to be in the best interests of the Company, to recommend to the Board establishing severance and retention plans in connection with the potential transaction for the purposes of providing severance protections and retention incentives for selected key employees of the Company; and (h) select and retain such other independent professional advisors. However, the Special Committee was not authorized to solicit or encourage indications of interest from, initiate or engage in discussions or negotiations with, provide any information to, or enter into any arrangement, understanding or agreement with, any third party other than AIG. Notwithstanding, the Special Committee was entitled to consider and review alternative transactions (without taking actions described in the previous sentence) as part of its review and consideration of a potential transaction with AIG. The Special Committee is composed of Mr. John B. De Nault III, Dr. R. Scott Foster, Mr. Keith W. Renken and Ms. Carlene M. Ellis.

After the Board meeting on October 4, 2006, the Special Committee held its first official meeting and elected Mr. De Nault as Chairman. Skadden Arps provided the Special Committee with an additional overview of the directors fiduciary duties in connection with their role as members of the Special Committee, the independence standards utilized by Delaware courts and the variety of ways a purchase of the minority shares by AIG could proceed. Representatives of potential financial advisors made presentations to the Special Committee regarding their relevant experience. Following the presentations, the Special Committee determined to retain Lehman Brothers as its financial advisor. The Special Committee also determined to retain Skadden Arps as its independent legal counsel.

Between October 4, 2006 and October 20, 2006, Lehman Brothers met with the Company s management and reviewed the financial projections prepared by the Company s management, as well as AIG s due diligence requests. In addition, Lehman Brothers held telephonic meetings with AIG s Banking Representatives, during which AIG s Banking Representatives expressed AIG s desire to obtain additional due diligence materials related to the Company s operations.

On October 20, 2006, the Special Committee held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden Arps. Lehman Brothers provided the Special Committee with an update on AIG s Banking Representatives detailed and extensive due diligence requests and the Special Committee agreed that the materials could be provided by management unless deemed to be competitively sensitive.

On October 27, 2006, the Special Committee held a telephonic meeting with members of the Company s management, Lehman Brothers and Skadden Arps. The purpose of the meeting was to discuss with the Special Committee various methodologies for valuing the Company. Lehman Brothers discussed and reviewed with the Special Committee preliminary views on valuation based on the financial projections.

In late October and early to mid-November 2006, Lehman Brothers and AIG s Banking Representatives held numerous discussions with respect to AIG s due diligence requests and AIG s view that the assumptions underlying management s financial projections were too optimistic, and Lehman Brothers indicated that even though they had not quantified the expected synergies, such synergies would be, in the Company s view, very significant. During this time, representatives from Skadden Arps and S&C also held discussions with respect to AIG s due diligence requests.

On November 10, 2006, the Special Committee held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden Arps. The Special Committee continued to review management s financial projections with Lehman Brothers and the Company s management. While in executive session without management, the Special Committee determined to recommend certain restricted stock grants and other retention programs for certain Company employees and also authorized Skadden Arps to contact S&C to discuss retention issues with respect to the Company s then current management.

On November 15, 2006, the Special Committee (with Dr. Foster absent) held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden Arps. Both Skadden Arps and Lehman Brothers provided the Special Committee with updates on their conversations with S&C and AIG s Banking Representatives, respectively. In addition, the Special Committee also continued to discuss retention issues.

On November 27, 2006, representatives of Lehman Brothers met with AIG s Banking Representatives to further discuss due diligence matters and valuation matters. The investment bankers engaged in lengthy discussions regarding the Company s financial projections. AIG s Banking Representatives reiterated AIG s belief that the assumptions underlying such projections were too optimistic and that there was significant risk that such projections would not be realized. In addition, AIG s Banking Representatives stated that AIG could not definitively estimate the synergies achievable from the transaction based on the information made available to AIG at that time; however, AIG believed that the Company s synergy estimates were too high and that it would take several years after completion of a transaction to fully realize any synergies. AIG s Banking Representatives also informed Lehman Brothers that AIG believed that the Company s stock was then trading at a premium to the Company s inherent value and recent trading prices, and that if a proposal were to be made by AIG, the proposed premium would be determined based on AIG s view of the Company s normalized stock price.

On November 28, 2006, the Special Committee held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden Arps. Upon the advice and input of both Lehman Brothers and Skadden Arps, the Special Committee directed Lehman Brothers to inform AIG s

Banking Representatives that AIG either needed to move forward with a proposal, discontinue its consideration of a possible proposal or consider selling its majority stake.

On December 1, 2006, the Special Committee held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden to further discuss its views on valuation. In response to the Special Committee s request, Lehman Brothers prepared materials to be used as a basis for discussion with AIG s Banking Representatives to support a significant premium to the then current market price of $17.08. The Special Committee determined that a valuation range for the Company in the mid to high 20 s should be used in discussions with AIG s Banking Representatives.

During the weeks of December 4, 2006 and December 11, 2006, at the Special Committee s direction, Lehman Brothers met with AIG s Banking Representatives to discuss valuation ranges for the Company. During these meetings, AIG s Banking Representatives shared their views of significantly lower valuation ranges and continued to note that AIG believed that the assumptions underlying the Company s financial projections were overly optimistic.

On December 8, 2006, AIG s Banking Representatives met with Mr. Martin J. Sullivan, the chief executive officer of AIG, and other members of the management of AIG, to update them on the prior discussions with Lehman Brothers and to review a preliminary draft of the financial analysis which was subsequently provided to them on January 16, 2007.

On December 12, 2006, the Special Committee met with representatives from the Company s management, Lehman Brothers and Skadden Arps. Lehman Brothers updated the Special Committee on its conversation with AIG s Banking Representatives, including the AIG s Banking Representative s implied valuation ranges for the Company shares, which were in the high teens, and the fact that AIG s Banking Representatives believed that the Company s stock was then trading in excess of its inherent valuation. Both Lehman Brothers and Skadden Arps informed the Special Committee they had received indications from AIG that the gap between the implied valuation ranges of Lehman Brothers and AIG s Banking Representatives needed to be narrowed or AIG would consider either launching a tender offer or discontinuing consideration of a possible proposal.

During December of 2006 and January of 2007, representatives of the Company, AIG, Skadden Arps and S&C held additional discussions with respect to executive retention issues.

From mid-December of 2006 through mid-January of 2007, representatives of Lehman Brothers continued to have discussions with AIG s Banking Representatives regarding their respective implied valuation ranges. During this period, the discussions did not result in the narrowing of the gap between the respective implied valuation ranges of Lehman Brothers and AIG s Banking Representatives.

On January 16, 2007, AIG s Banking Representatives provided to AIG s management financial analyses regarding a possible transaction with the Company.

On January 17, 2007, representatives of AIG s management provided to the finance committee of the board of directors of AIG an update regarding a possible transaction with the Company. The finance committee authorized Mr. Sullivan to determine whether AIG would make a proposal to acquire the shares of common stock of the Company.

In light of the continuing gap between the respective implied valuation ranges presented on behalf of the Special Committee and those of AIG s Banking Representatives and AIG s views that the assumptions underlying the projections of the Company s management were too optimistic and that the Company s synergy estimates were too high, AIG determined on January 24, 2007 that there was no value in further discussions among the parties financial advisers at that time, and that AIG would publicly announce a merger proposal and then commence negotiations with the Special Committee and its advisers in the context of such announcement and market reaction thereto. Mr. Sullivan authorized a proposal from AIG to the board of directors of the Company for AIG to acquire all of the outstanding shares of common stock of the Company not owned by AIG or its subsidiaries, at $19.75 per share. In making this decision, AIG reaffirmed its view that it was interested only in acquiring the publicly held shares of the Company, and had no interest in selling its controlling stake in the Company.

On January 24, 2007, AIG sent the following proposal to the Board:

AMERICAN INTERNATIONAL GROUP, INC.
70 PINE STREET
NEW YORK, NEW YORK 10270

Martin J. Sullivan
President and
Chief Executive Officer

January 24, 2007

Board of Directors
21st Century Insurance Group
6301 Owensmouth Avenue
Woodland Hills, California 91367

Dear Board Members:

American International Group, Inc. (AIG or we) is pleased to propose to acquire for cash all of the outstanding shares of common stock, par value $0.001 (the Shares), of 21st Century Insurance Group (the Company) not owned by AIG and its subsidiaries at a purchase price of $19.75 per Share.

The proposed per Share price represents a 19.0% premium to today s closing price and a 25.5% premium to the average closing price during the last twelve months. The proposed per Share price also represents a multiple of 19.6x the consensus estimates of the Company s 2007 earnings per share (based on a current First Call estimate of $1.01 per share).

Through its subsidiaries American Home Assurance Company, Commerce and Industry Insurance Company, National Union Fire Insurance Company of Pittsburgh, Pa. and New Hampshire Insurance Company, AIG is the Company s largest shareholder, owning approximately 61.9% of the outstanding Shares. This proposal would enable the Company s public shareholders to monetize their investment at a full and fair value for their Shares. We therefore are confident that our proposal will be attractive to the Company s public shareholders and that the Company s combination with AIG would serve the best long-term interests of the Company and its policyholders.

The proposed transaction would be effected by means of a merger agreement with the intention for the Company to become a wholly owned subsidiary of AIG. Following completion of the merger, the Company would be able to devote its full energy and resources to building the business.

This proposal is subject to AIG s satisfactory completion of due diligence, satisfaction of regulatory requirements and the approval by a special committee comprised of directors of the Company who are independent of AIG. AIG is interested only in acquiring the publicly held Shares of the Company, and has no interest in selling its controlling stake in the Company. Please be aware that in making this proposal, AIG reserves the right both to withdraw this proposal prior to the execution of a definitive merger agreement and to modify it in any way as a result of negotiations or for any reason at all, including proposing alternative acquisition structures.

Concurrent with sending this proposal to you, AIG is filing an amendment to its Schedule 13D, as required by the Securities Exchange Act of 1934, and plans to issue a press release. In connection with this proposal, AIG has engaged Banc of America Securities LLC and J.P. Morgan Securities Inc. as financial advisors and Sullivan & Cromwell LLP as legal advisor. We are happy to make them available to you to help expedite the transaction.

We look forward to working with you.

Very truly yours,
/s/ Martin J. Sullivan

Concurrent with the delivery of the proposal, AIG issued a press release highlighting the general terms of its proposal and on January 25, 2007, AIG filed an amendment to its Schedule 13D.

On January 25, 2007, the closing price of the common stock of the Company was $20.93. For the period between January 25 and May 14, inclusively, the volume weighted average price of the common stock of the Company was $21.06 and the intraday low and high prices for this period ranged between $20.53 and $21.86.

On January 25, 2007, the Special Committee held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden Arps. The Special Committee discussed the AIG offer at length. Both Lehman Brothers and Skadden Arps informed the Special Committee of their discussions with S&C and AIG s Banking Representatives, respectively. Management provided the Special Committee with an update with respect to the Company s 2006 fourth quarter results as well as revised projections for the first two quarters of 2007. In light of the information provided by management with respect to the Company s 2006 fourth quarter results and the projections for the first two quarters of 2007, the Special Committee directed management to update the financial projections for the remainder of the projected period.

Following the announcement of AIG s proposal, on January 29, 2007, two putative class action lawsuits were filed by certain of the Company s stockholders against the Company, its directors and AIG in the Delaware Court of Chancery. The complaints generally alleged that the Company s directors and AIG had violated their fiduciary duties owed to the Company s unaffiliated stockholders in connection with AIG s proposal and sought, among other things, to enjoin the AIG proposal or, in the alternative, damages in an unspecified amount and rescission in the event a transaction occurred pursuant to the proposal, as more fully described under the heading entitled SPECIAL FACTORS Litigation Related to the Merger beginning on page 63. During the following weeks, representatives of AIG and the Company cooperated in determining how to respond to the lawsuits.

On January 29, 2007, S&C sent additional AIG due diligence request lists to Skadden Arps.

On January 31, 2007, the Special Committee held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden Arps. As requested by the Special Committee, management provided the Special Committee with information regarding 2006 preliminary results and a preliminary revision of its projections for 2007. Skadden Arps discussed alternate transaction structures with the Special Committee. Specifically, the Special Committee discussed the possibility of pursuing a stock-for-stock transaction instead of AIG s proposed cash-for-stock transaction and agreed that a stock-for-stock transaction might be preferable to those minority stockholders who had a low tax basis in the Company s stock and that other stockholders would likely be indifferent to a stock transaction given the liquidity of AIG s stock.

On February 6, 2007, the Special Committee held a telephonic meeting with representatives of the Company s management, Lehman Brothers and Skadden Arps regarding the financial projections. At the meeting, management and Lehman Brothers reviewed with the Special Committee the projections, which included a revision of the Company s 2007 earnings projection from $1.16 per share to $0.91 per share and valuation views reflecting such updated projections. The revised projections reflected a decrease in premiums growth rates and higher combined ratios in certain years compared to the original projections provided by the Company s management team. Following such review, the Special Committee engaged in a lengthy discussion of potential responses to AIG s proposal and decided to respond to AIG with a counterproposal of $26.00 per share.

On February 8, 2007, Lehman Brothers met with AIG s Banking Representatives to deliver the Company s $26.00 per share counterproposal, the Company s revised financial projections and the Company s analysis of cost synergies resulting from the transaction. Subsequently, AIG s Banking Representatives communicated to Lehman Brothers AIG s rejection of the counterproposal. Upon the rejection of the proposal, Lehman Brothers communicated to AIG s Banking Representatives that it expected AIG to indicate some flexibility above AIG s proposed $19.75 price.

On February 9, 2007, the Special Committee held a telephonic meeting with representatives of the Company s management, Lehman Brothers and Skadden Arps to receive a summary of the previous day s discussions with AIG s Banking Representatives. Lehman Brothers reported that AIG had rejected the $26.00 per share counterproposal. The Special Committee also discussed providing the Board with an update on the status of negotiations at the next regularly scheduled Board meeting.

On February 13, 2007, Lehman Brothers met with AIG s Banking Representatives, who notified Lehman Brothers that AIG might have some flexibility above its proposed $19.75 per share price provided its due diligence findings were satisfactory.

On February 20 and February 21, 2007, the Board held its regularly scheduled meetings. At these meetings, Mr. De Nault provided an update with respect to the Special Committee s progress in its negotiations with AIG.

During February and March of 2007, the Company provided certain due diligence materials to AIG and the respective representatives held telephonic meetings with respect to certain due diligence questions and issues.

On February 23, 2007, the Special Committee held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden Arps. Skadden Arps provided an update to the Special Committee on a possible stock-for-stock transaction and it was agreed that continuing to pursue a
stock-for-stock transaction would be in the best interests of the minority stockholders. In response to a request from AIG, the Special Committee also directed management to set up on-site information technology (IT) meetings and presentations for AIG the following week.

From February 27 to March 1, 2007, on-site IT due diligence meetings with AIG were conducted at the Company s Woodland Hills office.

In late February 2007, representatives of Skadden Arps and S&C had several discussions regarding the structure of a potential stock-for-stock transaction.

On March 2, 2007, the Special Committee held a telephonic meeting with representatives of the Company s management, Lehman Brothers and Skadden Arps. As previously disclosed to the Special Committee, during the meeting s executive session without management and Lehman Brothers present, Mr. De Nault reiterated to the Special Committee that one of the trusts holding shares of Company common stock, of which he is a beneficiary, includes a provision which could result in the shifting of benefits thereunder away from Mr. De Nault if the shares of Company common stock held by the trust were sold for cash. Mr. De Nault informed the Special Committee that the number of shares held in the trust represented approximately 9% of the total number of shares of Company common stock beneficially owned by him, and that he did not believe such amount to be material to his net worth. The Special Committee discussed the issue at length with Skadden Arps without Mr. De Nault present, and determined that it did not constitute a material conflict of interest. The Special Committee also determined that Mr. De Nault s input to the Special Committee was valuable and beneficial to the interests of the minority stockholders and that therefore Mr. De Nault should remain a member of the Special Committee. However, to avoid the appearance of the issue being a conflict, the Special Committee resolved that Mr. De Nault would become a non-voting member of the Special Committee, regardless of whether cash or stock was received in a potential transaction with AIG.

On March 5, 2007, the Special Committee held a meeting at Skadden Arps offices in San Francisco with representatives of the Company s management, Lehman Brothers and Skadden Arps. Skadden Arps provided the Special Committee with an update on potential transaction structures and discussed making the approval of a proposed transaction subject to the approval of a majority of the Company s outstanding shares other than those owned by AIG and its subsidiaries. After hearing from its advisors, the Special Committee determined that its demands for a significant premium to the current proposal could be somewhat lessened if AIG would consider a stock-for-stock transaction because low tax basis stockholders could achieve a tax-free exchange and all stockholders would have a continuing interest in the combined operations. Accordingly, the Special Committee directed Lehman Brothers to propose a counter-offer of approximately $24.00 per share, for a stock-for-stock transaction subject to a majority of the minority voting requirement condition.

On March 9, 2007, Lehman Brothers met with AIG s Banking Representatives. Lehman Brothers and AIG s Banking Representatives discussed the status of due diligence and AIG s preliminary findings and observations with respect to these matters. AIG s Banking Representatives also indicated that following a three-day long detailed review of the Company s IT systems on-site, AIG had concluded that it would have to make a significant capital investment and incur significant on-going maintenance costs to integrate its existing platform with the Company s. Accordingly, AIG s Banking Representatives viewed the expected cost savings from the transaction to be less than those anticipated by the Company. In response to the Special Committee s request for AIG to indicate some flexibility in price, AIG s Banking Representatives communicated to Lehman Brothers that the magnitude of AIG s flexibility had been impacted by the evaluation of the Company s recent and projected performance and systems capabilities. AIG s Banking Representatives indicated that they would recommend to AIG increasing AIG s $19.75 proposal by approximately 5%. In addition, AIG s Banking Representatives informed Lehman Brothers that AIG would not consider a stock transaction.

On March 16, 2007, S&C sent Skadden Arps a draft of AIG s proposed merger agreement. Over the course of the next several weeks, Skadden Arps, the Special Committee and the Company s management had numerous discussions regarding the terms and conditions of the proposed merger agreement.

On March 19, 2007, the Special Committee held a telephonic meeting with representatives of the Company s management, Lehman Brothers and Skadden Arps. Skadden Arps reported to the Special Committee on its conversation with S&C, during which S&C informed Skadden Arps that AIG s unwillingness to consider a stock-for-stock transaction was because such a transaction would be inconsistent with AIG s March 1, 2007 public announcement of its expansion of its share repurchase program. Lehman Brothers reported to the Special Committee on its recent conversation with AIG s Banking Representatives, during which AIG s Banking Representatives informed Lehman Brothers of AIG s view with respect to the expected cost savings from the transaction. Moreover, taking into consideration the softening auto industry market outlook and the Company s recent earnings results, Lehman Brothers advised the Special Committee regarding a potential counter-offer proposal. The Special Committee engaged in a lengthy discussion of the issues and valuations presented and agreed to make to AIG a bifurcated proposal of $23.00 per share with AIG stock as consideration or $24.00 per share with cash as consideration, subject to a majority of the minority voting requirement condition and AIG s agreement that the transaction would constitute a change of control for purposes of certain Company executive compensation arrangements.

On March 21, 2007, Lehman Brothers met with AIG s Banking Representatives to communicate the bifurcated proposal by the Special Committee. The bankers discussed the proposal and potential IT synergies, and AIG s Banking Representatives reiterated AIG s refusal to include AIG stock as consideration.

On March 23, 2007, AIG s Banking Representatives again reiterated to Lehman Brothers that AIG was not willing to consider a stock-for-stock transaction and asked Lehman Brothers to confirm that the Company s proposal for a cash transaction was at $24.00 per share. During the same meeting, Lehman Brothers confirmed the $24.00 per share price for a cash transaction.

On March 28, 2007, AIG s Banking Representatives shared the results of AIG s IT due diligence with Lehman Brothers.

On March 30, 2007, AIG s Banking Representatives provided a presentation to AIG s management which was an updated version of the presentation made on January 16, 2007.

On April 5, 2007, Lehman Brothers had a telephonic meeting with AIG s Banking Representatives. At this meeting, AIG s Banking Representatives said they were prepared to recommend to AIG that it increase its proposed price to $21.25 in cash per share, with the merger agreement substantially in the form presented, with no majority of the minority condition and completion of bring-down diligence. AIG s Banking Representatives also said they did not believe AIG had any additional flexibility with regard to the price offered. On April 4, 2007, the closing price of the common stock of the Company was $20.97.

On April 6, 2007, the Special Committee held a telephonic meeting with representatives of the Company s management, Lehman Brothers and Skadden Arps. Lehman Brothers updated the Special Committee on its discussions with AIG s Banking Representatives. The meeting participants discussed at length the proper response to the aforementioned discussion of a potential proposal by AIG of $21.25 in cash per share. To assist in preparing a response, the Special Committee asked management for an update on first quarter financial results of the Company for 2007.

On April 10, 2007, the Special Committee held a telephonic meeting with representatives of Lehman Brothers and Skadden Arps. Lehman Brothers updated the Special Committee on numerous conversations they had with AIG s Banking Representatives and recommended that the Special Committee propose to AIG a transaction at $22.00 in cash per share without a majority of the minority voting requirement condition. The Special Committee engaged in a lengthy discussion of such a potential proposal, focusing on numerous factors, including AIG s and the Company s respective views regarding the synergies achievable from the transaction, the increasingly difficult conditions in the personal lines of the property and casualty business and the Company s recent earnings results. The voting members of the Special Committee indicated that they would be in favor of a transaction at that price. However, Mr. De Nault indicated that he was uncertain whether he could support a $22.00 per share offer.

On April 12, 2007, Lehman Brothers informed AIG s Banking Representatives that the three voting members of the Special Committee would be willing to support a transaction at $22.00 in cash per share.

On April 16, 2007, the Special Committee held a telephonic meeting with representatives of Lehman Brothers and Skadden Arps. Skadden Arps informed the Special Committee that S&C had indicated that AIG desired to approach Mr. Marlow to negotiate an agreement to retain Mr. Marlow as the chief executive of the surviving corporation in the event a transaction were to be consummated. Mr. De Nault expressed his willingness to support a $22.00 per share if arrangements with respect to the Company s continued payment of dividends were included in the terms of the transaction. Finally, the Special Committee agreed that AIG should not engage in discussions with Mr. Marlow regarding his employment until the parties were closer to reaching an agreement with respect to a transaction.

Throughout the course of the next several weeks, Skadden Arps and S&C had numerous discussions and exchanged drafts of the merger agreement and the accompanying Company Disclosure Letter. During the course of such discussions, S&C notified Skadden Arps that AIG would not proceed with the transaction unless it had certainty with respect to Mr. Marlow s future employment arrangements.

On April 20, 2007, the Special Committee held a telephonic meeting with representatives of Lehman Brothers and Skadden Arps. Skadden Arps updated the Special Committee on negotiations regarding the draft merger agreement. Skadden Arps also informed the Special Committee that AIG was making any transaction contingent upon having certainty with respect to Mr. Marlow s future employment arrangements.

Also on April 20, 2007, Ms. Ellis and Mr. De Nault spoke with Mr. Marlow and provided him with an update on the merger agreement negotiations as well as AIG s desire to reach agreement with Mr. Marlow regarding his future employment arrangements. Ms. Ellis and Mr. De Nault both expressed the Special Committee s support for Mr. Marlow to engage in discussions with AIG, and the Special Committee subsequently formally requested that Mr. Marlow engage in discussions with AIG.

On April 27, 2007, Messrs. Sullivan, Robert M. Sandler, Executive Vice President Domestic Personal Lines of AIG and Steven J. Bensinger, Executive Vice President and Chief Financial Officer of AIG, met with Mr. Marlow to discuss the terms of Mr. Marlow s continued employment with the Company. During the course of the next few weeks, AIG and its representatives and Mr. Marlow and his representatives held additional discussions and negotiations with respect to the terms of Mr. Marlow s continued employment with the Company following the merger. During this time, AIG and its representatives, and the Company and its representatives also negotiated the assumptions to be used in relation to change in control payouts to the officers of the Company who participated in the Company s SERP.

On May 2, 2007, the Special Committee (with Dr. Foster absent) held a telephonic meeting with representatives of Lehman Brothers and Skadden Arps. Skadden Arps informed the Special Committee as to AIG s requirement that in addition to Mr. Marlow s employment agreement, AIG would require that other officers sign retention agreements and agree to forego any payments under the Company s executive severance plan in exchange for the retention and severance benefits under such retention agreements and the right to elect an early payout of the SERP. Also at the meeting, the Special Committee discussed the current status of the draft merger agreement. The Special Committee felt that AIG s proposed termination fee was too high and directed Skadden Arps to engage in further negotiations on this point. The Special Committee also discussed considering a proposal for certain arrangements with respect to the Company s payment of dividends to provide additional value to the Company s minority stockholders.

On May 4, 2007, AIG sent the Company a draft retention and severance agreement for the officers of the Company. During the course of the next few weeks AIG and its representatives, and the Company and its representatives, held additional discussions and negotiations with respect to the retention and severance agreements.

On May 9, 2007, the Special Committee (with Dr. Foster absent) held a telephonic meeting with representatives of Lehman Brothers and Skadden Arps. The Special Committee received updates from its advisors on the status of Mr. Marlow s employment discussions and the arrangements with the Company s other officers and the draft merger agreement. The Special Committee scheduled a meeting to consider the transaction for Monday, May 14, 2007, to be followed by a meeting of the full Board in the event that the Special Committee recommended and approved the merger agreement.

On May 12, 2007, Skadden Arps sent S&C a comprehensive proposal covering the open issues in the merger agreement, including a proposal for a per-share merger consideration of $22.00 in cash and a requirement for a minimum fixed amount with respect to the Company s ongoing payment of dividends. AIG rejected the proposal with respect to the ongoing payment of dividends and consequently the comprehensive proposal from the Special Committee was withdrawn. Thereafter, Skadden Arps and S&C continued to negotiate on the open issues in the merger agreement.

Over the course of the next day, Skadden Arps and S&C held several telephonic meetings, exchanged drafts of the merger agreement and Company Disclosure Letter, and continued negotiations regarding the final unresolved terms of the merger agreement.

On May 14, 2007, Skadden Arps sent S&C a modified comprehensive proposal, again including a per share merger consideration of $22.00, but with a modified dividend proposal that would permit the Company to pay a pro rata dividend at closing for the time that accrues between the last record date for ordinary dividends and the closing date. S&C subsequently informed Skadden Arps that AIG found their proposal acceptable.

Later on May 14, 2007, the Special Committee held a telephonic meeting with representatives from the Company s management, Lehman Brothers and Skadden Arps for the purpose of considering recommending the merger agreement for the Board s approval and adoption. Skadden Arps presented the members of the Special Committee with an overview of the final terms of the merger agreement, as well as Mr. Marlow s employment arrangements and the retention and severance agreements with certain other Company officers. Lehman Brothers gave a presentation with respect to the financial aspects of the proposed transaction and delivered its oral opinion, subsequently confirmed in writing, that as of that date and based on and subject to matters stated in such opinion, the proposed consideration was fair, from a financial point of view, to the Company s stockholders (other than AIG and its subsidiaries). After considering the proposed price of $22.00 per share, the terms of the merger agreement and the various presentations of Lehman Brothers, including Lehman Brothers oral opinion, the voting members of the Special Committee unanimously approved a recommendation from the Special Committee to the Board that the merger agreement and the merger be approved and adopted and that the Board recommend that the Company s stockholders approve the merger agreement.

Following the Special Committee s determination to recommend approval and adoption of the merger agreement, the Board met to receive the recommendation of the Special Committee. Based on the recommendation of the Special Committee, the Board unanimously approved and adopted the merger, the merger agreement and the transactions contemplated by it.

On the night of May 14, 2007, the Company, AIG and Merger Sub executed the merger agreement, dated May 15, 2007, and on May 15, 2007, each issued press releases announcing the execution of the merger agreement.

On June 8, 2007, the Company, AIG and Merger Sub executed Amendment No. 1 to Agreement and Plan of Merger, dated as of June 8, 2007.

Recommendations of the Special Committee and the Board of Directors; Reasons for Recommending the Approval and Adoption of the Merger Agreement

Both the Special Committee and the Board of the Company have determined that the merger agreement and the merger are advisable, fair to and in the best interests of the stockholders of the Company (other than AIG and its subsidiaries). The Special Committee (with Mr. De Nault not voting due to his status as a non-voting member of the Special Committee) has unanimously recommended that the board of directors:

- approve and adopt the merger agreement;
- approve the merger; and
- recommend that the stockholders of the Company vote for the approval of the merger agreement.

After considering the recommendation of the Special Committee, the Board approved and adopted the merger agreement, approved the merger and resolved to recommend to the Company s stockholders (other than AIG and its subsidiaries) that they vote for the adoption and approval of the merger agreement.

In reaching their determinations and making their recommendations, both the Special Committee and the Board relied on the Company s management to provide financial information, projections and assumptions (based on the best information available to management at that time), as the starting point for their analyses.

In reaching its determination and making its recommendation, the Special Committee considered factors including:

- the opinion delivered by Lehman Brothers on May 14, 2007 that, as of that date and based on and subject to the assumptions, limitations and qualifications set forth in the opinion, from a financial point of view, the consideration to be offered to the stockholders of the Company (other than AIG and its subsidiaries) in the merger is fair to such stockholders;

- the fact that the merger consideration of $22.00 per share in cash to be received by the Company s stockholders (other than AIG and its subsidiaries) represented, at the time of the Special Committee s determination, a 32.6% premium over the closing price of Company common stock on January 24, 2007, the last trading day before the public announcement of AIG s initial proposal to acquire 100% ownership of the Company, and a 39.8% premium to the average closing price for the twelve months prior to January 24, 2007;

- the Special Committee s consideration of the various analyses undertaken by Lehman Brothers, each of which is described below under SPECIAL FACTORS Opinion of the Financial Advisor to the Special Committee;

- the Special Committee s belief, based on the performance of Company common stock immediately following the initial January 24, 2007 announcement of the proposal by AIG to acquire 100% ownership of the Company at a price of $19.75 per share, absent any other operational announcement and absent a similar increase in the stock prices of the Company s industry peers, that the increase in the market price of Company common stock following that announcement reflected primarily anticipation of a possible acquisition by AIG, rather than a perception of higher intrinsic value for Company common stock;

- the Special Committee s belief that the principal advantage of the Company continuing as a public company would be to allow public stockholders to continue to participate in any growth in the value of the Company s equity, but that, under all of the relevant circumstances and in view of the historical results of operations, financial condition, assets, liabilities, business strategy and prospects of the Company, the nature of the industry in which the Company competes, and trading characteristics of companies with market capitalization similar in size to that of the Company, and in light of the proposed merger consideration of $22.00 per share, the value to stockholders that would be achieved by continuing as a public company was not likely to be as great as the merger consideration of $22.00 per share;

- the active and direct role of the members of the Special Committee and their representatives in the negotiations with respect to the merger, and the consideration of the transaction by the Special Committee at numerous Special Committee meetings;

- the negotiations that took place between the Special Committee and its representatives, on the one hand, and representatives of AIG, on the other hand, with respect to the increase in the merger consideration from the initial offer at $19.75 per share to $22.00 per share and the belief by the members of the Special Committee that $22.00 per share was the highest price that AIG would agree to pay to the Company s stockholders (other than AIG and its subsidiaries);

- the merger consideration of $22.00 per share in cash in relation to the then-current market price of Company common stock, the then-current value of the Company in a freely negotiated transaction and the future value of the Company as an independent entity;

- the fact that, to date, no third party has come forward with an alternative transaction proposal;

- the belief that no alternative bidder would be able to consummate an acquisition of the Company due to AIG s position that it is unwilling to sell its shares of Company common stock, which shares represent a controlling interest in connection with any transaction involving the acquisition of the Company;

- the terms of the merger agreement that permit the Company and the Special Committee to explore, under specified circumstances, an unsolicited acquisition proposal and, if the Special Committee determines (i) that an unsolicited acquisition proposal constitutes, or is reasonably likely to constitute a Superior Proposal and (ii) that the failure to take such action would reasonably be expected to result in a failure of the directors fiduciary duties under applicable law, permit the Board or the Special Committee to withhold, modify or withdraw its recommendation with respect to the merger agreement and the merger;

- the Company s right to terminate the merger agreement in the event that the Board or the Special Committee withholds, modifies or withdraws its recommendation with respect to the merger agreement and the merger subject to the payment of a termination fee; and

- the availability to stockholders who vote against approval of the merger agreement of appraisal rights under Delaware law, which provide stockholders who dispute the fairness of the merger consideration with an opportunity to have a court determine the fair value of their shares.

The Special Committee believes that each of these factors supported its conclusion that the merger is advisable, fair to and in the best interests of the Company s stockholders (other than AIG and its subsidiaries).

In evaluating the merger and related transactions, the Special Committee did not consider:

- the net book value of the Company, because it believed that net book value is not a material indicator of the value of the Company as a going concern but rather is indicative of historical results; or

- the liquidation value of the Company, because the Special Committee considered the Company as a viable, going concern business, and therefore did not consider the liquidation value as a relevant valuation methodology.

In addition, the Special Committee did not establish, and did not consider, a pre-merger going concern value for the equity of the Company and does not believe there is a single method of determining going concern value, although the Special Committee believes the analyses of Lehman Brothers in their totality may be reflective of going concern value.

The Special Committee also considered a variety of risks and other potentially negative factors concerning the merger agreement and the transactions contemplated by it, including the merger. These factors included:

- the fact that, following the merger, the Company s stockholders (other than AIG and its subsidiaries) will no longer participate in any future earnings of the Company or benefit from any increases in the Company s value;

- the fact that, because AIG has agreed to vote, or cause to be voted, approximately 61% of the voting power of Company common stock in favor of approving the merger, the proposed merger does not require the approval of any unaffiliated stockholders;

- the fact that there may be disruptions to the Company s operations following the announcement of the merger;

- the fact that, while the Company expects the merger will be consummated, there can be no assurances that all conditions to the parties obligations to complete the merger agreement will be satisfied and, as a result, the merger may not be consummated;

- the fact that restrictions on the conduct of the Company s business prior to the consummation of the merger require the Company to conduct its business in the ordinary course, subject to specific limitations, which may delay or prevent the Company from pursuing business opportunities that may arise pending completion of the merger; and

- the fact that, for U.S. federal income tax purposes, the merger consideration will be taxable to the Company s stockholders receiving the merger consideration.

This discussion of the information and factors considered by the Special Committee in reaching its conclusions and recommendation includes all of the material factors considered by the Special Committee, but is not intended to be exhaustive. In view of the wide variety of factors considered by the Special Committee in evaluating the merger agreement and the transactions contemplated by it, including the merger, and the complexity of these matters, the Special Committee did not find it practicable, and did not attempt, to quantify, rank or otherwise assign relative weight to those factors. In addition, different members of the Special Committee may have given different weight to different factors.

The Special Committee believes that sufficient procedural safeguards were and are present to ensure the fairness of the merger and to permit the Special Committee to represent effectively the interests of the Company s stockholders (other than AIG and its subsidiaries). These procedural safeguards include the following:

- the Special Committee s active and intense negotiations, with the assistance of its advisors, with representatives of AIG regarding the merger consideration and the other terms of the merger and the merger agreement;

- other than their receipt of Board and Special Committee fees, their indemnification and liability insurance rights under the merger agreement and their entitlement to receive cash, in respect of their Company stock options and Company Awards in connection with the merger, members of the Special Committee do not have an interest in the merger different from that of the Company s stockholders (other than AIG and its subsidiaries);

- the Special Committee retained and received the advice and assistance of Lehman Brothers as its financial advisor and Skadden Arps as its legal advisor, and requested and received from Lehman Brothers an opinion, delivered orally and confirmed in writing on May 14, 2007, with respect to the fairness from a financial point of view of the merger consideration to be offered to the Company s stockholders (other than AIG and its subsidiaries);

- the recognition by the Special Committee that it had no obligation to recommend the approval of the merger proposal or any other transaction;

- the recognition by the Special Committee that the Board could consider and recommend superior proposals; and

- the availability of appraisal rights under Delaware law for the Company s stockholders who oppose the merger.

In light of the procedural safeguards described above, the Special Committee did not consider it necessary to retain an unaffiliated representative to act solely on behalf of the Company s stockholders (other than AIG and its subsidiaries) for purposes of negotiating the terms of the merger agreement or preparing a report concerning the fairness of the merger agreement and the merger.

In reaching its determination that the merger agreement and the merger are advisable, fair to and in the best interests of the Company s stockholders (other than AIG and its subsidiaries), the Board determined that the analysis of the Special Committee was reasonable and adopted the analysis of the Special Committee as to the fairness to the Company s stockholders (other than AIG and its subsidiaries) of the merger consideration of $22.00 per share. In determining the reasonableness of the Special Committee s analysis and adopting the Special Committee s analysis, the Board considered and relied upon:

- the process the Special Committee conducted in considering the merger;

- the Special Committee s having retained and received advice from its independent legal counsel, Skadden Arps;

- the Special Committee s having retained and received advice from its independent financial advisor, Lehman Brothers;
- the Special Committee s recommendation on May 14, 2007 that the Board determine that the merger agreement and the merger are advisable, fair to and in the best interests of the Company s stockholders (other than AIG and it subsidiaries) and approve and adopt the merger agreement and approve the transactions contemplated by the merger agreement, including the merger; and
- the availability of appraisal rights under Delaware law for the Company s stockholders who oppose the merger.

The Board also believes that sufficient procedural safeguards were present to ensure the fairness of the transaction and to permit the Special Committee to represent effectively the interests of the Company s stockholders (other than AIG and its subsidiaries). The Board reached this conclusion based on, among other things:

- the fact that the Special Committee consisted solely of independent directors who are not affiliated with AIG;
- the selection and retention by the Special Committee of its own financial advisor and legal counsel;
- the fact that the negotiations that had taken place between representatives of AIG, on the one hand, and the Special Committee and its representatives, on the other hand, were structured and conducted so as to preserve the independence of the Special Committee and promote the fairness of the transaction; and
- the fact that the merger agreement and the merger were approved by the members of the Board who are not employees of the Company or affiliated with AIG.

In light of the procedural protections described above, the Board, including each of the non-employee directors, did not consider it necessary either to require a separate affirmative vote of a majority of the Company s stockholders (other than AIG and its subsidiaries) or to retain an unaffiliated representative to act solely on behalf of the Company s stockholders (other than AIG and its subsidiaries) for purposes of negotiating the terms of the merger agreement or preparing a report concerning the fairness of the merger agreement and the merger.

In view of the wide variety of factors considered by the Board in evaluating the merger and the complexity of these matters, the Board did not find it practicable, and did not attempt, to quantify, rank or otherwise assign relative weight to those factors. In addition, different members of the Board may have given different weight to different factors.

Based in part upon the recommendation of the Special Committee, the Board unanimously voted to approve and adopt the merger agreement and resolved to recommend that you vote FOR, the approval of the merger agreement.

If the merger is consummated, members of the Board will be entitled to receive an aggregate of approximately $67.7 million, consisting of merger consideration and cash in respect of Company stock options and Company Awards, respectively, approximately $48.2 million of which would be received by members of the Special Committee. See SPECIAL FACTORS Interests of Certain Persons in the Merger.

Position of AIG and Merger Sub as to the Fairness of the Merger to 21st Century s Stockholders (other than AIG and its subsidiaries)

Under the SEC rules governing going private transactions, AIG and Merger Sub are deemed to be engaged in a going private transaction and therefore are required to express their beliefs as to the substantive and procedural fairness of the merger to the Company s unaffiliated stockholders. AIG and Merger Sub are making the statements included in this section solely for the purposes of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. AIG s and Merger Sub s views as to fairness of the proposed merger should not be construed as a recommendation to any stockholder of the Company as to how such stockholder should vote on the proposal to adopt and approve the merger agreement.

The Company s unaffiliated stockholders were represented by the Special Committee, which negotiated the terms and conditions of the merger agreement on their behalf, with the assistance of the Special Committee s independent financial and legal advisors. Accordingly, neither AIG nor Merger Sub undertook any independent evaluation of the fairness of the proposed merger or engaged a financial advisor for such purposes. AIG and Merger Sub did not participate in the deliberations of the Special Committee regarding, or receive advice from the Special Committee s legal or financial advisors as to, the substantive and procedural fairness of the proposed merger. AIG and Merger Sub believe, however, that the proposed merger is substantively and procedurally fair to the stockholders of the Company (other than AIG and its subsidiaries) based on the following factors:

- the merger consideration of $22.00 per share represents a premium of approximately 32.6% to the $16.59 closing price of Company common stock on the New York Stock Exchange on January 24, 2007, the last trading day before the public announcement of AIG s proposal to acquire the publicly held shares of the Company, a 39.8% premium to the Company s average closing price for the twelve months prior to January 24, 2007 and a 4.8% premium to the $21.00 closing price of the Company s common stock on the New York Stock Exchange on May 14, 2007, the last trading day before the announcement of the merger agreement;

- the merger will provide consideration to the Company s stockholders entirely in cash, thus eliminating any uncertainty in valuing the merger consideration;

- the fact that there are no non-customary requirements or conditions to the merger and that the merger is not conditioned on any financing being obtained by AIG, thus increasing the likelihood that the merger will be consummated and the consideration to be paid to the Company s stockholders will be paid;

- the merger agreement allows the Board or the Special Committee to withdraw or change its recommendation of the merger agreement, and to terminate the merger agreement in certain circumstances, subject, in certain cases, to a payment by the Company to AIG of $24.3 million as a termination fee (and given AIG s current 60.7% interest in the Company, AIG will effectively be incurring 60.7% of this fee);

- the fact that the Board established a Special Committee of independent directors, consisting solely of directors who are not officers, employees or controlling stockholders of the Company and are not affiliated with AIG or Merger Sub, to negotiate with AIG and Merger Sub;

- the fact that the Special Committee, which was formed on October 4, 2006, was deliberative in its process, analyzing, evaluating and negotiating the terms of the proposed merger and the active and direct role of the members of the Special Committee and their representatives in the negotiations with respect to the merger, and the consideration of the transaction by the Special Committee at numerous Special Committee meetings;

- the fact that neither AIG nor Merger Sub participated in or had any influence on the deliberative process of, or the conclusions reached by, the Special Committee or the negotiating positions of the Special Committee;

- the fact that the Board and Special Committee retained nationally recognized financial and legal advisors, each of which has extensive experience in transactions similar to the proposed merger;

- the $22.00 per share merger consideration and other terms and conditions of the merger agreement resulted from extensive negotiations between the Special Committee and its advisors and AIG and Merger Sub and their advisors;

- the voting members of the Special Committee unanimously determined that the merger agreement and the merger are advisable, fair to, and in the best interests of the Company and its stockholders;

- the Board unanimously determined that the merger agreement and the merger are advisable, fair to, and in the best interests of the Company and its stockholders;

- the fact that the Special Committee received an opinion from its financial advisor, to the effect that, as of the date of the opinion and based upon and subject to the factors and assumptions set forth therein, the $22.00 in cash per share to be received by the holders of Company common stock is fair from a financial point of view to such stockholders, see SPECIAL FACTORS Opinion of the Financial Advisor to the Special Committee ;

- stockholders who do not vote in favor of the merger agreement and who comply with certain procedural requirements will be entitled, upon completion of the merger, to exercise statutory appraisal rights under Delaware law, which allow stockholders to have the fair value of their shares determined by the Delaware Chancery Court and paid to them in cash;

- the merger will provide liquidity, without the brokerage and other costs typically associated with market sales, for the Company s public stockholders whose ability, absent the merger, to sell their shares of Company common stock is adversely affected by the limited trading volume and low public float of the shares.

- that the principal advantage of the Company continuing as a public company would be to allow public stockholders to continue to participate in any growth in the value of the Company s equity, but that, under all of the relevant circumstances and in view of the historical results of operations, financial condition, assets, liabilities, business strategy and prospects of the Company, the nature of the industry in which the Company competes, and trading characteristics of companies with market capitalization similar in size to that of the Company, and in light of the proposed merger consideration of $22.00 per share, the value to stockholders that would be achieved by continuing as a public company was not likely to be as great as the merger consideration of $22.00 per share;

- the merger consideration of $22.00 per share in cash in relation to the then-current market price of Company common stock, the then-current value of the Company in a freely negotiated transaction and the future value of the Company as an independent entity;

- the belief that no alternative bidder would likely be able to consummate an acquisition of the Company due to AIG s position that it is unwilling to sell its shares of Company common stock, which shares represent a controlling interest, in connection with any transaction involving the acquisition of the Company;

- that the Special Committee had no obligation to recommend the approval of the merger proposal or any other transaction; and

- that the Board could consider and recommend superior proposals.

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The board of directors and the Special Committee did not (i) retain an unaffiliated representative (other than the Special Committee and its legal and financial advisors) to act solely on behalf of unaffiliated stockholders for purposes of negotiating the terms of the merger agreement, or (ii) structure the transaction to require approval of at least a majority of unaffiliated stockholders. AIG and Merger Sub believe, however, that taking into account the factors listed above, as well as the fact that the agreement between AIG, Merger Sub and the Company resulted from arms-length negotiations between the Company and its advisors and AIG and Merger Sub and their advisors, the absence of these two safeguards did not diminish the fairness of the process undertaken by the Board and the Special Committee. Although AIG s Banking Representatives generally assisted AIG and Merger Sub in connection with the merger and, in particular, performed certain financial analyses relating to the proposed transaction as described under SPECIAL FACTORS Summary of BAS and JPMorgan presentations to AIG , AIG did not request, and BAS and JPMorgan did not provide (i) any opinion to AIG or any other person in connection with the merger as to the fairness of the merger consideration to AIG, the Company or any other person, or (ii) any other valuation of the Company for the purpose of assessing the fairness of the merger consideration to AIG, the Company or any other person.

AIG and Merger Sub did not consider the liquidation value of the Company because they considered the Company to be a viable, going concern and therefore did not consider liquidation value to be a relevant valuation method. Further, AIG and Merger Sub did not consider net book value, which is an accounting concept, as a factor because they believe that net book value is not a material indicator of the value of the Company as a going concern but rather is indicative of historical costs. AIG and Merger Sub note, however, that the $22.00 per share cash merger consideration is more than 208% of the Company s net book value as of March 31, 2007. In addition, AIG and Merger Sub did not consider firm offers made by unaffiliated persons during the last two years, as no such offers were made during the last two years. Furthermore, because none of AIG or its subsidiaries including Merger Sub has purchased any Company stock during the last two years (except for any purchases executed by mutual funds that are managed or advised by subsidiaries of AIG on behalf of their clients), AIG or Merger Sub did not consider the prices paid by them in their acquisition of the Company stock under the merger agreement.

The foregoing discussion of the information and factors considered and given weight by AIG and Merger Sub in connection with the fairness of the merger is not intended to be exhaustive but is believed to include all material factors considered by AIG and Merger Sub. AIG and Merger Sub did not find it practicable to, and did not, quantify or otherwise assign relative weights to the individual factors considered in reaching their conclusions as to the fairness of the proposed merger. Rather, the fairness determinations were made after consideration of all of the foregoing factors as a whole.

The Company s Position as to the Fairness of the Merger to the Company s Stockholders (other than AIG and its subsidiaries)

The Board believes that the merger agreement and the merger are fair to and in the best interests of the Company s stockholders (other than AIG and its subsidiaries) for all of the reasons set forth above under SPECIAL FACTORS Recommendations of the Special Committee and the Board of Directors; Reasons for Recommending the Approval and Adoption of the Merger Agreement. With a view to conducting a fair process with respect to the negotiation and consideration of the merger, the Board established a Special Committee, consisting of four independent directors of the Company. None of the members of the Special Committee is an officer or employee of the Company, and none will be a stockholder, director, officer or employee of the Company following the merger. With respect to the fairness of the transaction price in connection with the merger, the Board has noted that AIG indicated, following extensive negotiations with the Special Committee and its representatives, that the merger consideration of $22.00 in cash per share was the highest price that AIG would be willing to pay.

In reaching these conclusions, the Board considered it significant that the Special Committee retained its own financial and legal advisors who have extensive experience with transactions similar to the merger and who assisted the Special Committee in evaluating the merger and in negotiating with AIG and its advisors.

Lehman Brothers was retained as financial advisor to the Special Committee and, in connection with the Special Committee s May 14, 2007 meeting, was asked by the Special Committee to render an opinion as to the fairness, from a financial point of view, of the merger consideration to be offered to the stockholders of the Company (other than AIG and its subsidiaries). Lehman Brothers delivered to the Special Committee its opinion that, as of May 14, 2007 and based on and subject to the assumptions, limitations and qualifications set forth in the opinion, from a financial point of view, the consideration to be offered to the stockholders of the Company (other than AIG and its subsidiaries) in the merger is fair to such stockholders.

The Board, based in part on the recommendation of the Special Committee, unanimously recommends that the Company s stockholders vote FOR the approval of the merger agreement. The recommendation of the Board was made after consideration of all the material factors, both positive and negative, as described above.

Financial Projections

In connection with AIG s review of the Company and in the course of the negotiations between the Special Committee and AIG described in SPECIAL FACTORS Background of the Merger, the Company provided AIG with non-public business and financial information. The non-public information included projections of the Company s future operating performance. Such projections also were provided to Lehman Brothers in its capacity as financial advisor to the Special Committee. The information set forth below has been excerpted from the materials provided to AIG and Lehman Brothers, and does not give effect to the transactions contemplated by the merger agreement.

The Company does not, as a matter of course, publicly disclose projections of future revenues or earnings. However, as requested, senior management did provide financial forecasts to AIG, the Special Committee and its financial advisor, Lehman Brothers. The projections were not prepared with a view to public disclosure and are included in this proxy statement only because such information was made available to AIG in connection with its due diligence investigation of the Company. The projections were not prepared with a view to compliance with the published guidelines of the SEC regarding projections, nor were they prepared in accordance with generally accepted accounting principles or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of financial projections. The projections included in this proxy statement have not been prepared by, and are not the responsibility of PricewaterhouseCoopers LLP, the Company s independent registered public accounting firm, who has neither examined nor compiled the projections, and accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect to the projections. The audit report incorporated by reference into this proxy statement related to the Company s historical financial information does not extend to the projections and should not be read to do so. In compiling the projections, the Company s management took into account historical performance, combined with projections regarding development activities. The projections were developed in a manner consistent with management s historical development of budgets and long-range operating projections and were not developed for public disclosure. Although the projections were presented with numerical specificity, the projections reflect numerous assumptions and estimates as to future events made by the Company s management that management believed were reasonable at the time the projections were prepared. Failure to achieve any such assumptions would impact the accuracy of the projections. In addition, factors such as industry performance and general business, economic, regulatory, market and financial conditions, all of which are difficult to predict and beyond the control of management, may cause the projections or the underlying assumptions to be inaccurate. Accordingly, there can be no assurance that the projections will be realized, and actual results may be materially greater or less than those contained in the projections. See FORWARD-LOOKING STATEMENTS on page 14.

The Company does not intend to update or otherwise revise the projections to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even if any or all of the assumptions underlying the projections are shown to be in error. A summary of the projections is set forth below:

	Management Projections 2007	**2008**	**2009**	**2010**	**2011**
	($ in millions)				
Direct Premiums Written	$ 1420.2	$ 1633.5	$ 1830.0	$ 2049.5	$ 2295.2
Net Income	$ 78.8	$ 85.3	$ 104.7	$ 115.5	$ 141.5

The material assumptions made by the Company in developing these projections are as follows:

	Key Management Projections Assumptions 2007	**2008**	**2009**	**2010**	**2011**
Direct Premiums Written Growth(1)	8 %	15 %	12 %	12 %	12 %
Loss and Loss Adjustment Expenses Ratio	73.5 %	75.0 %	74.8 %	75.0 %	75.0 %
Expense Ratio	22.5 %	21.0 %	20.2 %	20.0 %	19.0 %

(1) Expressed as a percentage change over the prior year.

Opinion of the Financial Advisor to the Special Committee

On October 4, 2006, Lehman Brothers was engaged by the Special Committee to act as its financial advisor in connection with a potential acquisition by AIG of the remaining shares of Company common stock not already owned by AIG or its subsidiaries. On May 14, 2007, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing) to the Special Committee that as of such date and, based upon and subject to the matters stated in its opinion, from a financial point of view, the merger consideration to be offered to the stockholders of the Company, other than AIG and its subsidiaries, in the merger was fair to such stockholders.

The full text of Lehman Brothers written opinion, dated May 14, 2007, is attached as Annex B to this proxy statement. Lehman Brothers provided its opinion for the information and assistance of the Special Committee in connection with its consideration of the merger. Lehman Brothers has not been requested to opine as to, and Lehman Brothers opinion does not in any manner address, the Company s underlying business decision to proceed with or effect the merger. Lehman Brothers opinion is not a recommendation as to how any holder of Company common stock should vote with respect to the merger. Stockholders are encouraged to read Lehman Brothers opinion carefully in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion. The following is a summary of Lehman Brothers opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

In connection with rendering the opinion described above, Lehman Brothers reviewed and analyzed, among other things:

(1) The merger agreement and the specific terms of the proposed merger;

(2) Publicly available information concerning the Company that it believed to be relevant to its analysis, including the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, Amended Annual Report on Form 10-K/A filed on April 26, 2007 for the fiscal year ended December 31, 2006 and Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007;

(3) Financial and operating information with respect to the business, operations and prospects of the Company furnished to Lehman Brothers by the Company, including the financial projections of the Company and estimated cost savings and operating synergies expected to result from the merger (the Expected Synergies), in each case as prepared by the management of the Company;

(4) Published estimates of independent research analysts with respect to the future financial performance of the Company;

(5) A trading history of the common stock of the Company from May 10, 2006 to May 10, 2007 and a comparison of such trading history with those of other companies that Lehman Brothers deemed relevant;

(6) A comparison of the historical financial results and present financial condition of the Company with those of other companies that Lehman Brothers deemed relevant;

(7) A comparison of the financial terms of the merger transaction with the financial terms of certain other transactions that Lehman Brothers deemed relevant; and

(8) Public statements made by AIG with respect to its ownership interest in the Company, including the information contained in Schedule 13D/A (including any exhibits thereto) filed by AIG on January 24, 2007. In its proposal to the Board, AIG stated that it was interested only in acquiring the publicly held shares of the Company, and that it had no interest in selling its controlling stake in the Company.

In addition, Lehman Brothers had discussions with the management of the Company concerning its business, operations, assets, liabilities, financial condition and prospects and undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

The Lehman Brothers opinion states that Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information and further relied upon the assurances of the management of the Company that they are not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of the Company, upon advice of the Company, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of the Company as to the future financial performance of the Company. However, for the purpose of Lehman Brothers analysis, upon discussions with the Company s management such financial projections were adjusted to reflect a more efficient usage of excess capital to align the Company s practice with industry standards and the Company s management has agreed with the appropriateness of the use of, and Lehman Brothers reliance upon, this concept in performing its analysis. In addition, upon the advice of the Company, Lehman Brothers assumed that the amounts and timing of the expected synergies were reasonable and that the expected synergies would be realized substantially in accordance with such estimates. In arriving at its opinion, Lehman Brothers did not conduct a physical inspection of the properties and facilities of the Company and did not make or obtain any evaluations or appraisals of the respective assets or liabilities of the Company. Furthermore, Lehman Brothers are not actuaries and its services did not include actuarial determinations or evaluations by Lehman Brothers or an attempt to evaluate actuarial assumptions. In that regard, Lehman Brothers made no analyses of, and expressed no opinions as to, the adequacy of insurance reserves of the Company and relied upon information furnished to us by the Company as to the adequacy of such reserves. In addition, the Special Committee did not authorize Lehman Brothers to solicit, and Lehman Brothers did not solicit any indications of interest from any third party with respect to the sale of all or a part of the Company. Lehman Brothers opinion necessarily is based upon market, economic and other conditions as they existed on, and could be evaluated as of May 14, 2007.

In connection with rendering its opinion, Lehman Brothers performed certain financial, comparative and other analyses as described below. In arriving at its opinion, Lehman Brothers did not ascribe a specific range of value to the Company, but rather made its determination as to the fairness, from a financial point of view, of the merger consideration to be offered to the stockholders of the Company other than AIG and its subsidiaries on the basis of financial and comparative analyses. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial and comparative analysis and the application of those methods to the particular circumstances, and therefore, such an opinion is not readily susceptible to summary description. Furthermore, in arriving at its opinion, Lehman Brothers did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Lehman Brothers believes that its analyses must be considered as a whole and that considering any portion of such analyses and factors, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying its opinion. In its analyses, Lehman Brothers made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Company. None of the Company, Lehman Brothers or any other person assumes responsibility if future results are materially different from those assumed. Any estimates contained in these analyses were not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth therein. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses actually may be sold.

The following is a summary of the material financial analyses used by Lehman Brothers in connection with providing its opinion to the Special Committee. **The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. Accordingly, the analyses listed in the tables and described below must be considered as a whole. In order to fully understand the financial analyses used by Lehman Brothers, the tables must be read together with the text of each summary. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Lehman Brothers opinion.**

Comparable Company Analysis:

In order to assess how the public market values shares of similar publicly traded companies, Lehman Brothers reviewed and compared specific financial and market data relating to the Company with selected companies that Lehman Brothers, based on its experience with companies in the personal lines property & casualty insurance industry, deemed appropriate as comparables to the Company including: The Allstate Corporation, The Progressive Corporation, Safeco Corporation, Mercury General Corporation, The Hanover Insurance Group, The Commerce Group, Inc., State Auto Financial Corporation and Horace Mann Educators Corporation.

The financial information compared included current stock price, market capitalization, price as a percentage of the previous 52 weeks high and low stock price, estimated earnings per share for 2007 and 2008, GAAP book value as of March 31, 2007, and estimated return on average equity for 2007. The credit statistics compared included the ratio of 2006 net premiums written to surplus and the ratio of long-term debt to book capitalization. In order to arrive at a public market reference range for the Company, Lehman Brothers derived multiples for the comparable companies, including price as a multiple of (i) estimated earnings for 2007 and 2008 in accordance with GAAP and (ii) GAAP book value. The market price information used in such analysis was as of May 10, 2007. The earnings per share estimates used were based on estimates as of May 10, 2007 by Institutional Brokers Estimate System or I/B/E/S (IBES), a data service that monitors and publishes a compilation of earnings estimates regarding companies of interest to institutional investors produced by selected research analysts.

The following table presents the results of the financial analysis described above for the selected companies:

	Price to: 2007E EPS	2008 E EPS	Book Value
Mean	11.2x	11.5x	1.63x
Median	11.1x	11.6x	1.55x
Maximum	13.1x	13.3x	2.48x
Minimum	9.2x	9.3x	1.20x

Lehman Brothers then derived from this the ranges of these multiples deemed most meaningful for this analysis (which were 10.5x 13.1x 2007 estimated earnings and 10.5x 13.3x 2008 estimated earnings) and applied these multiples to the Company. In addition, Lehman Brothers also applied a 30% control premium (the premium that Lehman Brothers believed to be the most appropriate in light of the Company s stock price and financial performance and market conditions) to the ranges derived above. These calculations indicated a range of implied per share equity values for the Company of $14 to $18. Lehman Brothers noted that the merger consideration of $22.00 per share was above the range of implied per share equity values for the Company based on the Comparable Company Analysis.

Lehman Brothers selected the comparable companies named above because their businesses and operating profiles are reasonably similar to those of the Company. However, because of the inherent differences between business, operations and prospects of the Company and the businesses, operations and prospects of the comparable companies, Lehman Brothers believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the Comparable Company Analysis. Accordingly, Lehman Brothers also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of the Company and the companies included in this analysis that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between the Company and the companies included in the Comparable Company Analysis.

Comparable Transaction Analysis:

Using publicly available information, Lehman Brothers reviewed, analyzed and compared the purchase prices and financial multiples paid in select automobile insurance transactions since 1995 that Lehman Brothers, based on its experience, deemed relevant to arriving at its opinion. Lehman Brothers reviewed the following transactions:

Date Announced	**Acquirer**	**Target**
08/25/1995	**Berkshire Hathaway, Inc.**	**GEICO Corporation**
03/02/2007	Farmers Group, Inc.	Bristol West Holdings, Inc.
12/04/2006	Elara Holdings, Inc.	Direct General Corp.
07/29/2005	Sentry Insurance Group	Viking Insurance Holdings, Inc.
12/15/2003	Liberte Investors	US Auto Holdings Inc.
06/25/2003	AIG	GE US Auto & Home
05/22/2003	Palisades Group, LLC	High Point Group
03/26/2003	Nationwide Mutual Insurance Co.	Titan Insurance
05/31/2001	Safety Holdings Inc.	Thomas Black Corp.
12/27/1999	Prudential Financial, Inc.	Titan Insurance
07/12/1999	MetLife, Inc.	St. Paul Personal Lines
06/09/1999	The Allstate Corporation	CNA Personal Lines Business
01/11/1999	American Financial Group	Worldwide Insurance Group
01/26/1998	The Allstate Corporation	Pembridge Insurance Co.
10/16/1997	Hartford Financial Services Group	Omni Insurance Group
06/23/1997	General Motors Corp	Integon Corp.

The reasons for and the circumstances surrounding each of the transactions analyzed were diverse and there are inherent differences in the business, operations, financial conditions and prospects of the Company, and the businesses, operations, financial conditions and prospects of the companies included in the Comparable Transaction Analysis. Accordingly, Lehman Brothers believed that a purely quantitative comparable transaction analysis would not be particularly meaningful in the context of the proposed merger. Lehman Brothers believed that the appropriate use of the Comparable Transaction Analysis required qualitative judgments concerning the differences between the characteristics of these transactions and the proposed merger which would affect the acquisition values of the acquired companies and the Company.

In order to arrive at a valuation range for the Company based on comparable transactions, Lehman Brothers derived multiples for the comparable transactions, including the price paid for the target companies as a multiple of (i) book value of the target companies, (ii) tangible book value of the target companies, (iii) latest twelve months (LTM) net income of the target companies, and (iv) estimated forward earnings for the target companies.

	Price / Book Value	**Price / Tangible Book Value**	**Price / LTM Earnings**	**Price / Forward Earnings**
Mean	2.26x	2.09x	15.9x	19.6x
Median	1.66x	2.24x	14.4x	17.1x

Lehman Brothers also noted that GEICO Corporation was the only true public direct auto franchise that had been acquired in the past twelve years. Moreover, GEICO Corporation was a minority buy-in of a direct auto company with an existing national franchise, and it was bought in at approximately 22x LTM earnings and 19x forward earnings.

Lehman Brothers selected the price to LTM earnings and price to forward earnings as being the most appropriate multiples and then derived the ranges of these multiples deemed most meaningful for this analysis (which were 20.0x-21.6x LTM earnings and 19.2x-20.0x forward earnings) and applied these multiples to the Company.

Based on these multiples, the implied per share equity value for the Company from this analysis was $19-$23.

Lehman Brothers noted that the merger consideration of $22.00 per share was within the upper end of the range of the implied share prices of $19 and $23 that resulted from the Comparable Transaction Analysis described above.

Minority Squeeze-Out Premiums Paid Analysis:

In order to assess the premium proposed to be paid by AIG in the merger, Lehman Brothers reviewed premiums paid by acquirers in selected minority squeeze-out transactions since 1998 where the acquirer owned at least 50% of the target before the transaction and the acquired entity equity value was at least $50 million. Lehman Brothers utilized the premiums paid based on Dealogic (a company that designs and develops information systems to address specific needs of the capital markets industry) calculations for the 1 day, 1 week and 1 month prior to the transaction. The following table summarizes the results of such calculations:

	Period Prior to Announcement		
	One Day	**One Week**	**One Month**
Mean Premium	32.7 %	33.9 %	34.7 %
Median Premium	28.4 %	32.0 %	29.3 %
Maximum Premium	140.0 %	109.1 %	162.1 %
Minimum Premium	-11.1 %	-5.8 %	-64.9 %

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Lehman Brothers selected a range based on the mean and median premiums and applied this range to the share price of the Company s common stock for the same periods to calculate the implied per share equity value of the Company as follows:

	Period Prior to Announcement		
Implied Price at	**One Day**	**One Week**	**One Month**
25% premium	$ 20.74	$ 20.96	$ 22.03
30% premium	$ 21.57	$ 21.80	$ 22.91
35% premium	$22.40	$22.64	$23.79

Based on the above, the implied per share equity value for the Company was $21 - $24.

Lehman Brothers noted that the merger consideration of $22.00 per share was within the range of the implied share prices of $21 and $24 that resulted from this analysis.

Discounted Cash Flow Analysis:

In order to estimate the present value of Company common stock, Lehman Brothers modeled a discounted cash flow analysis using the Company s after-tax levered free cash flows for fiscal years 2007 through 2011.

A discounted cash flow is a traditional valuation methodology used to derive a valuation of an asset by calculating the present value of estimated future cash flows of the asset. Present value refers to the current value of future cash flows or amounts and is obtained by discounting those future cash flows or amounts by a discount rate that takes into account macro-economic assumptions and estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors.

Lehman Brothers performed a discounted cash flow analysis for the Company by adding (1) the present value of the Company s projected after-tax levered free cash flows to (2) the present value of the terminal value of the Company. The terminal value refers to the value of all future cash flows from an asset at a particular point in time. Lehman Brothers created three valuation scenarios for the analysis:

- *The Management Case*, based on management s five-year projections;
- *The Industry Growth Case*, based on the combined ratios from the management case, but utilizing an industry average growth rate of 6%;
- *The Extended Case*, based on the management case for the first five years and for years six through ten, based on the combined ratios from the management case but gradually reducing the growth rate to the industry average of 6%.

Discounted cash flow analysis was modeled without the benefit of management s estimates of potential synergies and expense savings that could be realized by AIG. In addition, Lehman Brothers separately calculated the value of potential synergies and expense savings that could be realized by AIG, which they subsequently added to the value of each of the above cases.

To determine terminal value, Lehman Brothers took into account several factors. The Management Case uses a terminal multiple range of 15x to 17x, to reflect the material premium to its peers the Company has historically traded at in the past. The Industry Growth Case and Extended Case use terminal multiples within the peer group range (10x to 12x), albeit at the higher end of such range. This reflects growth rates closer to industry averages in the terminal year and the longer period utilized in the Extended Case places long term growth more in line with peers. Lehman Brothers discounted the levered free cash flow streams and the estimated terminal value to a present value at a range of discount rates. For the Management Case, there is a material increase in anticipated earnings growth over the five-year projection period. As a result, Lehman Brothers chose to widen its discount rate range for this case by at the low end, 11% based on cost of capital analysis, and at the high end, 15% to reflect the increased return a buyer might require for the increased risk in achieving the higher growth projections. For both the Industry Growth Case and the Extended Case, Lehman Brothers used a discount rate range of 10% to 12%, reflecting lower volatility and risk associated with utilizing industry averages. The discount rates utilized in this analysis were chosen by Lehman Brothers based on its experience with the personal lines property & casualty insurance industry and also on an analysis of the weighted average cost of capital and cost of equity of the Company and other comparables. The table below shows the range of implied per share equity value for the Company.

Discounted Cash Flow Range		
No Synergies	$	14 - $22
50% Synergies	$	17 - $25
100% Synergies	$	19 - $28

Lehman Brothers noted that the merger consideration of $22.00 per share was at the top of the range of the implied share prices of $14 and $22 that resulted from the Discounted Cash Flow Analysis without synergies. Lehman Brothers also noted that the merger consideration of $22.00 per share was within the upper end of the range of the implied share prices of $17 and $25 that resulted from the Discounted Cash Flow Analysis with 50% synergies and within the range of the implied share prices of $19 and $28 that resulted from the 100% synergies Discounted Cash Flow.

Analysis at Various Prices:

For illustrative purposes for the consideration of the Special Committee, Lehman Brothers calculated the premium implied by the merger consideration of $22.00 per share over the market price per share of Company common stock at certain times. Lehman Brothers compared the merger consideration with the following trading prices for Company common stock:

- The closing price of $16.59 on January 24, 2007 (the last trading day prior to the public announcement of AIG s initial offer);
- The average closing price of $16.77 for the one (1) week period prior to January 24, 2007;
- The average closing price of $16.49 for the one (1) week period prior to January 24, 2007;
- The average closing price of $17.81 for the one (1) month prior to January 24, 2007;
- The average closing price of $17.06 for the one (1) month period prior to January 24, 2007;
- The $19.75 initial offer made by AIG in its public announcement on January 24, 2007;
- The 52-week high closing price (prior to the public announcement of AIG s initial offer) of $17.95; and
- The closing price of $21.00 on May 14, 2007 (the last trading day prior to the public announcement of AIG s final offer).

Applying the final offer price of $22.00 per share, the results of Lehman Brothers calculations are reflected below:

Period Considered:	**Premium based on $22.00 per share**
January 24, 2007 Closing Price	32.6 %
1 week ending	31.2 %
1 week average	33.5 %
1 month ending	23.5 %
1 month average	29.0 %
January 24, 2007 AIG Initial Offer Price	11.4 %
52 week high	22.6 %
May 14, 2007	4.8 %

Lehman Brothers noted that the resulting premiums based on the merger consideration of $22.00 per share were within the range of premiums that resulted from the comparable analyses described above.

For illustrative purposes, Lehman Brothers also calculated the following transaction multiples implied by the merger consideration of $22.00 per share. Estimates of future results for the Company used by Lehman Brothers in this analysis were based on either Wall Street consensus estimates as provided by IBES, or forecasts prepared by the management of the Company.

- Transaction value as a multiple of historical 2006 earnings per share
- Transaction value as a multiple of estimated 2007 IBES median earnings per share
- Transaction value as a multiple of estimated 2007 management earnings per share
- Transaction value as a multiple of the book value of equity per share at March 31, 2007

- The results of Lehman Brothers calculations are summarized in the following table:

	Implied multiple based on $22.00 per share
Price/2006 EPS	19.3x
Price/2007E IBES EPS	23.2x
Price/2007E Management EPS	24.2x
Price/Book	2.08x

General:

The terms of the merger were determined through arms-length negotiations between the Special Committee with its advisors, and AIG and its advisors, and were unanimously approved by the voting members of the Special Committee and the Board. Lehman Brothers opinion does not address any other aspects of the merger transaction and does not constitute a recommendation to any stockholder as to how to vote or to take any other action with respect to the merger. Lehman Brothers opinion was one of the many factors taken into consideration by the voting members of the Special Committee in making its unanimous determination to approve the merger agreement. Lehman Brothers analyses summarized above should not be viewed as determinative of the opinion of the Special Committee with respect to the value of the Company or whether the Special Committee would have been willing to agree to a different price.

Lehman Brothers is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. The Special Committee selected Lehman Brothers because of its expertise, reputation and familiarity with the personal lines property & casualty insurance industry generally and because its investment banking professionals have substantial experience in transactions comparable to the merger.

As compensation for its services in connection with the merger, the Company paid Lehman Brothers a retainer of $200,000 and an opinion fee of $1 million upon the delivery of the Lehman Brothers opinion. Additional compensation of $2,800,000 will be payable upon completion of the merger. In addition, the Company has agreed to reimburse Lehman Brothers for reasonable out-of-pocket expenses incurred in connection with the merger and to indemnify Lehman Brothers for certain liabilities that may arise out of its engagement by the Special Committee and the rendering of the Lehman Brothers opinion. Lehman Brothers has performed investment banking services for the Company and AIG in the past, and expects to continue to provide such services in the future, and has received, and expects to receive, customary compensation for such services.

In the ordinary course of its business, Lehman Brothers actively trades in the debt and equity securities and loans, if any, of the Company and AIG for its own account and/or for the accounts of its customers and, accordingly, may at any time hold long or short positions in such securities or loans.

Summary of BAS and JPMorgan presentations to AIG

In June 2006, AIG retained S&C as its legal advisor, to assist it in connection with a possible transaction involving the Company. Also in June 2006, AIG retained BAS to act as its financial advisor in connection with a possible transaction with the Company. In July 2006, AIG retained JPMorgan to act as its financial advisor in connection with a possible transaction with the Company. AIG selected BAS and JPMorgan to act as financial advisors because they are internationally recognized investment banking firms that are regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

On January 16, 2007, BAS and JPMorgan provided a presentation to the management of AIG. On January 17, 2007 AIG s management provided an update to the finance committee of AIG s board of directors regarding a possible transaction with the Company. On March 30, 2007, BAS and JPMorgan provided an updated version of their presentation to the management of AIG.

AIG did not request, and BAS and JPMorgan did not provide, (i) any opinion to AIG or any other person in connection with the merger as to the fairness of the merger consideration to AIG, the Company, the stockholders of the Company or any other person or (ii) any other valuation of the Company for the purpose of assessing the fairness of the merger consideration to AIG, the Company, the stockholders of the Company or any other person. BAS and JPMorgan each have established procedures for rendering a fairness opinion, including review of the fairness opinion and the underlying information, comparisons and analyses by a fairness committee composed of senior investment bankers with relevant expertise. Because BAS and JPMorgan were not requested to render a fairness opinion, it was not necessary to, and they did not, submit the information, comparisons and analyses described below to a fairness committee for review, nor did they follow all of the procedures that they ordinarily follow in connection with rendering a fairness opinion. Had BAS or JPMorgan been requested to provide an opinion or been requested to recommend or provide support for a fair or appropriate valuation of the Company s securities and submitted the information, comparisons and analyses described below to their full fairness opinion process, including review by a fairness committee, the information, comparisons and analyses presented by BAS and JPMorgan following that process may have been different from those described below.

The following summary of the January 16, 2007 and March 30, 2007 presentations is included here only for informational purposes and to comply with disclosure requirements. The analyses described herein and the order in which they are presented and the results of the analyses do not represent relative importance or weight given to these analyses by BAS, JPMorgan, AIG, its management or the finance committee of AIG s board of directors. The summary of the presentations set forth below is qualified in its entirety by reference to the full text of the presentation materials which are filed as Exhibits to the Company s Schedule 13E-3 dated as of the date hereof and incorporated herein by reference to this document. **Neither the presentation materials nor this summary constitutes a recommendation as to whether any stockholder of the Company should vote in favor of the merger or any other action that any stockholder of the Company should take or refrain from taking in connection with the merger.**

In providing financial advice and preparing financial analysis, BAS and JPMorgan:

- reviewed certain publicly available financial statements and other business and financial information of the Company;
- reviewed certain internal financial statements and other financial and operating data concerning the Company;
- reviewed certain financial forecasts relating to the Company prepared by the Company, including the modifications to those financial forecasts prepared by AIG;
- discussed the Company s past and current operations, financial condition and prospects with senior executives of AIG;
- reviewed the reported prices and trading activity for Company common stock;
- compared the Company s financial performance and the prices and trading activity of Company common stock with that of certain other publicly traded companies that BAS and JPMorgan deemed relevant;

- reviewed the premiums paid in selected cash minority buy-in transactions that BAS and JPMorgan deemed relevant; and

- performed other analyses and considered other factors as BAS and JPMorgan deemed appropriate.

In preparing the presentation materials, BAS and JPMorgan assumed and relied on, without independent verification, the accuracy and completeness of the financial and other information reviewed by it. With respect to the financial forecasts of the Company referenced above, BAS and JPMorgan assumed, at AIG s direction, that such forecasts, as modified by AIG, were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the Company s and AIG s management as to the Company s future financial performance before and after giving effect to the sensitivities reflected in such forecasts. Neither BAS nor JPMorgan made any independent valuation or appraisal of the Company s assets or liabilities and neither of them prepared any such valuation or appraisals.

BAS and JPMorgan s presentations were necessarily based on economic, market and other conditions as in effect on, and information made available to them as of, the date of such presentations. Accordingly, although subsequent developments may affect the information contained in the presentations, BAS and JPMorgan did not assume any obligation to update, revise or reaffirm the contents of the presentations.

The following represents a brief summary of the material financial analyses contained in the presentations prepared by BAS and JPMorgan for AIG s management and the finance committee of AIG s board of directors. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses performed by BAS and JPMorgan, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses performed by BAS and JPMorgan. Considering the data set forth in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by BAS and JPMorgan.**

Discounted Cash Flow Analysis.

BAS and JPMorgan performed a discounted cash flow analysis of the Company to calculate the present value of the standalone unlevered (i) dividends that the Company could distribute during calendar years 2007 through 2011 and (ii) terminal value based on the net operating income that the Company could generate during calendar year 2012 utilizing two scenarios prepared by AIG and incorporating certain projections for the Company s future performance prepared by the Company, as modified by AIG. The first scenario was used in the preparation of the January 16, 2007 presentation, and we refer to this scenario as the AIG base case. The second scenario was used in the preparation of the March 30, 2007 presentation, and we refer to this scenario as the revised AIG base case. Both the AIG base case and the revised AIG base case assumed that the Company would pay annual dividends equal to (a) the greater of (i) 10% of the policyholder s surplus at the beginning of such year and (ii) 100% of the prior year s net income, plus (b) an additional allowable special dividend of up to $100 million per year, to the extent the aggregate amount of distributions would not exceed an amount that would cause the ratio of net premiums written to statutory surplus to exceed 3.0x. The AIG base case takes into account the Company s projections, provided to BAS and JPMorgan in September 2006, as modified by AIG and the revised AIG base case takes into account the Company s projections, as revised downward by the Company and provided to BAS and JPMorgan in February 2007, as further modified by AIG. The Company s projections are more fully described under Financial Projections. BAS and JPMorgan applied multiples ranging from 11.0x to 13.0x to the Company s estimated 2012 GAAP net operating income, then subtracted the Company s current debt from the product of that calculation to arrive at the estimated terminal values. The dividends and terminal values were then discounted to present value using discount rates ranging from 10.0% to 12.0%. The analysis indicated the following implied per share equity value reference ranges for the Company under the AIG base case and AIG revised base case scenarios, without taking into account any synergies anticipated by AIG to result from the merger:

Base Case	Revised Base Case
$15.68-$19.45	$ 14.64-$18.03

For both the AIG base case and the AIG revised base case, BAS and JPMorgan then applied the same discount rates and terminal value multiples to the anticipated after-tax synergies for each year in order to determine the present value of the synergies anticipated by AIG to result from the merger. One hundred percent of these anticipated synergy values were allocated across the total number of shares outstanding and added to the reference ranges described above to obtain the following implied per share equity value reference ranges for the Company under the AIG base case and AIG revised base case scenarios, taking into account assumed realization of all the synergies anticipated by AIG to result from the merger:

Base Case	Revised Base Case
$18.63-$23.09	$ 18.31-$22.55

For the January 16, 2007 presentation, BAS and JPMorgan also derived theoretical implied equity value multiples that would have been paid on the Company s (i) last twelve months earnings per share, which we refer to as EPS, (ii) estimated 2006 EPS, (iii) estimated 2007 EPS, and (iv) book value per share at September 30, 2006, excluding accumulated other comprehensive income, which we refer to as AOCI at certain assumed per share transaction values, including at the $22.00 per share merger consideration. The results of this analysis for the eventual $22.00 per share merger consideration, as presented in the January 16, 2007 presentation, are as follows:

Implied Equity Value Multiples	Per Share Data	Base Case Multiples at assumed $22.00 per share merger consideration
LTM EPS	$ 1.22	18.0x
2006E EPS	$ 1.19	18.5x
2007E EPS	$ 1.01	21.8x
Book Value (at 9/30/06)	$ 10.55	2.09x

For the March 30, 2007 presentation, BAS and JPMorgan also derived theoretical implied equity value multiples that would have been paid on the Company s (i) actual 2006 EPS, (ii) estimated 2007 EPS and (iii) book value per share at December 31, 2006, excluding AOCI, at certain assumed per share transaction values, including at the eventual $22.00 per share merger consideration. The results of this analysis for the $22.00 per share merger consideration, as presented in the March 30, 2007 presentation, are as follows:

Implied Equity Value Multiples	Per Share Data	Revised Base Case at assumed $22.00 per share merger consideration
2006 EPS	$ 1.12	19.6x
2007E EPS	$ 0.91	24.2x
Book Value (at 12/31/06)	$ 10.71	2.05x

Selected Publicly Traded Companies Analysis

BAS and JPMorgan reviewed selected publicly available financial and stock market information for AIG, the Company and the following seven publicly traded companies in the personal lines insurance business:

- The Progressive Corporation
- Mercury General Corporation
- The Allstate Corporation
- Safeco Corporation
- The Hanover Insurance Group, Inc.
- The Commerce Group, Inc.
- State Auto Financial Corporation

BAS and JPMorgan reviewed, among other things, the market values of the Company and the selected publicly traded companies, (1) in the case of the January 16, 2007 presentation, based on closing stock prices on January 12, 2007, as a multiple of (a) estimated EPS for calendar years 2006 and 2007 and (b) book value per share (excluding AOCI) as of September 30, 2006 and (2) in the case of the March 30, 2007 presentation, based on closing stock prices on March 29, 2007, as a multiple of (a) estimated EPS for calendar years 2007 and 2008 and (b) book value per share (excluding AOCI) as of December 31, 2006. Estimated financial data of the selected publicly traded companies were based on publicly filed reports and publicly available equity research analyst estimates. Estimated financial data for the Company were based on publicly filed reports, the Company s internal management estimates and First Call consensus estimates. For the January 16, 2007 presentation, this analysis indicated the following medians and ranges of multiples of share price to 2006 and 2007 estimated EPS and book value for the comparable companies:

	Price/2006E EPS	**Price/2007E EPS**	**Price / 9/30/06 Book Value**
Comparable Companies Range	8.4x-13.1x	9.3x-12.2x	1.20x-2.88x
Comparable Companies Median	11.1x	10.8x	1.77x

This analysis also indicated the following multiples of share price to 2006 and 2007 estimated EPS and book value for the Company and AIG:

Company	**Price/2006E EPS**	**Price/2007E EPS**	**Price / 9/30/06 Book Value**
21st Century	14.2x	16.7x	1.60x
AIG	12.1x	11.4x	2.07x

For the March 30, 2007 presentation, this analysis indicated the following medians and ranges of multiples of share price to calendar year 2007 and 2008 estimated EPS and book value for the comparable companies:

	Price/2007E EPS	**Price/2008E EPS**	**Price / 12/31/06 Book Value**
Comparable Companies Range	8.7x-12.3x	8.8x-12.5x	1.16x-2.61x
Comparable Companies Median	10.6x	10.9x	1.75x

This analysis also indicated the following multiples of share price to 2007 and 2008 estimated EPS and book value for the Company and AIG:

Company	Price/2007E EPS	Price/2008E EPS	Price / 12/31/06 Book Value
21st Century	23.3x	21.4x	1.98x
AIG	10.6x	9.8x	1.89x

Historical Stock Price Performance

BAS and JPMorgan reviewed the following historical volume weighted average prices, which we refer to as VWAP, and average daily trading volumes, which we refer to as ADTV, of Company common stock over 30-day, 60-day, 90-day, 180-day and 360-day time periods and the intraday high and low trading price during the twelve-month period ending March 29, 2007:

Period	Price	ADTV
March 29, 2007	$ 21.23	N/A
30-day VWAP	$ 21.05	194,574
60-day VWAP	$ 21.19	202,453
90-day VWAP	$ 20.06	237,668
180-day VWAP	$ 18.24	161,436
360-day VWAP	$ 16.66	134,813
LTM Intraday High	$ 21.86	N/A
LTM Intraday Low	$ 13.58	N/A

BAS and JPMorgan also reviewed the following volume of trading activity that occurred within $0.10 increments between January 25, 2007, the first trading day after AIG announced its proposal to acquire the publicly held shares of the Company, and March 29, 2007:

Price Range	Volume	Percentage of Trades
<$20.85	1,287,300	9.8 %
$20.86-$20.95	1,640,900	12.5 %
$20.96-$21.05	4,240,410	32.3 %
$21.06-$21.15	2,257,700	17.2 %
$21.16-$21.25	1,428,600	10.9 %
$21.26-$21.35	836,600	6.4 %
$21.36-$21.45	682,500	5.2 %
>$21.46	748,037	5.7 %

Premiums Paid Analysis

For purposes of the January 16, 2007 presentation, BAS and JPMorgan reviewed publicly available information for the premiums paid relative to the Company s closing price on the trading day prior to announcement of (1) 69 selected minority buy-in transactions and (2) 15 selected minority buy-in transactions involving financial institutions, in each case announced since 1995 with transaction values in excess of $50 million. BAS and JPMorgan derived the median premiums paid in these transactions that were in excess of $50 million, $100 million, $200 million and $250 million respectively. A summary of the results of this analysis follows:

	All Minority Buy-in Transactions		Financial Institutions Minority Buy-in Transactions	
Transaction Value	**Median Premium**	**No. of Transactions**	**Median Premium**	**No. of Transactions**
> than $50 million	23.9 %	69	17.1 %	15
> than $100 million	24.7 %	48	19.4 %	11
> than $200 million	24.7 %	26	22.6 %	8
> than $250 million	23.3 %	20	24.5 %	7

In addition, using assumed whole-dollar potential transaction values ranging from $18.00-$25.00 per share of Company common stock (including the eventual $22.00 per share merger consideration), BAS and JPMorgan derived theoretical implied premiums that would have been paid per share of Company common stock, at such assumed per share transaction values, to the Company s (1) closing price on January 12, 2007, (2) closing price on July 26, 2006, (3) the 52-week high on January 3, 2007, (4) the 52-week low on June 23, 2006 and (5) the 180-day VWAP. The results of this analysis for the $22.00 per share merger consideration are as follows:

Date	**Trading Price**	**Implied Premium Per Share (at assumed merger consideration amount of $22.00 per share)**
1/12/07	$ 16.85	30.6 %
7/26/06	$ 14.83	48.3 %
52-week high on 1/3/07	$ 18.03	22.0 %
52-week low on 6/23/06	$ 13.58	62.0 %
180-day VWAP	$ 15.64	40.7 %

Miscellaneous

The preparation of financial analyses is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to partial analysis or summary description. BAS and JPMorgan believe that the analyses summarized above must be considered as a whole. BAS and JPMorgan further believe that selecting portions of the analyses and the factors considered or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying BAS s and JPMorgan s analyses. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that such analysis was viewed as any more significant or was or should be given any greater weight than any other analysis.

In performing their analyses, BAS and JPMorgan considered industry performance, general business and economic conditions and other matters, many of which are beyond the Company s and AIG s control. The estimates of the future performance of the Company provided by the Company s management, as modified by AIG, in or underlying BAS s and JPMorgan s analyses are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by BAS and JPMorgan s analyses. These analyses were prepared solely as part of the preparation of presentations to AIG s management and for the finance committee of AIG s board of directors. The analyses do not purport to be appraisals or to reflect the prices at which the Company might actually be sold. Accordingly, the estimates used in, and the ranges of valuations resulting from, any particular analysis described above are inherently subject to substantial uncertainty and should not be taken to be BAS s or JPMorgan s view of the actual value of the Company.

The type and amount of consideration payable in the merger were determined through negotiations between the Company and AIG and were approved by the board of directors of the Company and the finance committee of AIG s board of directors and not by any financial advisor. The decision to enter into the merger agreement was solely that of the Special Committee and board of directors of the Company and AIG s management and the finance committee of AIG s board of directors. As described above, BAS and JPMorgan s analyses were only one of many factors considered by AIG s management and the finance committee of AIG s board of directors in their evaluation of the proposed merger and should not be viewed as determinative of the view of AIG s management or the finance committee of AIG s board of directors.

AIG has agreed to pay BAS a fee of $2,800,000, payable upon and concurrently with consummation of the merger. AIG has agreed to pay JPMorgan a fee of $1,800,000, payable upon and concurrently with consummation of the merger. In addition, AIG has agreed to reimburse BAS and JPMorgan for reasonable out-of-pocket expenses incurred in connection with the merger and to indemnify BAS and JPMorgan for certain liabilities that may arise out of its engagement by AIG.

BAS, JPMorgan or their respective affiliates in the past have provided, currently are providing and in the future may provide financial advisory and financing services to the Company, AIG and certain of their respective affiliates, and have received and in the future may receive fees for the rendering of these services. In particular, these services include, among other things, (a) BAS and/or its affiliates having acted or currently acting as (i) arranger, bookrunner and/or lender under certain credit facilities for AIG and certain of its affiliates, (ii) bookrunner or manager for various debt offerings by AIG and certain of its affiliates, (iii) manager for an equity offering by an affiliate of AIG and (b) JPMorgan having acted or currently acting as structuring advisor, manager and/or bookrunner for certain debt offerings by AIG and certain of its affiliates and as arranger and administrative agent for certain credit facilities for AIG and its affiliates. In addition, Banc of America Specialist, Inc., an affiliate of BAS, acts as a specialist for Company common stock on the New York Stock Exchange. In the ordinary course of BAS business and JPMorgan s business, each of them and their respective affiliates may actively trade or hold securities or loans of AIG, the Company and certain of their respective affiliates for BAS or JPMorgan s own account or for the accounts of customers, and accordingly BAS and JPMorgan may at any time hold long or short positions in these securities or loans.

Alternatives to the Merger

AIG chose the merger structure because it was the preferable means to acquire the entire equity interest in the Company and provide cash to the Company s stockholders (other than AIG and its subsidiaries). AIG also considered a stock-for-stock transaction, but rejected this alternative as the issuance of new stock conflicted with the expansion of its share repurchase program. AIG also considered a tender offer transaction, but rejected that alternative because a merger allows for a prompt and orderly transfer of ownership of the shares in a single step, without uncertainty as to the probability of acquiring enough shares to execute a back-end short-form merger associated with a tender offer.

Certain Effects of the Merger

Conversion of Outstanding Company Common Stock and Stock Options

If the merger agreement is approved by the Company s stockholders and the other conditions to the closing of the merger are either satisfied or waived, Merger Sub will be merged with and into the Company, with the Company continuing as the surviving corporation in the merger. After the merger, AIG will beneficially own all of the outstanding capital stock of the Company.

When the merger is completed, each share of Company common stock issued and outstanding immediately prior to the effective time of the merger (other than the shares owned by AIG, Merger Sub or any other direct or indirect wholly owned subsidiary of AIG (except for shares held by any mutual fund advised or managed by any of AIG, Merger Sub or any other direct or indirect wholly owned subsidiary of AIG), shares owned by the Company or any direct or indirect wholly owned subsidiary of the Company (except for shares held on behalf of third parties), shares subject to Company Awards and shares that are owned by stockholders who have perfected and not withdrawn a demand for appraisal rights under Delaware law) will be converted into the right to receive $22.00 in cash, without interest.

Each outstanding vested stock option (including those options that will vest on or before the first anniversary of the effective time of the merger) at the effective time of the merger issued under a Company stock option plan will be cancelled and each holder thereof will receive from the Company, on the closing date, an amount in cash equal to the product of (1) the excess, if any, of the per-share merger consideration of $22.00 over the per-share exercise price of such stock option, multiplied by (2) the number of shares subject to such stock option, less applicable taxes required to be withheld with respect to such payment. Each stock option that is scheduled to vest following the first anniversary of the effective time will be terminated and, as soon as practicable following the effective time, each holder thereof will receive from AIG restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to the product of (1) the number of shares subject to such options times (2) the excess of the per-share merger consideration over the exercise price per share under such Company option.

Each Company Award that has vested or will vest within one year of the effective time of the merger will be cancelled and each holder thereof will receive from AIG an amount of cash equal to the product of (1) the number of shares actually or nominally subject to such Company Award immediately prior to the effective time, times (2) the per-share merger consideration of $22.00, less applicable taxes required to be withheld with respect to such payment. As soon as practicable following the effective time, each Company Award that is scheduled to vest following the first anniversary of the effective time will be terminated and will receive from AIG restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to the product of (1) the number of shares actually or nominally subject to such Company Awards times (2) the per-share merger consideration of $22.00.

Effect on Ownership Structure of the Company

At the effective time of the merger, the Company s current stockholders (other than AIG and its subsidiaries), will cease to have ownership interests in the Company or rights as Company stockholders. Therefore, the Company s current stockholders (other than AIG and its subsidiaries) would not participate in any earnings or growth of the Company following the merger and would not benefit from any increase in the value of the Company following the merger.

Effect on Listing, Registration and Status of Company Common Stock

Company common stock is currently registered under the Exchange Act and is listed on the New York Stock Exchange under the symbol TW. As a result of the merger, the Company will be a privately held company, and there will be no public market for its common stock. After the merger, the common stock will cease to be listed on the New York Stock Exchange, and price quotations with respect to sales of shares of Company common stock in the public market will no longer be available. In addition, registration of the common stock under the Exchange Act will be terminated. This termination will make certain provisions of the Exchange Act, such as the requirement of furnishing a proxy or information statement in connection with stockholders meetings, no longer applicable to the Company. After the effective time of the merger, the Company will also no longer be required to file periodic reports with the SEC.

Effect on Organization and Management of the Company

At the effective time of the merger, the directors of Merger Sub will become the directors of the surviving corporation in the merger. It is expected that immediately following the effective time of the merger the officers of the Company immediately prior to the effective time of the merger will remain officers of the surviving corporation. The certificate of incorporation of the Company as in effect immediately prior to the effective time of the merger shall, from and after the effective time of the merger be the certificate of incorporation of the surviving corporation, until duly amended as provided therein or by applicable laws.

It is expected that, upon consummation of the merger, the operations of the Company will be conducted substantially as they currently are being conducted; however, the Company will not be subject to the obligations and constraints, and the related direct and indirect costs and personnel requirements, associated with being a public company. Management of AIG has advised the Company that it does not have any present plans or proposals that relate to, or would result in, an extraordinary corporate transaction following completion of the merger involving the Company s corporate structure, business or management, such as a merger, reorganization, liquidation, relocation of any operations or sale or transfer of a material amount of assets. It is expected, however, that following the merger, the Company s management will continuously evaluate and review the Company s business and operations and may develop new plans and proposals that they consider appropriate to maximize the value of the Company. AIG reserves the right to make any changes deemed appropriate in light of its evaluation and review or in light of future developments.

Beneficial and Detrimental Effects

A benefit of the merger to AIG is that the Company s future earnings and growth will be solely for their benefit and not for the benefit of the Company s other current stockholders. Detriments of the merger to AIG is the lack of liquidity for Company common stock following the merger, the risk that the Company will decrease in value following the merger, and the payment by the Company of approximately $ million in transaction costs and estimated fees and expenses related to the merger. See SPECIAL FACTORS Estimated Fees and Expenses of the Merger.

The benefit of the merger to the Company s stockholders (other than AIG and its subsidiaries) is the right to receive $22.00 per share for their shares of Company common stock and that they will not bear the risk of continuing their investment in the Company. The detriments of the merger to such stockholders are that they will cease to participate in the Company s future earnings and growth, if any, and that the receipt of the payment for their shares in the merger will be a taxable event for federal income tax purposes. See SPECIAL FACTORS Federal Income Tax Consequences.

Effect on AIG s Interest in Net Book Value and Net Earnings

After consummation of the merger, AIG s interests in the net book value and net earnings of the Company will be 100% based on its holdings of the Company s outstanding capital stock and the Company s stockholders (other than AIG and its subsidiaries) will no longer hold any direct or indirect equity interest in the Company and therefore will no longer own any interest in its net book value or net earnings. Thus, immediately after the merger, based on the Company s unaudited March 31, 2007 financial statements, AIG s 100% interest in the Company will be equal to approximately $929,274,000 in the surviving corporation s net book value and $18,346,000 in the surviving corporation s net earnings calculated based on the net earnings of the Company for the three (3) months ended March 31, 2007.

Interests of Certain Persons in the Merger

In considering the recommendation of the board of directors, you should be aware that certain of the Company s executive officers and directors, and AIG and its subsidiaries have interests in the transaction that are different from, or are in addition to, the interests of the Company s stockholders (other than AIG and its subsidiaries) generally. The Special Committee and the board of directors were aware of these potential or actual conflicts of interest and considered them along with other matters when they determined to recommend the merger. See SPECIAL FACTORS Background of the Merger.

Company Directors

Certain members of the Company s board of directors are affiliated with AIG and have actual or potential conflicts of interest in evaluating the merger.

Equity Ownership in the Company; Merger Consideration to be Received by Directors and Officers of the Company

The directors and executive officers of the Company will be entitled to receive $22.00 per share of Company common stock held by them upon the effective time of the merger.

Upon completion of the merger, in respect of vested options to acquire shares of Company common stock held by them (including those that will vest at the effective time of the merger by virtue of having been scheduled to vest on or before the first anniversary of the effective time of the merger), the directors and executive officers of the Company will be entitled to receive an amount in cash equal to (1) the excess, if any, of the per-share merger consideration of $22.00 over the applicable exercise price per share of Company common stock subject to such Company stock option, multiplied by (2) the number of shares of Company common stock subject to such Company stock option, less applicable taxes required to be withheld with regard to such payment. All Company options held by directors and executive officers that are scheduled to vest following the first anniversary of the effective time shall be terminated and be of no further effect. As soon as practicable following the effective time, AIG shall issue to the holder of any Company option in which the per-share merger consideration is greater than the exercise price per share under such Company option that is scheduled to vest following the first anniversary of the effective time restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to the product of (1) the number of shares subject to the Company option multiplied by (2) the excess of the per-share merger consideration of $22.00 over the exercise price under such Company option. The restricted stock units value will be based on the market value of AIG s common stock at the effective time of the merger and the restricted stock units will vest after three years and will otherwise be subject to such terms and conditions as are generally applicable to AIG s restricted stock units.

Upon completion of the merger, in respect of vested Company Awards held by them, the directors and executive officers of the Company will be entitled to receive an amount in cash equal to the product of (1) the number of shares actually or nominally subject to such Company Award immediately prior to the effective time of the merger (including those that vest at the effective time by virtue of having been scheduled to vest on or before the first anniversary of the effective time) multiplied by (2) the per-share merger consideration, less applicable taxes required to be withheld with regard to such payment. Any Company Awards that are scheduled to vest after the first anniversary of the effective time shall be terminated and be of no further effect. As soon as is practicable following the effective time, AIG will issue to the holder of any Company Award that is scheduled to vest following the first anniversary of the effective time restricted stock units of AIG s common stock with a value (as reasonably determined in good faith by AIG) equal to the product of (1) the number of shares actually or nominally subject to such Company Awards multiplied by (2) the per-share merger consideration of $22.00. The replacement restricted stock units value will be based on the market value of AIG s common stock at the effective time of the merger and the restricted stock units will vest after three years and will otherwise be subject to such terms and conditions as are generally applicable to AIG s restricted stock units.

The following table sets forth (i) the number of shares of Company common stock beneficially owned by each of our directors and executive officers as of the date of this proxy statement, (ii) the number of shares of Company common stock subject to vested options held by each of our directors and executive officers as of the date of this proxy statement, (iii) the number of Company Awards held by each of our directors and executive officers as of the date of this proxy statement, which will vest immediately prior to the consummation of the merger, (iv) the total cash consideration in respect of items (i) through (iii) to be received by each of our directors and executive officers upon completion of the merger, (v) the estimated value of the AIG restricted stock units to be received by each of our directors and executive officers upon completion of the merger, and (vi) the cash payment to be received by each executive officer that participates in the SERP on January 4, 2008 if the executive officer elects to have his or her benefits under the SERP paid out:

Name	**Position**	**Number of Shares Beneficially Owned**	**Number of Options to be Cashed Out**	**Number of Company Awards to be Cashed Out**	**Total Cash Payments Upon Completion of the Merger(1)**	**Estimated Value of AIG RSUs to be Received Upon Completion of the Merger(1)**	**Payments Under Supplemental Executive Retirement Plan**
Robert M. Sandler	Director	6,000	24,000		$ 274,628		
Steven J. Bensinger	Director	0	4,000		$ 33,560		
John B. DeNault III	Director	1,236,500	28,000		$ 27,372,548		
Carlene M. Ellis	Director	10,000	12,000		$ 317,000		
R. Scott Foster, M.D.	Director	909,454	28,000		$ 20,177,536		
Roxani M. Gillespie	Director	4,500	28,000		$ 268,548		
Jeffrey L. Hayman	Director	0	16,000		$ 137,240		
Philip L. Isenberg	Director	0	12,000		$ 97,000		
Bruce W. Marlow	Director; Chief Executive Officer	35,584	2,710,047		$ 18,645,666	$ 972,977	$ 5,567,230
Keith W. Renken	Director	7,000	20,000		$ 318,160		
Thomas R. Tizzio	Director	0	4,000		$ 25,960		
Richard A. Andre	Senior Vice President, Human Resources	7,050	454,965		$ 3,225,751	$ 162,162	$ 1,609,205
Michael J. Cassanego	Senior Vice President, General Counsel and Secretary	15,735	596,536		$ 4,480,578	$ 202,706	$ 1,636,421
Steven P. Erwin	Senior Vice President and Chief Financial Officer	15,000	150,000		$ 1,228,500		
Marlis S. Kerby	Senior Vice President, Information Technology	0	148,023		$ 972,674	$ 143,244	$ 850,704
Allen Lew	Senior Vice President and Chief Actuary	0	184,308		$ 1,289,276	$ 143,244	$ 942,832
John M. Lorentz	Vice President, Finance	17,743	223,812		$ 1,897,680	$ 76,092	$ 647,932
Michael T. Ray	Senior Vice President, Customer Processes	9,350	220,686		$ 1,785,267	$ 183,784	$ 1,150,432
Caren L. Silvestri	Vice President, Customer Processes	11,615	180,699		$ 1,478,102	$ 60,798	$ 524,531
Dean E. Stark	Senior Vice President, Claims	16,804	539,032		$ 4,110,187	$ 183,784	$ 1,547,114
Anthony W. Tomich	Treasurer & Investor Relations Officer	820	21,666	1,293	$ 192,832	$ 85,060	

Jesus C. Zaragoza	Vice President and Controller	4,332	24,950	6,313	$ 373,240	$ 140,000

(1) Before deduction of applicable withholding taxes.

For further information regarding the beneficial ownership of Company common stock by our directors and executive officers, see Beneficial Ownership of Securities by Management beginning on page 92.

Employment with the Surviving Corporation

It is expected that immediately following the effective time, the officers of the Company immediately prior to the effective time of the merger will remain officers of the surviving corporation. See Retention and Severance Agreements with Executive Officers and New Employment Agreement with Bruce W. Marlow.

New Employment Agreement with Bruce W. Marlow

Upon consummation of the merger, it is anticipated that Mr. Marlow, President, Chief Executive Officer and Vice-Chairman of the Company, will assume the position of President of the combined operations of the Company and the profit center of AIG s subsidiaries called AIG Direct. At the request of AIG, Mr. Marlow has entered into a new employment agreement with the Company and AIG, which will be effective upon the effective time of the merger. The employment agreement supersedes both Mr. Marlow s current retention agreement with the Company, as well as the Company s 1998 Executive Severance Plan. Mr. Marlow s employment agreement has a term through December 31, 2009, and provides for, among other things:

- an annual base salary of $950,000 and a target annual bonus of 100% of base salary provided that the annual bonus received for the 2007 fiscal year will be no less than $950,000 if Mr. Marlow is employed by the Company as of December 31, 2007;

- a retention bonus if Mr. Marlow remains employed through the first anniversary of the merger, to be computed as the greater of (i) $2,850,000 or (ii) 1.5 times the sum of his base salary in effect at such time and Mr. Marlow s most recent annual bonus;

- option grants with respect to AIG common stock with a value of $1,165,000 following effective time of the merger and in each of the 2008 and 2009 fiscal years;

- a grant of 17,500 AIG performance units for the 2007-2008 performance period and to receive subsequent grants of 17,500 AIG performance units for each of the 2008-2009 and 2009-2010 performance periods;

- a grant of 250 AIG senior partner units for the 2005-2007 performance period and to receive subsequent grants of 250 AIG senior partner units for each of the 2006-2008 and 2007-2009 performance periods;

- an AIG restricted stock unit grant following the effective time of the merger with a value equal to the Company restricted stock and option grants held by Mr. Marlow which will be forfeited upon the merger in accordance with their existing terms;

- upon termination of Mr. Marlow s employment without cause or by Mr. Marlow for good reason (each as defined in the agreement), prior to the first anniversary of the merger, Mr. Marlow will be entitled to receive severance equal to the greater of (i) $5,700,000 or (ii) 3 times the sum of his base salary in effect at such time and Mr. Marlow s last annual bonus. Upon termination of Mr. Marlow s employment without cause or by Mr. Marlow for good reason, between the first anniversary of the merger and December 31, 2009, Mr. Marlow will be entitled to receive severance equal to the greater of (i) $2,850,000 or (ii) 1.5 times the sum of his base salary in effect at such time and Mr. Marlow s last annual bonus. Mr. Marlow is also entitled to 36 months of benefit continuation upon the terms specified in the agreement.

Payment of any severance benefits is conditioned upon a release of claims by Mr. Marlow. Under the employment agreement, Mr. Marlow has agreed to a 12 month post-termination non-competition covenant as well as non-solicitation, confidentiality and non-disparagement covenants.

Retention and Severance Agreements with Officers

In connection with the merger agreement, the Company has entered into retention and severance agreements with the following officers of the Company: Richard A. Andre; Michael J. Cassanego; Chong Ha; Marlis S. Kerby; Allen Lew; John M. Lorentz; Michael T. Ray; Caren L. Silvestri; Dean E. Stark; Anthony W. Tomich; and Jesus C. Zaragoza. The retention and severance agreements are effective upon the closing of the merger and provide for, among other things:

- a retention payment to the executive if the executive remains employed by the Company on the first anniversary of the effective time of the merger; and

- payment of severance or any unpaid retention, as applicable, if the executive is terminated without cause or terminates his employment for good reason before the third anniversary of the effective time of the merger.

Payment of any severance benefits is conditioned upon a release of claims by the executive. Pursuant to the terms of the retention and severance agreements, each executive agrees to a 12 month post-termination non-competition covenant as well as non-solicitation and confidentiality covenants. The retention and severance agreements supersede the executives existing retention agreements, as well as the rights of the executives under the Company s Executive Severance Plan, which the Company is required to terminate immediately prior to the effective time of the merger. The aggregate potential payments to the executives under the retention and severance agreements include potential retention payments of $3,677,312, plus aggregate potential severance payments (in addition to unpaid retention, if applicable) of an additional $3,677,312.

Directors of the Surviving Corporation Post Merger

The board of directors of Merger Sub at the effective time shall, from and after the effective time of the merger, be the directors of the surviving corporation, until their successors are duly elected and qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and bylaws.

Indemnification and Insurance

Pursuant to the merger agreement, AIG and the Company, as the surviving corporation in the merger, will indemnify, and advance reasonable expenses to, the current and former directors and officers of the Company and its subsidiaries, referred to as the indemnified parties, against all costs or expenses, judgments, fines, losses, claims, damages or liabilities in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of matters existing or occurring at or prior to the time of the merger whether asserted or claimed prior to, at or after the effective time, to the fullest extent that the Company would have been permitted under Delaware law and its certificate of incorporation or by-laws in effect on the date hereof to indemnify such person.

For a period of six years following the merger, the Company, as the surviving corporation, will obtain and fully pay for directors and officers liability insurance and fiduciary liability insurance with benefits and levels of coverage at least as favorable as the Company s existing policies with regard to matters existing or occurring at or prior to the effective time including in connection with the merger agreement or the transactions or actions contemplated thereby.

Compensation of the Special Committee

In consideration of the expected time and other commitments that would be required of Special Committee members, the board of directors determined that each member of the Special Committee would receive a fee of $1,500 for each Special Committee meeting attended in connection with the proposed merger. Such fees amounted to up to $6,000 per meeting and $237,000 in the aggregate, without regard to whether the Special Committee were to recommend approval of the merger agreement or whether the merger were consummated. In addition, the members of the Special Committee will also be reimbursed for their reasonable out-of-pocket travel and other expenses in connection with their service on the Special Committee.

Plans for the Company if the Merger is Not Completed

It is expected that, if the merger is not completed, the current management of the Company, under the direction of the board of directors, will continue to manage the Company as an ongoing business. From time to time, it is expected that the Company will evaluate and review its business operations, properties, dividend policy and capitalization, among other things, make such changes as are deemed appropriate and continue to seek to identify strategic alternatives to maximize stockholder value. If the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to the Company will be offered or that the Company s business and operations will not be adversely affected.

Estimated Fees and Expenses of the Merger

The Company expects to incur approximately $ million in fees and expenses in connection with the consummation of the merger and the related transactions, as set forth in the table below:

Expenses	**Estimated Amount**
Financial advisory fees and expenses	$
Legal and accounting fees and expenses	
Special Committee fees and expenses	
Printing and mailing fees and expenses	
SEC filing fees	
Miscellaneous	
Total	$

In addition, it is expected that Merger Sub and/or AIG will incur legal and other advisory fees.

In general, all costs and expenses incurred in connection with the merger agreement and the merger and the other transactions contemplated by the merger agreement will be paid by the party incurring such expense.

If the merger agreement is terminated in certain circumstances described below, the Company may be required to pay AIG a termination fee. In addition, as described under THE MERGER AGREEMENT Termination Fees , if the Company fails to pay any termination fee when due, it will be obligated to pay the costs and expenses (including legal fees) incurred in connection with any action to collect payment of the fee.

Regulatory Approvals and Requirements

In connection with the merger, the Company will be required to make certain filings with, and comply with certain laws of, various federal and state governmental agencies, including:

- filing a certificate of merger with the Secretary of State of the State of Delaware in accordance with Delaware law after the approval and adoption of the merger agreement and the merger by the Company s stockholders; and

- certain notice filings with The New York Stock Exchange.

The Company and AIG believe that no federal or state regulatory approvals will be required in order to complete the merger.

Litigation Related to the Merger

Edward Bronstein v. 21st Century Insurance Group, et al. and Francis A. Sliwinski v. 21st Century Insurance Group, et al. allege that the Company, its directors and AIG have, or will, breach fiduciary duties as a result of AIG s January 24, 2007 merger proposal to acquire the remaining shares of Company stock which AIG does not yet own. Both actions were filed in the Los Angeles Superior Court in January 2007 and seek class action certification and equitable relief. The Bronstein and Sliwinski actions have been consolidated into a single action captioned In re 21st Century Shareholder Litigation.

On May 23, 2007, a third action, Paul Roberts v. 21st Century Insurance Group, et al. was filed in Los Angeles Superior Court. The Roberts action alleges that the Company, its directors and AIG are breaching fiduciary duties by entering into the merger agreement dated May 15, 2007 and completing the contemplated merger. The Roberts action seeks class certification and equitable relief. The parties have agreed that the Roberts action should be consolidated with In re 21st Century Shareholder Litigation, and a consolidation motion has been filed.

The Company believes that each of the actions is without merit.

Federal Income Tax Consequences

The following is a summary of the material U.S. federal income tax consequences of the merger to U.S. holders and non-U.S. holders (each, as defined below) who receive cash in the merger in exchange for shares of Company common stock. The discussion is for general information only and does not purport to consider all aspects of U.S. federal income taxation that might be relevant to holders of Company common stock. The discussion is based on the Internal Revenue Code of 1986, as amended, which we refer to as the Internal Revenue Code, applicable current and proposed U.S. Treasury regulations, judicial authority and administrative rulings and practice, all of which are subject to change, possibly with retroactive effect. The discussion applies only to holders who hold shares of Company common stock as capital assets within the meaning of Section 1221 of the Internal Revenue Code. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to holders of Company common stock in light of their particular circumstances, or that may apply to holders that are subject to special treatment under U.S. federal income tax laws (including, for example, insurance companies, tax-exempt organizations, financial institutions, broker-dealers, cooperatives, traders in securities who elect to mark their securities to market, mutual funds, real estate investment trusts, S corporations, holders subject to the alternative minimum tax, persons who validly exercise appraisal rights, partnerships or other pass-through entities and persons holding shares of Company common stock through a partnership or other pass-through entity, persons who acquired shares of Company common stock in connection with the exercise of employee stock options or otherwise as compensation, United States expatriates, passive foreign investment companies, controlled foreign corporations and persons who hold shares of Company common stock as part of a hedge, straddle, constructive sale or conversion transaction). This discussion does not address any aspect of state, local or foreign tax laws or U.S. federal tax laws other than U.S. federal income tax laws.

The summary set forth below is for general information only and is not intended to constitute a complete description of all tax consequences relating to the merger. Because individual circumstances may differ, each holder should consult its own tax advisor regarding the applicability of the rules discussed below to the holder and the particular tax effects to the holder of the merger, including the application of state, local and foreign tax laws.

For purposes of this summary, a U.S. holder is a holder of shares of Company common stock, who or that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (1) a U.S. court is able to exercise primary supervision over the trust s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust; or (2) it has a valid election in place to be treated as a domestic trust for U.S. federal income tax purposes.

A non-U.S. holder is a person (other than a partnership) that is not a U.S. holder.

If shares of Company common stock are held by a partnership, the U.S. federal income tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships that hold shares of Company common stock and partners in such partnerships are urged to consult their own tax advisors regarding the tax consequences to them of the merger.

U.S. Holders. The receipt of cash for shares of Company common stock in the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. holder who surrenders shares of Company common stock for cash in the merger will recognize capital gain or loss for United States federal income tax purposes equal to the difference, if any, between the amount of cash received in exchange for such shares and the U.S. holder s adjusted tax basis in such shares. If a U.S. holder acquired different blocks of Company common stock at different times or different prices, such holder must determine its tax basis and holding period separately with respect to each block of Company common stock. Such gain or loss will be long-term capital gain or loss provided that a U.S. holder s holding period for such shares is more than one year at the time of completion of the merger. Long-term capital gains recognized by U.S. holders that are individuals will be subject to a maximum U.S. federal income tax rate of 15%. There are limitations on the deductibility of capital losses.

Cash payments made pursuant to the merger agreement will be reported to holders of Company common stock and the Internal Revenue Service to the extent required by the Internal Revenue Code and applicable regulations of the U.S. Treasury. Under the Internal Revenue Code, a U.S. holder of Company common stock (other than a corporation or other exempt recipient) may be subject, under certain circumstances, to information reporting on the cash received in the merger. Backup withholding at a rate of 28% also may apply with respect to the amount of cash received in the merger, unless the U.S. holder provides proof of an applicable exemption or a correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a U.S. holder s U.S. federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

Non-U.S. Holders. Any gain realized on the receipt of cash in the merger by a non-U.S. holder generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment of the non-U.S. holder);

- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the merger, and certain other conditions are met; or

- Company is or has been a United States real property holding corporation for U.S. federal income tax purposes within the five years preceding the merger.

A non-U.S. holder whose gain is described in the first bullet point above will be subject to tax on its net gain in the same manner as if it were a U.S. holder. In addition, if a non-U.S. holder is a corporation whose gain is described under the first bullet point above, such holder may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits (including such gain) or at such lower rate as may be specified by an applicable income tax treaty. An individual non-U.S. holder described in the second bullet point above will be subject to tax at a 30% rate on the gain recognized, equal to the difference, if any, between the amount of cash received in exchange for shares of Company common stock and the non-U.S. holder s adjusted tax basis in such shares, which may be offset by U.S. source capital losses even though the individual is not considered a resident of the United States.

Cash received by non-U.S. holders in the merger also will be subject to information reporting, unless an exemption applies. Moreover, backup withholding of tax (at a rate of 28%) may apply to cash received by a non-U.S. holder in the merger, unless the holder or other payee establishes an exemption in a manner satisfactory to the paying agent and otherwise complies with the backup withholding rules.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-U.S. holder s U.S. federal income tax liability provided that the required information is timely furnished to the Internal Revenue Service.

Anticipated Accounting Treatment of Merger

The merger will be accounted for under the purchase method of accounting, under which the total consideration paid in the merger will be allocated among the Company s consolidated assets and liabilities based on the fair values of the assets acquired and liabilities assumed.

Appraisal Rights

Holders of Company common stock who dissent and do not approve the merger are entitled to certain appraisal rights under Delaware law in connection with the merger, as described below and in Annex C hereto. Such holders who perfect their appraisal rights and strictly follow certain procedures in the manner prescribed by Section 262 of the General Corporation Law of the State of Delaware, or DGCL, will be entitled to receive payment of the fair value of their shares as determined by appraisal proceedings in cash from the Company, as the surviving corporation in the merger.

ANY COMPANY STOCKHOLDER WHO WISHES TO EXERCISE APPRAISAL RIGHTS OR WHO WISHES TO PRESERVE HIS OR HER RIGHT TO DO SO SHOULD REVIEW ANNEX C CAREFULLY AND SHOULD CONSULT HIS OR HER LEGAL ADVISOR, SINCE FAILURE TO TIMELY COMPLY WITH THE PROCEDURES SET FORTH THEREIN WILL RESULT IN THE LOSS OF SUCH RIGHTS.

The record holders of the shares of Company common stock that elect to exercise their appraisal rights with respect to the merger are referred to herein as Dissenting Stockholders, and the shares of

Company common stock with respect to which they exercise appraisal rights are referred to herein as Dissenting Shares. If a Company stockholder has a beneficial interest in shares of Company common stock that are held of record in the name of another person, such as a broker or nominee, and such Company stockholder desires to perfect whatever appraisal rights such beneficial Company stockholder may have, such beneficial Company stockholder must act promptly to cause the holder of record timely and properly to follow the steps summarized below.

A VOTE IN FAVOR OF THE MERGER BY A COMPANY STOCKHOLDER WILL RESULT IN A WAIVER OF SUCH HOLDER S RIGHT TO APPRAISAL RIGHTS.

When the merger becomes effective, Company stockholders who strictly comply with the procedures prescribed in Section 262 of the DGCL will be entitled to a judicial appraisal of the fair value of their shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, and to receive payment of the fair value of their shares in cash from the Company, as the surviving corporation in the merger. The following is a brief summary of the statutory procedures that must be followed by a common stockholder of the Company in order to perfect appraisal rights under the DGCL. This summary is not intended to be complete and is qualified in its entirety by reference to Section 262 of the DGCL, the text of which is included as Annex C to this proxy statement. **We advise any Company stockholder considering demanding appraisal to consult legal counsel.**

In order to exercise appraisal rights under Delaware law, a stockholder must be the stockholder of record of the shares of Company common stock as to which appraisal rights are to be exercised on the date that the written demand for appraisal described below is made, and the stockholder must continuously hold such shares through the effective date of the merger.

While Company stockholders electing to exercise their appraisal rights under Section 262 of the DGCL are not required to vote against the approval of the merger, a vote in favor of approval of the merger will result in a waiver of the holder s right to appraisal rights. Company stockholders electing to demand the appraisal of such stockholder s shares shall deliver to the Company, before the taking of the vote on the merger, a written demand for appraisal of such stockholder s shares. Such demand will be sufficient if it reasonably informs the Company of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder s shares. A proxy or vote against the merger shall not constitute such a demand. Please see the discussion below under the heading Written Demand for additional information regarding written demand requirements.

Within ten (10) days after the effective time of the merger, the Company, as the surviving corporation, must provide notice of the date of effectiveness of the merger to all Company stockholders who have not voted for approval of the merger agreement and who have otherwise complied with the requirements of Section 262 of the DGCL.

A Company stockholder who elects to exercise appraisal rights must mail or deliver the written demand for appraisal to:

21st Century Insurance Group
6301 Owensmouth Avenue
Woodland Hills, CA 91367
Attn: Investor Relations
Telephone: 818-673-3808

Within 120 days after the effective date of the merger, any Dissenting Stockholder that has strictly complied with the procedures prescribed in Section 262 of the DGCL will be entitled, upon written request, to receive from the Company, as the surviving corporation, a statement of the aggregate number of shares not voted in favor of the merger and with respect to which demands for appraisal have been received by the Company, and the aggregate number of holders of those shares. This statement must be mailed to the Dissenting Stockholder within ten (10) days after the Dissenting Stockholder s written request has been received by the Company, as the surviving corporation, or within ten (10) days after the date of the effective date of the merger, whichever is later.

Within 120 days after the effective date of the merger, either the Company, as the surviving corporation, or any Dissenting Stockholder that has strictly complied with the procedures prescribed in Section 262 of the DGCL may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of each share of Company stock of all Dissenting Stockholders. If a petition for an appraisal is timely filed, then after a hearing on the petition, the Delaware Court of Chancery will determine which of the Company stockholders are entitled to appraisal rights and then will appraise the shares of Company common stock owned by those stockholders by determining the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger, together with the fair rate of interest to be paid, if any, on the amount determined to be the fair value. If no petition for appraisal is filed with the Delaware Court of Chancery by the Company, as the surviving corporation, or any Dissenting Stockholder within 120 days after the effective time of the merger, then the Dissenting Stockholders rights to appraisal will cease and they will be entitled only to receive merger consideration paid in the merger on the same basis as other Company stockholders (other than AIG and its subsidiaries). Inasmuch as the Company, as the surviving corporation, has no obligation to file a petition, any Company stockholder who desires a petition to be filed is advised to file it on a timely basis. No petition timely filed in the Delaware Court of Chancery demanding appraisal shall be dismissed as to any Company stockholder, however, without the approval of the Delaware Court of Chancery, which may be conditioned on any terms the Delaware Court of Chancery deems just.

The cost of the appraisal proceeding may be determined by the Delaware Court of Chancery and taxed upon the parties as the court deems equitable in the circumstances. Upon application of a Dissenting Stockholder that has strictly complied with the procedures prescribed in Section 262 of the DGCL, the court may order that all or a portion of the expenses incurred by any Dissenting Stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys fees, and the fees and expenses of experts, be charged pro rata against the value of all shares entitled to appraisal. In the absence of this determination or assessment, each party bears its own expenses. A Dissenting Stockholder who has timely demanded appraisal in compliance with Section 262 of the DGCL will not, after the effective time of the merger, be entitled to vote the Company common stock subject to such demand for any purpose or to receive payment of dividends or other distributions on the Company common stock, except for dividends or other distributions payable to stockholders of record at a date prior to the effective time of the merger.

At any time within sixty (60) days after the effective time of the merger, any Dissenting Stockholder will have the right to withdraw the stockholder s demand for appraisal and to accept the right to receive merger consideration in the merger on the same basis on which Company common stock is converted in the merger. After this sixty (60) day period, a Dissenting Stockholder that has strictly complied with the procedures prescribed in Section 262 of the DGCL may withdraw his or her demand for appraisal only with the written consent of the Company or AIG and the approval of the Delaware Court of Chancery.

Written Demands

When submitting a written demand for appraisal under Delaware law, the written demand for appraisal must reasonably inform the Company of the identity of the stockholder of record making the demand and indicate that the stockholder intends to demand appraisal of the stockholder s shares. A demand for appraisal should be executed by or for the Company common stockholder of record, fully and correctly, as that stockholder s name appears on the stockholder s stock certificate. If the Company common stock is owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be executed by the fiduciary. If Company common stock is owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an agent for two or more joint owners, should execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner and expressly disclose the fact that, in exercising the demand, he, she or it is acting as agent for the record owner.

A record owner who holds Company common stock as a nominee for other beneficial owners of the shares may exercise appraisal rights with respect to the Company common stock held for all or less than all beneficial owners of the Company stock for which the holder is the record owner. In that case, the written demand must state the number of shares of Company common stock covered by the demand. Where the number of shares of Company common stock is not expressly stated, the demand will be presumed to cover all shares of Company common stock outstanding in the name of that record owner. Beneficial owners who are not record owners and who intend to exercise appraisal rights should instruct the record owner to comply strictly with the statutory requirements with respect to the delivery of written demand prior to the taking of the vote on the merger.

Company stockholders considering whether to seek appraisal should bear in mind that the fair value of their Company common stock determined under Section 262 of the DGCL could be more than, the same as or less than the value of the right to receive merger consideration in the merger. Also, the Company and AIG reserve the right to assert in any appraisal proceeding that, for purposes thereof, the fair value of the Company common stock is less than the value of the merger consideration to be issued in the merger.

The process of dissenting and exercising appraisal rights requires strict compliance with technical prerequisites. Company stockholders wishing to dissent and to exercise their appraisal rights should consult with their own legal counsel in connection with compliance with Section 262 of the DGCL.

Any stockholder who fails to strictly comply with the requirements of Section 262 of the DGCL, attached as Annex C to this proxy statement will forfeit his, her or its rights to dissent from the merger and to exercise appraisal rights and will receive merger consideration on the same basis as all other stockholders.

THE PROCESS OF DISSENTING REQUIRES STRICT COMPLIANCE WITH TECHNICAL PREREQUISITES. THOSE INDIVIDUALS OR ENTITIES WISHING TO DISSENT AND TO EXERCISE THEIR APPRAISAL RIGHTS SHOULD CONSULT WITH THEIR OWN LEGAL COUNSEL IN CONNECTION WITH COMPLIANCE UNDER SECTION 262 OF THE DGCL. TO THE EXTENT THERE ARE ANY INCONSISTENCIES BETWEEN THE FOREGOING SUMMARY AND SECTION 262 OF THE DGCL, THE DGCL SHALL CONTROL.

THE MERGER AGREEMENT

The following is a summary of certain material provisions of the merger agreement and the amendment thereto , copies of which are attached to this proxy statement as Annex A and Annex D, respectively, and which we incorporate by reference into this proxy statement. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. We encourage you to read carefully the merger agreement in its entirety, as the rights and obligations of the parties are governed by the express terms of the merger agreement and not by this summary or any other information contained in this proxy statement.

The description of the merger agreement in this proxy statement has been included to provide you with information regarding its terms.

Effective Time; Structure; Effects

The effective time of the merger will occur at the time that we duly file the certificate of merger with the Secretary of State of the State of Delaware on the closing date of the merger (or at such later time as AIG, Merger Sub and the Company may agree to in writing and as specified in the certificate of merger). The closing will occur on the first business day following the day on which the conditions to the merger set forth in the merger agreement are satisfied or waived (other than those conditions that by their nature are to be satisfied at the closing but subject to the fulfillment or waiver of those conditions) or such other date as AIG and the Company may agree. For further discussion on the conditions to the merger, see Conditions to the Merger.

At the effective time of the merger, Merger Sub will merge with and into the Company and the separate corporate existence of Merger Sub will terminate. The Company will survive the merger as a wholly owned subsidiary of AIG (and we sometimes refer to the Company as the surviving corporation). Following completion of the merger, Company common stock will cease to be listed on NYSE, will be deregistered under the Exchange Act, and no longer will be publicly traded. The Company will be a privately held corporation and the Company s current stockholders, other than AIG and certain of AIG s subsidiaries which currently own Company stock, will cease to have any ownership interest in the Company or rights as Company stockholders. Therefore, such current stockholders of the Company, other than AIG and certain of AIG s subsidiaries which currently own Company stock, will not participate in any future earnings or growth of the Company and will not benefit from any appreciation in value of the Company.

Treatment of Stock and Options

Company Common Stock

At the effective time of the merger, as a result of the merger and without any action on the part of AIG, Merger Sub or the Company or the holder of any capital stock of Merger Sub or the Company, each share of our common stock issued and outstanding immediately prior to the effective time of the merger (other than shares owned by the Company (except for shares held on behalf of third parties), AIG, Merger Sub or any of their direct or indirect wholly owned subsidiaries (except for shares held by any mutual fund advised or managed by AIG or its subsidiaries), shares subject to Company Awards and shares owned by stockholders who have perfected and not withdr