

Darwin Professional Underwriters Inc  
Form DEFM14A  
September 16, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
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**DARWIN PROFESSIONAL UNDERWRITERS, INC.**  
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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**DARWIN PROFESSIONAL UNDERWRITERS, INC.**

9 Farm Springs Road  
Farmington, CT 06032

September 16, 2008

Dear Stockholder:

On behalf of the board of directors of Darwin Professional Underwriters, Inc. ( Darwin ), I cordially invite you to a special meeting of stockholders of Darwin, to be held on October 15, 2008, at 10:00 a.m. local time, located at Darwin s principal corporate offices at 9 Farm Springs Road in Farmington, Connecticut.

At the special meeting, you will be asked to consider and vote on (i) a proposal to adopt the Agreement and Plan of Merger, dated as of June 27, 2008, by and among Darwin, Allied World Assurance Company Holdings, Ltd ( Allied World ), and Allied World Merger Company, an indirect wholly owned subsidiary of Allied World, and (ii) a proposal to approve the adjournment of the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement. If the merger is consummated, Darwin, as the surviving corporation, will become an indirect wholly owned subsidiary of Allied World and you will be entitled to receive the merger consideration of \$32.00 per share in cash, without interest and less any applicable withholding taxes, for each share of our common stock that you own at the consummation of the merger, as more fully described in the enclosed proxy statement. The consideration you will receive is subject to a potential downward price adjustment in the event that certain representations by Darwin in the merger agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the merger would otherwise be increased by more than \$1,000,000.

After careful consideration, our board of directors, acting upon the unanimous recommendation of a special committee of the board of directors consisting of four independent directors, approved the merger agreement and determined that the merger and the other transactions contemplated by the merger agreement are in the best interests of Darwin and its stockholders. **Our board of directors recommends that you vote FOR the adoption of the merger agreement and FOR the adjournment of the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement.**

The accompanying proxy statement provides you with information about the special meeting, the merger agreement, the merger and the other transactions contemplated by the merger agreement. A copy of the merger agreement is attached as Annex A to the proxy statement. We encourage you to read the entire proxy statement and the merger agreement carefully. You may also obtain more information about Darwin from documents we have filed with the Securities and Exchange Commission.

**Your vote is very important.** We cannot complete the merger unless the majority of the outstanding shares of common stock entitled to be cast at the special meeting are voted FOR the adoption of the merger agreement. The failure of any stockholder to vote on the proposal to adopt the merger agreement will have the same effect as a vote against the adoption of the merger agreement. As more fully described in Voting Agreement beginning on page 56, Alleghany Insurance Holdings LLC, a wholly owned subsidiary of Alleghany Corporation, which owns approximately 55% of Darwin s outstanding common stock, has agreed to, among other things, vote a number of shares equal to 40% of Darwin s outstanding voting stock in favor of adoption of the merger agreement, subject to certain limitations and the occurrence of certain events, pursuant to the terms of a voting agreement entered into with Allied World.

**Whether or not you plan to attend the special meeting, please complete, date, sign and return, as promptly as possible, the enclosed proxy in the accompanying reply envelope, or submit your proxy by telephone or the Internet, using the telephone number or Internet voting instructions printed on your proxy card prior to the special meeting to ensure that your shares will be represented at the special meeting if you are unable to attend. If you have Internet access, we encourage you to record your vote via the Internet.** If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, all of your shares of

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common stock will be voted FOR the proposal to adopt the merger agreement and FOR the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of the special meeting to adopt the merger agreement. If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted.

Thank you in advance for your cooperation and continued support.

Sincerely,

Mark I. Rosen  
*Executive Vice President, General Counsel  
and Secretary*

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

The proxy statement is dated September 16, 2008, and is first being mailed to stockholders on or about September 16, 2008.

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**DARWIN PROFESSIONAL UNDERWRITERS, INC.**

9 Farm Springs Road  
Farmington, CT 06032

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held On October 15, 2008**

Dear Stockholder:

A special meeting of stockholders of Darwin Professional Underwriters, Inc., a Delaware corporation ( Darwin ), will be held on October 15, 2008, at 10:00 a.m. local time, located at Darwin's principal corporate offices at 9 Farm Springs Road in Farmington, Connecticut, for the following purposes:

1. To consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of June 27, 2008 (the Merger Agreement ), by and among Darwin, Allied World Assurance Company Holdings, Ltd, a Bermuda company ( Allied World ), and Allied World Merger Company, a Delaware corporation and an indirect wholly owned subsidiary of Allied World ( MergerCo ). A copy of the Merger Agreement is attached as Annex A to the accompanying proxy statement. Pursuant to the terms of the Merger Agreement, MergerCo will merge with and into Darwin (the Merger ), with Darwin as the surviving corporation. If the Merger is consummated, Darwin will become an indirect wholly owned subsidiary of Allied World and you will be entitled to receive the merger consideration of \$32.00 per share in cash, without interest and less any applicable withholding taxes, for each share of our common stock that you own at the consummation of the Merger (unless you properly exercise appraisal rights under Delaware law), as more fully described in the enclosed proxy statement. The consideration you will receive is subject to a potential downward price adjustment in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would otherwise be increased by more than \$1,000,000.
2. To consider and vote on the adjournment of the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Merger Agreement.
3. To consider and vote on any other business that may properly come before the special meeting.

Our board of directors has specified September 15, 2008, as the record date for the purpose of determining the stockholders who are entitled to receive notice of, and to vote at (in person or by proxy), the special meeting. Only stockholders of record at the close of business on the record date are entitled to notice of, and to vote at (in person or by proxy), the special meeting and at any adjournment or postponement thereof. Each stockholder is entitled to one vote for each share of our common stock held on the record date.

The adoption of the Merger Agreement requires that a majority of the outstanding shares of our common stock entitled to be cast at the special meeting be voted FOR the adoption of the Merger Agreement. **Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy in the accompanying reply envelope or submit your proxy by telephone or the Internet, using the telephone number or Internet voting instructions printed on your proxy card, prior to the special meeting to ensure that your shares will be represented at the special meeting if you are unable to attend.** If you have Internet access, we encourage you to record your vote via the Internet. If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, all of your shares of common stock will be voted FOR the proposal to adopt the Merger Agreement and FOR the proposal to adjourn the special meeting, if Darwin deems such adjournment to be

necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of the special meeting to adopt the Merger Agreement. If you fail to return your proxy card or fail to submit your proxy by phone or the Internet, your shares will not be counted for purposes of determining whether a quorum is present at the meeting and will have the same effect as a vote against the adoption of the Merger Agreement, but will not affect the outcome of the vote regarding the adjournment proposal. If you are a stockholder of record, voting in person at the



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meeting will revoke any proxy previously submitted. If you hold your shares through a bank, broker or other custodian, you must obtain a legal proxy from such custodian in order to vote in person at the meeting.

After careful consideration, our board of directors, acting upon the unanimous recommendation of a special committee of the board of directors consisting of four independent directors, approved the Merger Agreement and determined that the Merger and the other transactions contemplated by the Merger Agreement are advisable and fair to, and in the best interests of, Darwin and its stockholders. **Our board of directors recommends that you vote FOR the adoption of the Merger Agreement and FOR the adjournment of the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement.**

Please note that space limitations make it necessary to limit attendance at the special meeting to stockholders as of the record date (or their authorized representatives) holding admission tickets or other evidence of ownership. The admission ticket is detachable from your proxy card. If your shares are held by a bank or broker, please bring to the special meeting a statement evidencing your beneficial ownership of our common stock and photo identification.

Stockholders of Darwin who do not vote in favor of the adoption of the Merger Agreement will have the right to seek appraisal of the fair value of their shares of common stock if they deliver a demand for appraisal before the vote is taken on the Merger Agreement and comply with all requirements of Delaware law, which are summarized in the accompanying proxy statement.

**For more information about the Merger and the other transactions contemplated by the Merger Agreement, please review the accompanying proxy statement and the Merger Agreement attached to it as Annex A. The proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies in the event that there are insufficient votes at the time of the special meeting to adopt the Merger Agreement is also described in the accompanying proxy statement.**

**Please do not send your stock certificates at this time. If the Merger is completed, you will be sent instructions regarding the surrender of your stock certificates.**

By Order of the Board of Directors,

Mark I. Rosen  
*Executive Vice President, General Counsel and Secretary*

Farmington, Connecticut  
September 16, 2008

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**SUMMARY**

*The following summary highlights selected information in this proxy statement and may not contain all the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. Each item in this summary includes a page reference directing you to a more complete description of that topic. See *Where You Can Find More Information* beginning on page 61. References to Darwin, the Company, Surviving Corporation, we, our or us in this proxy statement refer to Darwin Professional Underwriters, Inc. and its subsidiaries unless otherwise indicated by the context. We refer to Allied World Assurance Company Holdings, Ltd as *Allied World* or *Parent*, and Allied World Merger Company as *MergerCo*.*

**The Parties to the Merger (Page 15)**

***Darwin Professional Underwriters, Inc.***

Darwin was initially formed in March 2003 and became a publicly traded company on May 19, 2006. We are a holding company, the subsidiaries of which are engaged in insurance underwriting and distribution across a spectrum of the specialty commercial property-casualty insurance market. Darwin is focused on the professional liability insurance market and underwrites directors and officers liability for public and private companies, errors and omissions liability insurance, medical malpractice liability insurance, and other specialty coverages. Darwin member companies include Darwin Professional Underwriters, Inc., Darwin National Assurance Company and Darwin Select Insurance Company. Darwin's majority stockholder, Alleghany Corporation ( *Alleghany* ), through its wholly owned subsidiary, Alleghany Insurance Holdings LLC ( *AIHL* ), owns approximately 55% of Darwin's issued and outstanding common stock.

***Allied World Assurance Company Holdings, Ltd***

Allied World Assurance Company Holdings, Ltd is a Bermuda-based specialty insurance and reinsurance holding company and its subsidiaries underwrite a global, diversified portfolio of property and casualty insurance and reinsurance lines of business. Allied World was initially formed in November 2001 and became a publicly traded company on the New York Stock Exchange on July 11, 2006 under the symbol *AWH*. Allied World writes direct property and casualty insurance as well as reinsurance through its operations in Bermuda, the United States, Ireland and the United Kingdom. Allied World has three business segments: property insurance, casualty insurance and reinsurance. The property segment provides direct coverage of physical property and business interruption coverage for commercial property and energy-related risks. The casualty segment specializes in insurance products providing coverage for general and product liability, professional liability and healthcare liability risks. The reinsurance segment includes the reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by other insurance companies. For more information about Allied World, please visit its website at [www.awac.com](http://www.awac.com). Allied World's website address is provided as an inactive textual reference only. The information provided on this website is not part of this proxy statement, and therefore is not incorporated by reference.

***Allied World Merger Company***

Allied World Merger Company, which we refer to as *MergerCo*, is a Delaware corporation that was formed solely for the purpose of completing the proposed Merger (as defined below). *MergerCo* is an indirect wholly owned subsidiary of Allied World and has not engaged in any business except for activities incidental to its formation and as contemplated by the Agreement and Plan of Merger (the *Merger Agreement* ). Upon consummation of the proposed

Merger, MergerCo will cease to exist and Darwin will continue as the surviving corporation, as an indirect wholly owned subsidiary of Allied World.

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**The Merger (Page 19)**

The Merger Agreement provides as follows:

MergerCo will merge with and into Darwin (the Merger ); and

Darwin will be the surviving corporation in the Merger (the Surviving Corporation ) and will continue to do business as Darwin Professional Underwriters, Inc. following the Merger.

Each outstanding share of Darwin capital stock consisting of common stock, par value \$0.01 per share (the Common Stock ) (other than shares of Common Stock owned by Darwin, its subsidiaries, Allied World, MergerCo or any of their wholly owned subsidiaries or any stockholders who properly exercise appraisal rights under Delaware law, as described in this proxy statement), will be converted into the right to receive \$32.00 in cash, without interest and less any applicable withholding tax, and subject to the potential downward price adjustment described below, which we refer to in this proxy statement as the merger consideration.

**Effects of the Merger (Page 42)**

If the Merger is completed, you will be entitled to receive the merger consideration of \$32.00 per share in cash, without interest and less any applicable withholding taxes, for each share of Common Stock owned by you, unless you have exercised your statutory appraisal rights with respect to the Merger. Such cash payment is subject to a potential downward price adjustment in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would otherwise be increased by more than \$1,000,000 (see The Merger Agreement Potential Downward Purchase Price Adjustment beginning on page 43). As a result of the Merger, Darwin will cease to be an independent, publicly traded company and our Common Stock will cease to be listed on any stock exchange or quotation system. You will not own any shares of or other interest in the Surviving Corporation.

**The Special Meeting (Page 16)**

***Time, Place and Date (Page 16)***

The special meeting will be held on October 15, 2008, starting at 10:00 a.m. local time, and located at the Company s principal corporate offices at 9 Farm Springs Road in Farmington, Connecticut.

***Purpose (Page 16)***

You will be asked to consider and vote on (i) the adoption of the Merger Agreement, pursuant to which MergerCo will merge with and into Darwin, (ii) the adjournment of the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to adopt the Merger Agreement and (iii) any other business that may properly come before the special meeting.

***Record Date and Quorum (Page 16)***

You are entitled to vote at the special meeting if you owned shares of Common Stock at the close of business on September 15, 2008, the record date for the special meeting. You will have one vote for each share of Common Stock that you owned on the record date. As of the record date, there were 17,017,866 shares of Common Stock outstanding and entitled to vote. The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the special meeting constitutes a quorum for the purpose of considering the proposals.

***Vote Required (Page 16)***

The adoption of the Merger Agreement requires that a majority of the outstanding shares of Common Stock entitled to be cast at the special meeting be voted FOR the adoption of the Merger Agreement. Approval of the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement,



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requires the affirmative vote of a majority of the votes present and entitled to be cast at the special meeting, whether or not a quorum is present.

As more fully described in *Voting Agreement* beginning on page 56, AIHL, which owns approximately 55% of Darwin's outstanding Common Stock, has agreed to, among other things, vote a number of shares of Common Stock equal to 40% of Darwin's outstanding voting stock in favor of the adoption of the Merger Agreement, subject to certain limitations and the occurrence of certain events, pursuant to the terms of a voting agreement entered into with Allied World and MergerCo (the *Voting Agreement*). The *Voting Agreement* is attached hereto as Annex D.

As of the record date, the directors and executive officers of Darwin held in the aggregate approximately 8% of the shares of Common Stock entitled to vote at the special meeting. In the aggregate, these shares of Common Stock represent approximately 16% of the votes necessary to adopt the Merger Agreement at the special meeting. All of our directors and executive officers have advised us that they plan to vote all of their shares of Common Stock in favor of the adoption of the Merger Agreement.

### ***Voting and Proxies (Page 16)***

Any stockholder of record entitled to vote at the special meeting may submit a proxy by telephone, the Internet, by returning the enclosed proxy card by mail, or may vote in person at the special meeting. If you intend to submit your proxy by telephone or the Internet you must do so no later than 12:00 a.m., on October 15, 2008. If you do not return your proxy card, submit your proxy by phone or the Internet or attend the special meeting, your shares of Common Stock will not be voted, which will have the same effect as a vote **AGAINST** the adoption of the Merger Agreement. Even if you plan to attend the special meeting, if you hold your shares of Common Stock in your own name as the stockholder of record, please vote your shares of Common Stock by completing, signing, dating and returning the enclosed proxy card or by using the telephone number printed on your proxy card or by using the Internet voting instructions printed on your proxy card.

If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, all of your shares of Common Stock will be voted **FOR** the proposal to adopt the Merger Agreement and **FOR** the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement.

If your shares of Common Stock are held in *street name* by your broker, bank or nominee, you should instruct your broker, bank or nominee on how to vote your shares of Common Stock using the instructions provided by your broker, bank or nominee. In the absence of specific instructions by you on how to vote, your broker, bank or nominee will not be entitled to vote your shares of Common Stock. Because the adoption of the Merger Agreement requires that a majority of the outstanding shares of Common Stock entitled to be cast at the special meeting be voted **FOR** the adoption of the Merger Agreement, the failure to provide your broker, bank or nominee with voting instructions will have the same effect as a vote **AGAINST** the proposal to adopt the Merger Agreement. Because the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement requires the affirmative vote of a majority of the votes present and entitled to be cast at the special meeting, whether or not a quorum is present, and because your broker, bank or nominee does not have discretionary authority to vote on that proposal, the failure to provide your broker, bank or nominee with voting instructions on how to vote your shares of Common Stock will have no effect on the approval of that proposal.

### ***Revocability of Proxy (Page 17)***

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Any stockholder of record who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before the polls close at the special meeting in any one of the following ways:

by notifying us in a signed written revocation, bearing a date later than the date of the proxy, addressed and delivered to our Executive Vice President, General Counsel and Secretary, Mark I. Rosen, 9 Farm Springs Road, Farmington, CT 06032;

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by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting); or

by submitting a later-dated proxy (including by telephone or the Internet) relating to the same shares of Common Stock.

If you have instructed a broker, bank or other nominee to vote your shares of Common Stock, you must follow the directions received from your broker, bank or other nominee to change those instructions.

### **Treatment of Options and Other Awards (Page 43)**

***Stock Options.*** Immediately prior to the effective time of the Merger, all outstanding options to acquire shares of Common Stock under Darwin's equity incentive plans ( "Stock Options" ) will become fully vested. All such Stock Options not exercised prior to the Merger will be cancelled upon the consummation of the Merger and converted into the right to receive a cash payment equal to the number of shares of Common Stock underlying the Stock Options multiplied by the amount (if any) by which the merger consideration of \$32.00 per share in cash exceeds the exercise price, without interest and less any applicable withholding taxes. Such cash payment is subject to a potential downward price adjustment in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would otherwise be increased by more than \$1,000,000.

***Restricted Shares.*** Immediately prior to the effective time of the Merger, all outstanding restricted shares of Common Stock shall vest and become free of all restrictions and, upon the consummation of the Merger, shall be cancelled, retired and shall cease to exist and shall be converted into the right to receive a cash payment equal to the number of restricted shares of Common Stock multiplied by the merger consideration of \$32.00 per share in cash, without interest and less any applicable withholding taxes. Such cash payment is subject to a potential downward price adjustment in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would otherwise be increased by more than \$1,000,000.

***Director Share Units.*** Upon the consummation of the Merger, each director share unit that is outstanding immediately prior to the Merger will be converted into the right to receive an amount in cash equal to the merger consideration of \$32.00 per share unit in cash. Such cash payment is subject to a potential downward price adjustment in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would otherwise be increased by more than \$1,000,000.

### **Recommendation of the Special Committee and Our Board of Directors (Page 25)**

***Special Committee.*** Our board of directors (the "Board" ) formed a committee of four independent directors on February 28, 2008 (the "Special Committee" ) for the purpose of, among other things, evaluating potential strategic alternatives for Darwin. The Special Committee unanimously (i) determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable and fair to, and in the best interests of, Darwin and its stockholders and (ii) resolved to recommend to the Board that it approve and declare advisable the Merger Agreement and the transactions contemplated thereby, including the Merger.

***Board of Directors.*** The Board, acting upon the unanimous recommendation of the Special Committee, has (i) determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are

advisable and fair to, and in the best interests of, Darwin and its stockholders, (ii) approved and declared advisable the Merger Agreement and the transactions contemplated thereby, including the Merger, (iii) resolved to recommend that Darwin's stockholders adopt the Merger Agreement and (iv) directed that the Merger Agreement be submitted to Darwin's stockholders for their adoption.

**The Voting Agreement (Page 56)**

Concurrently with the execution of the Merger Agreement, AIHL, which owns shares of Common Stock representing approximately 55% of Darwin's outstanding Common Stock, entered into the Voting Agreement.

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Under the terms of the Voting Agreement, AIHL agreed to, among other things, and subject to certain limitations and the occurrence of certain events, (i) vote a number of shares of Common Stock equal to 40% of Darwin's outstanding voting stock in favor of the adoption of the Merger Agreement and (ii) vote all of the shares of Common Stock it holds against any other proposal or action that may hinder the consummation of the Merger. In addition, AIHL agreed not to transfer or encumber any of its shares of Common Stock.

AIHL's obligations under the Voting Agreement will terminate upon the first to occur of (i) the effective time of the Merger, (ii) the date upon which the Merger Agreement is terminated in accordance with its terms, (iii) the date upon which the Board withdraws (or amends or modifies in a manner adverse to Allied World) or publicly proposes to withdraw (or amend or modify in a manner adverse to Allied World) its approval, recommendation or declaration of advisability of the Merger Agreement, the Merger or the other transactions contemplated by the Merger Agreement, or recommends, adopts or approves, or proposes publicly to recommend, adopt or approve, any company acquisition proposal (as defined under The Merger Agreement Restrictions on Solicitations of Other Offers beginning on page 49) and (iv) unless consented to by AIHL, the date of any amendment to the Merger Agreement that is materially adverse to Darwin, its stockholders or AIHL (including, without limitation, any decrease in or change in the form of the consideration to be paid to Darwin's stockholders or the addition of any material obligation or liability on the part of Darwin or its stockholders).

## **Interests of Darwin's Directors and Executive Officers in the Merger (Page 33)**

In considering the recommendation of the Board that you vote to adopt the Merger Agreement, you should be aware that our directors and executive officers may have interests in the Merger that are different from, or in addition to, your interests as a stockholder, and that may present actual or potential conflicts of interest. For example:

certain of our executive officers hold Stock Options which, whether vested or unvested, will be cancelled and entitle such holders (and all other holders of Stock Options) to receive in cash the excess, if any, of the merger consideration of \$32.00 per share over the option exercise price for each share of Common Stock subject to the Stock Option, less any applicable withholding taxes, without interest and subject to the potential downward price adjustment;

certain of our executive officers hold restricted shares of Common Stock which will vest and become free of all restrictions and which will be cancelled and converted into the right to receive a cash payment equal to the number of restricted shares of Common Stock multiplied by the merger consideration of \$32.00 per share in cash, plus any declared and unpaid dividends, less any applicable withholding taxes, without interest and subject to the potential downward price adjustment;

the non-employee members of our Board hold director share units (issued under Darwin's Stock and Unit Plan for Non-Employee Directors, approved by Darwin's stockholders, pursuant to which a minimum of 50% of the fees for such directors' board and committee service are payable in director share units) which will be converted into the right to receive an amount in cash equal to the merger consideration of \$32.00 per unit in cash, and subject to the potential downward price adjustment;

certain of our executive officers have interests in Darwin's Long Term Incentive Plan (the LTIP) and each such participant's vested percentage in his respective portion of the LTIP profit pools for fiscal years 2003 through 2008 shall be 100% upon the consummation of the Merger, subject to forfeiture for termination for Cause (as defined in the LTIP);

our current and former directors and officers will continue to be indemnified after the completion of the Merger and will have the benefit of liability insurance for six years after completion of the Merger;

certain of our executive officers may be entitled to severance benefits if, following the Merger, Darwin terminates such executive's employment for any reason other than for cause or such executive terminates his employment for good reason;

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certain members of our management team entered into employment agreements with Darwin in connection with the Merger, which provide for their continued employment effective as of the closing of the Merger, subject to the terms and conditions set forth in each employment agreement; and

our chief executive officer entered into an amendment to his employment agreement, pursuant to which he will retire upon the closing of the Merger, be entitled to certain payments and benefits, and be subject to certain restrictive covenants for two years following the closing of the Merger.

The Special Committee and the Board were aware of these potential conflicts of interest and considered them, among other matters, in reaching their decisions to approve the Merger Agreement and the Merger and the recommendations that our stockholders vote in favor of adopting the Merger Agreement.

### **Opinion of UBS Securities LLC (Page 27)**

In connection with the Merger, UBS Securities LLC ( UBS ) delivered to each of the Special Committee and the Board a written opinion dated June 27, 2008, addressed to each of the Special Committee and the Board, to the effect that, as of that date and based upon and subject to various assumptions, matters considered and limitations described in its opinion, the merger consideration of \$32.00 per share in cash to be received in the Merger by the holders of shares of Common Stock (other than Alleghany, AIHL or any of their respective affiliates) was fair, from a financial point of view, to such holders.

The full text of UBS written opinion, dated June 27, 2008, is attached to this proxy statement as Annex B. **UBS opinion was provided for the benefit of the Special Committee and the Board in connection with, and for the purpose of, their evaluation of the merger consideration of \$32.00 per share in cash from a financial point of view and does not address any other aspect of the Merger. The opinion does not address the relative merits of the Merger as compared to other business strategies or transactions that might be available with respect to Darwin or Darwin s underlying business decision to effect the Merger. The opinion does not constitute a recommendation to any stockholder as to how to vote or act with respect to the Merger.** Holders of shares of Common Stock are encouraged to read UBS opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS.

### **Financing (Page 33)**

The Merger is not conditioned upon Allied World or MergerCo obtaining financing. Allied World and MergerCo estimate that the total amount of cash funds necessary to consummate the Merger and related transactions will be approximately \$550 million. Allied World has informed us that it expects that its cash on hand will be sufficient to complete the acquisition.

### **Regulatory Approvals (Page 40)**

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act ), and the rules promulgated thereunder by the Federal Trade Commission ( FTC ), the Merger may not be completed until notification and report forms have been filed with the FTC and the Antitrust Division of the Department of Justice ( DOJ ), and the applicable waiting period has expired or been terminated. Darwin and Allied World filed notification and report forms under the HSR Act with the FTC and the Antitrust Division of the DOJ on July 14, 2008. Darwin and Allied World received notice that the waiting period under the HSR Act was terminated as of July 21, 2008. The Merger is also subject to review by the governmental authorities of various states under the antitrust laws of those states.

State insurance laws generally require that, prior to the acquisition of control of an insurance company, the acquiring party must obtain approval from the insurance commissioner of the insurance company's state of domicile and any state in which the insurance company is commercially domiciled. Accordingly, Allied World has made the necessary applications with the insurance commissioners of Delaware and Arkansas, which are the states of domicile of Darwin's insurance company subsidiaries. As of the date of this proxy statement, Allied World has not yet obtained the approvals under the applicable state insurance laws that may be required to complete the Merger. There can be no assurance that the insurance commissioners will provide the approvals under the applicable state



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insurance laws. Subject to the terms and conditions provided in the Merger Agreement, as promptly as practicable, each of Allied World and Darwin has agreed to use reasonable best efforts to take, or cause to be taken, all actions and do, or cause to be done, all things necessary or appropriate to consummate the Merger as soon as practicable, including obtaining the termination of any waiting period under the HSR Act and seeking the receipt of governmental consents (including the consents of insurance regulators).

In addition, the insurance laws and regulations of certain states in the United States require that, prior to an acquisition of control of an insurance company doing business in that state or licensed by that state (or the acquisition of its holding company), a notice filing disclosing certain market share data in the applicable jurisdiction must be made and an applicable waiting period must expire or be terminated. These notice filings have been made in the applicable jurisdictions.

### **Material U.S. Federal Income Tax Consequences (Page 39)**

Generally, the exchange of shares of Common Stock for cash merger consideration will be a taxable transaction for U.S. federal income tax purposes, and it may also be a taxable transaction under applicable state, local, foreign or other tax laws.

**Tax matters can be complicated, and the tax consequences of the Merger to you will depend on the facts of your own situation. You should consult your tax advisor about the particular tax consequences of the Merger to you.**

### **Conditions to the Merger (Page 48)**

Completion of the Merger depends on a number of conditions being satisfied or waived, including the following:

*Conditions to Each Party's Obligations.* Each party's obligation to complete the Merger is subject to the satisfaction or waiver of the following conditions:

the majority of the outstanding shares of Common Stock entitled to be cast at the special meeting shall have been voted FOR the adoption of the Merger Agreement;

any applicable waiting period under the HSR Act shall have expired or been terminated;

no order, injunction, decree or ruling (whether temporary, preliminary or permanent) by any governmental authority of competent jurisdiction that renders illegal or prohibits consummation of the Merger shall be in effect; and

certain specified approvals or filings under all applicable state laws regulating the business of insurance shall have been obtained or filed.

*Conditions to Allied World's and MergerCo's Obligations.* The obligation of Allied World and MergerCo to complete the Merger is subject to the satisfaction or waiver of the following additional conditions:

our representations and warranties that (i) are not made as of a specific date must be true and correct as of the date of the Merger Agreement and as of the closing of the Merger and (ii) are made as of a specific date must be true and correct as of such date, in each case, except where the failure of such representations or warranties to be true and correct (without giving effect to any qualification as to materiality or material adverse effect set forth in such representations and warranties) has not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect (as defined under The Merger Agreement

Representations and Warranties beginning on page 44); provided, however, that our representations and warranties with respect to corporate status, corporate authority and the absence of certain events since March 31, 2008 that have had or would reasonably be expected to have a Material Adverse Effect must be true and correct in all respects, in each case, as of the date of the Merger Agreement and as of the closing of the Merger;

we must have performed, in all material respects, our obligations and complied with, in all material respects, our agreements and covenants under the Merger Agreement; and

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we must have delivered to Allied World and MergerCo a certificate signed by an executive officer of Darwin with respect to the satisfaction of the conditions relating to our representations, warranties, obligations, covenants and agreements.

*Conditions to Darwin's Obligations.* Our obligation to complete the Merger is subject to the satisfaction or waiver of the following further conditions:

Allied World's and MergerCo's representations and warranties that (i) are not made as of a specific date must be true and correct as of the date of the Merger Agreement and as of the closing of the Merger and (ii) are made as of a specific date must be true and correct as of such date, in each case, except where the failure of such representations or warranties to be true and correct (without giving effect to any qualification as to materiality or parent material adverse effect set forth in such representations and warranties) has not had and would not reasonably be expected to have, individually or in the aggregate, an effect, event, development or change that would reasonably be expected to prevent or materially hinder or delay Allied World or MergerCo from consummating the Merger;

Allied World and MergerCo must have, in all material respects, performed all of their obligations and complied with, in all material respects, their agreements and covenants under the Merger Agreement; and

Allied World must deliver to Darwin an officer's certificate with respect to the satisfaction of the conditions relating to its representations, warranties, obligations, covenants and agreements.

## **Termination of the Merger Agreement and Termination Fees and Expenses (Pages 51 and 52)**

The Merger Agreement may be terminated by mutual written consent of Darwin and Allied World or by either Darwin or Allied World under certain specified circumstances as more fully described in "The Merger Agreement - Termination of the Merger Agreement" beginning on page 51. Upon termination of the Merger Agreement under certain circumstances, Darwin may be required to pay to Allied World a termination fee of \$16.5 million as more fully described in "The Merger Agreement - Termination Fees and Expenses" beginning on page 52.

## **Restrictions on Solicitations and Other Offers (Page 49)**

During the term of the Merger Agreement, we have agreed not to:

initiate, solicit, knowingly encourage or knowingly facilitate any inquiries or the making of any proposal or other action that constitutes, or may reasonably be expected to lead to, any company acquisition proposal;

enter into discussions or negotiate with any person in furtherance of such inquiries or to obtain a company acquisition proposal; or

enter into an agreement with respect to a company acquisition proposal.

Notwithstanding the foregoing restrictions, at any time prior to obtaining the approval of the Merger Agreement by our stockholders, if we receive a company acquisition proposal that was not received in breach of the foregoing restrictions, we may contact the potential acquiror to determine whether the company acquisition proposal is, or is reasonably likely to lead to, a company superior proposal. If our Board or the Special Committee determines in good faith after consultation with its legal and financial advisors that such company acquisition proposal is, or is reasonably likely to lead to, a company superior proposal, then we are permitted to furnish information to or engage in

discussions or negotiations with the potential acquiror if we provide Allied World with notice within 36 hours of any such furnishing of information and the same information has been previously or is currently provided to Allied World.

We must promptly advise Allied World in writing of any company acquisition proposal (and in no event less than 36 hours following our initial receipt of any company acquisition proposal), the material terms and conditions of any such company acquisition proposal (including any changes thereto) and the identity of the party making any such company acquisition proposal. We must also keep Allied World reasonably informed of the status (including any change to the material terms and conditions thereof) of any such company acquisition proposal.

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**Appraisal Rights (Page 58)**

Under Delaware law, holders of shares of Common Stock who do not vote in favor of adopting the Merger Agreement will have the right to seek appraisal of the fair value of their shares of Common Stock as determined by the Delaware Court of Chancery if the Merger is completed, but only if they comply with all requirements of Section 262 of the Delaware General Corporation Law, which are summarized in this proxy statement. The text of Section 262 of the Delaware General Corporation Law is attached as Annex C to this proxy statement. No representation is made as to the outcome of the appraisal of fair value as determined by the Delaware Court of Chancery, and you should be aware that the fair value of your shares of Common Stock as determined under Section 262 could be more than, the same as, or less than the value that you are entitled to receive under the terms of the Merger Agreement. Any holder of shares of Common Stock intending to exercise such holder's appraisal rights, among other things, must submit a written demand for an appraisal to us prior to the vote on the adoption of the Merger Agreement and must not vote in favor of adoption of the Merger Agreement in person or by proxy. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. We encourage you to read these provisions carefully in their entirety.

**Market Price of Common Stock (Page 55)**

The merger consideration of \$32.00 per share in cash to be paid for each share of Common Stock in the Merger (which is subject to a potential downward price adjustment in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would otherwise be increased by more than \$1,000,000) represents a premium of approximately 30.4% over the 90-day average trading price of Darwin's Common Stock on the New York Stock Exchange (the NYSE) prior the announcement of the Merger on June 30, 2008.

**Certain Litigation Related to the Merger (Page 41)**

As of the date of this proxy statement, a purported class action complaint has been served on Darwin, in connection with the Merger, naming as defendants Darwin, the members of its board of directors, and Allied World. Although Darwin, the members of its board of directors and Allied World believe that the claims asserted are without merit, on September 16, 2008, the parties reached an agreement in principle to settle this litigation, while specifically denying any wrongdoing by any of the defendants. Pursuant to the proposed settlement, we have agreed to make certain additional disclosures in Darwin's proxy statement, which are contained herein. The proposed settlement is subject to the satisfaction of a number of conditions, including the execution of a definitive settlement agreement, final court approval of the settlement and notice to our stockholders (see The Merger Certain Litigation Related to the Merger beginning on page 41).

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**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER**

*The following questions and answers are intended to address briefly some commonly asked questions regarding the Merger, the Merger Agreement and the special meeting. These questions and answers may not address all questions that may be important to you as a Darwin stockholder. Please refer to the Summary and the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement, which you should read carefully. See Where You Can Find More Information beginning on page 61.*

**Q. What matters will be voted on at the special meeting?**

A. You will vote on the following proposals: (1) to adopt the Merger Agreement and (2) to approve the adjournment of the special meeting to a later date, if we deem such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement.

On June 27, 2008, we entered into a Merger Agreement with Allied World and MergerCo. Under the Merger Agreement, Darwin, as the surviving corporation, will become an indirect wholly owned subsidiary of Allied World and holders of shares of Common Stock will be entitled to receive the merger consideration of \$32.00 per share in cash (subject to a potential downward price adjustment in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would otherwise be increased by more than \$1,000,000), without interest and less any applicable withholding tax. This proxy statement contains important information about the Merger and the special meeting, and you should read it carefully. The enclosed voting materials allow you to vote your shares of Common Stock without attending the special meeting.

**Q. What will I receive in the Merger?**

A. Upon completion of the Merger, you will be entitled to receive the merger consideration of \$32.00 per share in cash (subject to a potential downward price adjustment in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would otherwise be increased by more than \$1,000,000), without interest and less any applicable withholding tax, for each share of Common Stock that you own, unless you have exercised your appraisal rights with respect to the Merger. For example, if you own 100 shares of Common Stock, you will receive \$3,200.00 in cash in exchange for your 100 shares of Common Stock, less any applicable withholding tax and subject to the potential downward price adjustment. You will not own any shares or other interest in the Surviving Corporation.

**Q. When and where is the special meeting?**

A. The special meeting of stockholders of Darwin will be held on October 15, 2008, at 10:00 a.m. local time, and located at the Company's principal corporate offices at 9 Farm Springs Road in Farmington, Connecticut.

**Q. What vote is required for Darwin's stockholders to adopt the Merger Agreement?**

A. The adoption of the Merger Agreement requires that a majority of the outstanding shares of Common Stock entitled to be cast at the special meeting be voted FOR the adoption of the Merger Agreement. As more fully described in Voting Agreement beginning on page 56, AIHL, which owns approximately 55% of Darwin's outstanding

Common Stock, has entered into a voting agreement under which it has agreed, among other things, to vote a number of shares of Common Stock equal to 40% of Darwin's outstanding voting stock in favor of the adoption of the Merger Agreement, subject to certain limitations and the occurrence of certain events.

**Q: What vote of our stockholders is required to approve the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement?**

A. The proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger

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Agreement requires the affirmative vote of a majority of the votes present and entitled to be cast at the special meeting, whether or not a quorum is present.

### **Q. How does the Board recommend that I vote?**

A. The Board, acting upon the unanimous recommendation of the Special Committee, recommends that you vote **FOR** the proposal to adopt the Merger Agreement and **FOR** the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to adopt the Merger Agreement. You should read **The Merger Reasons for the Merger; Recommendation of the Special Committee and Our Board** beginning on page 25 for a discussion of the factors that the Special Committee and the Board considered in deciding to recommend the adoption of the Merger Agreement.

### **Q. What effects will the proposed Merger have on Darwin?**

A. As a result of the proposed Merger, Darwin will cease to be a stand-alone publicly-traded company and will be indirectly wholly owned by Allied World. You will no longer have any interest in Darwin's future earnings or growth. Following the consummation of the Merger, the registration of our Common Stock and our reporting obligations with respect to our Common Stock under the Securities Exchange Act of 1934, as amended (the **Exchange Act**), will be terminated upon application to the Securities and Exchange Commission (the **SEC**). In addition, upon completion of the proposed Merger, our Common Stock will no longer be listed on any stock exchange or quotation system, including the NYSE.

### **Q. What happens if the Merger is not consummated?**

A. If the Merger Agreement is not adopted by our stockholders or if the Merger is not completed for any other reason, you will not receive any payment for your shares of Common Stock in connection with the Merger. Instead, Darwin will remain an independent public company and our Common Stock will continue to be listed and traded on the NYSE. If the Merger Agreement is terminated under specified circumstances, Darwin may be required to pay to Allied World a termination fee of \$16.5 million as described under the caption **The Merger Agreement Termination Fees and Expenses** beginning on page 52.

### **Q. What do I need to do now?**

A. Even if you plan to attend the special meeting, after carefully reading and considering the information contained in this proxy statement, if you hold your shares of Common Stock in your own name as the stockholder of record, please vote your shares of Common Stock by (i) completing, signing, dating and returning the enclosed proxy card, (ii) using the telephone number printed on your proxy card or (iii) using the Internet voting instructions printed on your proxy card. If you have Internet access, we encourage you to record your vote via the Internet. You can also attend the special meeting and vote. **Please DO NOT return your stock certificate(s) with your proxy.**

If your shares of Common Stock are held in **street name** by your broker, after carefully reading and considering the information contained in this proxy statement, you should instruct your broker on how to vote your shares of Common Stock using the instructions provided by your broker.

### **Q. How do I vote?**

A: You may vote by:

attending the special meeting and voting in person;



completing, signing and dating each proxy card you receive and returning it in the enclosed prepaid envelope;  
using the telephone number printed on your proxy card;  
using the Internet voting instructions printed on your proxy card; or

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if you hold your shares of Common Stock in street name, following the procedures provided by your broker, bank or other nominee.

If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, all of your shares of Common Stock will be voted FOR the proposal to adopt the Merger Agreement and FOR the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the Merger Agreement.

**Q. How can I change or revoke my vote?**

A. Any Darwin stockholder of record who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before the polls close at the special meeting in any one of the following ways:

by notifying us in a signed written revocation, bearing a date later than the date of the proxy, addressed and delivered to our Executive Vice President, General Counsel and Secretary, Mark I. Rosen, 9 Farm Springs Road, Farmington, CT 06032;

by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting); or

by submitting a later-dated proxy (including by telephone or the Internet) relating to the same shares of Common Stock.

If you have instructed a broker, bank or other nominee to vote your shares of Common Stock, you must follow the directions received from your broker, bank or other nominee to change those instructions.

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

A. Your broker, bank or other nominee will only be permitted to vote your shares of Common Stock if you instruct your broker, bank or other nominee how to vote. You should follow the procedures provided by your broker, bank or other nominee regarding the voting of your shares of Common Stock. If you do not instruct your broker, bank or other nominee to vote your shares of Common Stock, your shares of Common Stock will not be voted and the effect will be the same as a vote AGAINST the adoption of the Merger Agreement, but will not have an effect on the proposal to adjourn the special meeting.

**Q. What do I do if I receive more than one proxy or set of voting instructions?**

A. You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares of Common Stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares of Common Stock. If you are a holder of record and your shares of Common Stock are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive to ensure that all of your shares of Common Stock are voted.

**Q. What happens if I sell my shares of Common Stock before the special meeting?**

A. The record date of the special meeting is earlier than the date of the special meeting and the date that the Merger is expected to be completed. If you transfer your shares of Common Stock after the record date but before the special meeting, you will retain your right to vote at the special meeting, but will have transferred the right to receive the merger consideration of \$32.00 per share in cash to be received by our stockholders in the Merger. In order to receive the merger consideration of \$32.00 per share in cash, you must hold your shares through completion of the Merger.

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**Q. Am I entitled to exercise appraisal rights instead of receiving the merger consideration for my shares of Common Stock?**

A. Yes. As a holder of shares of Common Stock, you are entitled to appraisal rights under Delaware law in connection with the Merger if you meet certain conditions. See Dissenters Rights of Appraisal beginning on page 58.

**Q. When is the Merger expected to be completed?**

A. We are working toward completing the Merger as quickly as possible, and we anticipate that it will be completed in the fourth calendar quarter of 2008. However, the exact timing of the completion of the Merger cannot be predicted. In order to complete the Merger, we must obtain stockholder approval and the other closing conditions under the Merger Agreement must be satisfied or waived.

**Q. Is the Merger contingent upon Allied World obtaining financing?**

A. No. The Merger is not conditioned upon Allied World or MergerCo obtaining financing. Allied World and MergerCo estimate that the total amount of cash funds necessary to consummate the Merger and related transactions will be approximately \$550 million. Allied World has informed us that it expects that its cash on hand will be sufficient to complete the acquisition.

**Q. Will a proxy solicitor be used?**

A. Yes. Darwin has engaged Georgeson Inc. to assist in the solicitation of proxies for the special meeting and Darwin estimates it will pay Georgeson Inc. a fee of approximately \$8,500. Darwin has also agreed to reimburse Georgeson Inc. for reasonable administrative and out-of-pocket expenses incurred in connection with the proxy solicitation and indemnify Georgeson Inc., absent Georgeson Inc.'s gross negligence or willful misconduct, against certain losses, costs and expenses.

**Q. Should I send in my stock certificates now?**

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

**Q. Who can help answer my other questions?**

A. If you have additional questions about the Merger, need assistance in submitting your proxy or voting your shares of Common Stock, or need additional copies of the proxy statement or the enclosed proxy card, please call Georgeson Inc. toll free at 1-888-679-2903.

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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION**

This proxy statement, and the documents to which we refer you in this proxy statement, include forward-looking statements, including information relating to the Merger, based on estimates and assumptions. There are forward-looking statements throughout this proxy statement, including, without limitation, under the headings Summary, Questions and Answers about the Special Meeting and the Merger, The Merger, and Opinion of Financial Advisor, and in statements containing words such as believes, estimates, anticipates, continues, contemplates, may, will, could, should, or would or other similar words or phrases. These statements, which are based on information currently available to us, are not guarantees of future performance and may involve risks and uncertainties that could cause our actual growth, results of operations, performance and business prospects, and opportunities to materially differ from those expressed in, or implied by, these statements. These forward-looking statements speak only as of the date on which the statements were made and we expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statement included in this proxy statement or elsewhere. In addition to other factors and matters contained or incorporated in this document, these statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those in the forward-looking statements, including, among others:

the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement;

the outcome of any legal proceedings that have been or may be instituted against Darwin and others relating to the Merger Agreement;

the inability to complete the Merger due to the failure to obtain stockholder approval or the failure to satisfy other conditions to consummation of the Merger;

the failure of the Merger to close for any other reason;

risks that the proposed transaction disrupts current plans and operations and the potential difficulties in employee retention as a result of the Merger;

the accuracy of assumptions underlying Darwin's outlook;

the effect of the announcement of the Merger on our customer relationships, operating results and business generally;

the amount of the costs, fees, expenses and charges related to the Merger and the actual terms of certain financings that will be obtained for the Merger; and

other risks described in our current filings with the SEC, including our most recent filings on our Annual Report on Form 10-K for the year ended December 31, 2007 and our Form 10-Qs for the first and second quarters of 2008, which should be read in conjunction with this proxy statement. See Where You Can Find More Information beginning on page 61.

Many of the factors that will determine our future results are beyond our ability to control or predict. In light of the significant uncertainties inherent in the forward-looking statements contained herein, readers should not place undue reliance on forward-looking statements, which reflect management's views only as of the date hereof. We cannot

guarantee any future results, levels of activity, performance or achievements. The statements made in this proxy statement represent our views as of the date of this proxy statement, and it should not be assumed that the statements made herein remain accurate as of any future date. Moreover, we assume no obligation to update forward-looking statements or update the reasons that actual results could differ materially from those anticipated in forward-looking statements, except as required by law.

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**THE PARTIES TO THE MERGER**

**Darwin**

Darwin Professional Underwriters, Inc.  
9 Farm Springs Road  
Farmington, CT 06032  
860-284-1300

Darwin was initially formed in March 2003 and became a publicly traded company on May 19, 2006. We are a holding company, the subsidiaries of which are engaged in insurance underwriting and distribution across a spectrum of the specialty commercial property-casualty insurance market. Darwin is focused on the professional liability insurance market and underwrites directors and officers liability for public and private companies, errors and omissions liability insurance, medical malpractice liability insurance, and other specialty coverages. Darwin member companies include Darwin Professional Underwriters, Inc., Darwin National Assurance Company and Darwin Select Insurance Company.

Our majority stockholder, Alleghany, through its wholly owned subsidiary AIHL, indirectly owns approximately 55% of Darwin's outstanding Common Stock. Our Common Stock is publicly traded on the NYSE under the symbol DR. For more information about Darwin, please visit our website at [www.darwinpro.com](http://www.darwinpro.com). Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement, and therefore is not incorporated by reference. See also [Where You Can Find More Information](#) beginning on page 61.

**Allied World**

Allied World Assurance Company Holdings, Ltd  
27 Richmond Road  
Pembroke HM 08, Bermuda  
441-278-5400

Allied World Assurance Company Holdings, Ltd is a Bermuda-based specialty insurance and reinsurance holding company and its subsidiaries underwrite a global, diversified portfolio of property and casualty insurance and reinsurance lines of business. Allied World was initially formed in November 2001 and became a publicly traded company on the NYSE on July 11, 2006 under the symbol AWH. Allied World writes direct property and casualty insurance as well as reinsurance through its operations in Bermuda, the United States, Ireland and the United Kingdom. Allied World has three business segments: property insurance, casualty insurance and reinsurance. The property segment provides direct coverage of physical property and business interruption coverage for commercial property and energy-related risks. The casualty segment specializes in insurance products providing coverage for general and product liability, professional liability and healthcare liability risks. The reinsurance segment includes the reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by other insurance companies. For more information about Allied World, please visit its website at [www.awac.com](http://www.awac.com). Allied World's website address is provided as an inactive textual reference only. The information provided on this website is not part of this proxy statement, and therefore is not incorporated by reference.

**MergerCo**

Allied World Merger Company  
c/o Allied World Assurance Company Holdings, Ltd  
27 Richmond Road  
Pembroke HM 08, Bermuda

441-278-5400

MergerCo is a Delaware corporation that was formed solely for the purpose of completing the proposed Merger. MergerCo is an indirect wholly owned subsidiary of Allied World and has not engaged in any business except for activities incidental to its formation and as contemplated by the Merger Agreement. Upon consummation of the proposed Merger, MergerCo will cease to exist and Darwin will continue as the Surviving Corporation.



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**THE SPECIAL MEETING**

**Time, Place and Purpose of the Special Meeting**

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by our Board for use at the special meeting to be held on October 15, 2008, starting at 10:00 a.m. local time, located at the Company's principal corporate offices at 9 Farm Springs Road in Farmington, Connecticut, or at any postponement or adjournment thereof. The purpose of the special meeting is for our stockholders to consider and vote on (i) a proposal to adopt the Merger Agreement, and (ii) a proposal to approve the adjournment of the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement. Our stockholders must adopt the Merger Agreement in order for the Merger to occur. If our stockholders fail to adopt the Merger Agreement, the Merger will not occur. A copy of the Merger Agreement is attached to this proxy statement as Annex A. You are urged to read the Merger Agreement in its entirety. This proxy statement and the enclosed form of proxy are first being mailed to our stockholders on September 16, 2008.

**Record Date and Quorum**

We have fixed the close of business on September 15, 2008 as the record date for the special meeting, and only holders of record of shares of Common Stock on the record date are entitled to vote at the special meeting. On the record date, there were 17,017,866 shares of Common Stock outstanding and entitled to vote. Each share of Common Stock entitles its holder to one vote on all matters properly coming before the special meeting.

The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the special meeting constitutes a quorum for the purpose of considering the proposals. Shares of Common Stock represented at the special meeting but not voted, including shares of Common Stock for which proxies have been received but for which stockholders have abstained, will be treated as present at the special meeting for purposes of determining the presence or absence of a quorum for the transaction of all business. In the event that a quorum is not present at the special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies.

**Vote Required for Approval**

The adoption of the Merger Agreement requires that a majority of the outstanding shares of Common Stock entitled to be cast at the special meeting be voted **FOR** the adoption of the Merger Agreement. For the proposal to adopt the Merger Agreement, you may vote **FOR**, **AGAINST** or **ABSTAIN**. Abstentions will count for the purpose of determining whether a quorum is present. **If you abstain or fail to vote, it will have the same effect as a vote**

**AGAINST the adoption of the Merger Agreement.** If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, all of your shares of Common Stock will be voted **FOR** the proposal to adopt the merger agreement and **FOR** the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of the special meeting to adopt the merger agreement.

The adoption of the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement requires the affirmative vote of a majority of the votes present and entitled to be cast at the special meeting, whether or not a quorum is present. Therefore, if your shares of Common Stock are present and entitled to be

cast but you abstain, it will have the same effect as a vote AGAINST the adoption of the proposal to adjourn the special meeting. If your shares of Common Stock are not present or are present but not entitled to be cast, it will have no effect on the outcome of the proposal.

If your shares of Common Stock are held in street name by your broker, bank or nominee, you should instruct your broker, bank or nominee on how to vote your shares of Common Stock using the instructions provided by your broker, bank or nominee. In the absence of specific instructions, your broker, bank or nominee will not be entitled to vote your shares of Common Stock. Because the adoption of the Merger Agreement requires that a majority of the outstanding shares of Common Stock entitled to be cast at the special meeting be voted FOR the adoption of the

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Merger Agreement, the failure to provide your broker, bank or nominee with voting instructions will have the same effect as a vote AGAINST the proposal to adopt the Merger Agreement. Because the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement requires the affirmative vote of a majority of the votes present and entitled to be cast at the special meeting, whether or not a quorum is present, and because your broker, bank or nominee does not have discretionary authority to vote on that proposal, the failure to provide your broker, bank or nominee with voting instructions on how to vote your shares of Common Stock will have no effect on the approval of that proposal.

As more fully described in Voting Agreement beginning on page 56, pursuant to the terms of the Voting Agreement, AIHL, which owns approximately 55% of Darwin's outstanding Common Stock, has agreed to, among other things, vote a number of shares of Common Stock equal to 40% of Darwin's outstanding voting stock in favor of adoption of the Merger Agreement, subject to certain limitations and the occurrence of certain events.

As of September 15, 2008, the record date, the directors and executive officers of Darwin held and are entitled to vote, in the aggregate, 1,365,125 shares of Common Stock representing approximately 8% of the outstanding shares of Common Stock. The directors and executive officers have informed Darwin that they currently intend to vote all of their shares of Common Stock FOR the adoption of the Merger Agreement.

## **Proxies and Revocation**

If you submit a proxy by telephone or the Internet or by returning a signed proxy card by mail, your shares of Common Stock will be voted at the special meeting as you indicate on your proxy card or by such other method. If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, all of your shares of Common Stock will be voted FOR the proposal to adopt the Merger Agreement and FOR the proposal to adjourn the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement, and in accordance with the recommendations of our Board on any other matters properly brought before the special meeting for a vote.

If your shares of Common Stock are held in street name, you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares of Common Stock voted.

Proxies received at any time before the special meeting, and not revoked or superseded before being voted, will be voted at the special meeting.

Any stockholder of record who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before the polls close at the special meeting in any one of the following ways:

by notifying us in a signed written revocation, bearing a date later than the date of the proxy, addressed and delivered to our Executive Vice President, General Counsel and Secretary, Mark I. Rosen, 9 Farm Springs Road, Farmington, CT 06032;

by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting); or

by submitting a later-dated proxy (including by telephone or the Internet) relating to the same shares of Common Stock.

If you have instructed a broker, bank or other nominee to vote your shares of Common Stock, you must follow the directions received from your broker, bank or other nominee to change those instructions.

**Please do not send in your stock certificates with your proxy card.** When the Merger is completed, a separate letter of transmittal will be mailed to you that will enable you to receive the merger consideration in exchange for your stock certificates.

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### **Adjournments and Postponements**

Although it is not currently expected, the special meeting may be adjourned, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement. Any adjournment may be made without notice (if the adjournment is not for more than 30 days and a new record date is not set for the adjourned meeting) by an announcement made at the special meeting of the time, date and place of the adjourned meeting. Approval of the proposal to adjourn the special meeting requires the affirmative vote of a majority of the votes present and entitled to be cast at the special meeting, whether or not a quorum is present. Any signed proxies received by Darwin in which no voting instructions are provided on such matter will be voted FOR an adjournment of the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement. Any adjournment or postponement of the special meeting to solicit additional proxies will allow Darwin's stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

### **Rights of Stockholders Who Object to the Merger**

Under Delaware law, holders of shares of Common Stock who do not vote in favor of adopting the Merger Agreement will have the right to seek appraisal of the fair value of their shares of Common Stock as determined by the Delaware Court of Chancery if the Merger is completed, but only if they comply with all requirements of Section 262 of the Delaware General Corporation Law, which are summarized in this proxy statement. The text of Section 262 of the Delaware General Corporation Law is attached as Annex C to this proxy statement. No representation is made as to the outcome of the appraisal of fair value as determined by the Delaware Court of Chancery, and you should be aware that the fair value of your shares of Common Stock as determined under Section 262 could be more than, the same as, or less than the value that you are entitled to receive under the terms of the Merger Agreement. Any holder of shares of Common Stock intending to exercise such holder's appraisal rights, among other things, must submit a written demand for an appraisal to us prior to the vote on the adoption of the Merger Agreement and must not vote in favor of adoption of the Merger Agreement in person or by proxy. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. We encourage you to read these provisions carefully in their entirety. See Dissenters' Rights of Appraisal beginning on page 58 and the text of the Delaware appraisal rights statute reproduced in its entirety as Annex C.

### **Solicitation of Proxies**

This proxy solicitation is being made and paid for by Darwin on behalf of its Board. In addition, we have retained Georgeson Inc. to assist in the solicitation. We will pay Georgeson Inc. approximately \$8,500 plus reasonable out-of-pocket expenses for their assistance. Our directors, officers and employees may also solicit proxies by personal interview, mail, e-mail, telephone, facsimile or other means of communication. These directors, officers and employees will not be paid additional remuneration for their efforts. We will also request brokers and other fiduciaries to forward proxy solicitation material to the beneficial owners of shares of Common Stock that the brokers and fiduciaries hold of record. Upon request, we will reimburse the brokers and other fiduciaries for their reasonable out-of-pocket expenses. In addition, we will indemnify Georgeson Inc., absent Georgeson Inc.'s gross negligence or willful misconduct, against any losses arising out of that firm's proxy soliciting services on our behalf.

### **Questions and Additional Information**

If you have more questions about the Merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please call Georgeson Inc. at 1-888-679-2903.

**Availability of Documents**

The reports, opinions or appraisals referenced in this proxy statement will be made available for inspection and copying at the principal executive offices of Darwin during its regular business hours by any interested holder of shares of Common Stock.

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**THE MERGER**

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

**Background of the Merger**

Darwin was originally formed in March 2003 by Stephen J. Sills, the president and chief executive officer of Darwin, and Alleghany and became a publicly traded company in May 2006. In August 2007, at the request of Alleghany, Darwin registered all of the shares of Common Stock owned by Alleghany (which currently represent approximately 55% of Darwin's total outstanding shares) to allow Alleghany to sell all or a part of its equity interest in Darwin, if and when Alleghany decided to sell such interest.

As they had done in the ordinary course of business in the past, senior management of Alleghany and Darwin, in December 2007 and January 2008, held discussions with respect to possible strategic alternatives for Darwin. During that same time period, in connection with Darwin's periodic review of potential business opportunities, Mr. Sills met separately with senior management of three insurance companies to discuss the trends and outlook for the insurance industry generally as well as possible business opportunities for the companies.

Mr. Sills reported these discussions to the independent members of the Board and to Mr. Weston M. Hicks, the president and chief executive officer of Alleghany. Mr. Sills, representatives of Alleghany, and the members of the Board discussed whether, and how, a sales process should be conducted, including the process of selecting an investment banking firm to assist in the evaluation of potential strategic alternatives. Following these discussions, it was agreed that Darwin's senior management would interview investment banking firms to assist Darwin in evaluating potential strategic alternatives to maximize value for Darwin's stockholders, including the continued pursuit of Darwin's business plan. Mr. Sills expressed his views that, at that time, targeted discussions with one or more potential identified partners would yield more benefit to Darwin and its stockholders than a broad, open-ended auction process. Mr. Sills' views were based upon his concern that a broad, open-ended auction process would result in rumors that would be detrimental to the business operations of Darwin.

On February 28, 2008, in light of the foregoing discussions, the Board held a meeting to discuss, among other things, the potential strategic alternatives for Darwin. A representative of Dewey & LeBoeuf LLP ( "Dewey & LeBoeuf" ), legal counsel to Darwin, participated in the meeting and reviewed with the members of the Board their fiduciary duties associated with their evaluation of Darwin's strategic alternatives. Following such presentation and discussion among the members of the Board, the Board formed the Special Committee of independent directors consisting of R. Bruce Albro, William C. Popik, George M. Reider, Jr. and Irving B. Yoskowitz. The Board authorized the Special Committee to, among other things, examine, negotiate and evaluate potential strategic alternatives for Darwin and any related matters.

On March 4, 2008, the Special Committee held a meeting to elect a chair of the Special Committee and to identify and retain legal counsel and a financial advisor to the Special Committee. The Special Committee members elected Mr. Yoskowitz to act as chair (the "Chair" ) and retained Cleary Gottlieb Steen & Hamilton LLP ( "Cleary Gottlieb" ) to act as legal counsel to the Special Committee. After meeting with three potential financial advisors, the Special Committee decided to retain UBS as financial advisor to the Special Committee.

From March 7, 2008 through March 18, 2008, representatives of UBS met with members of Darwin's senior management, reviewed the market environment and reviewed certain financial information and other data relating to the business and financial prospects of the Company that were provided to UBS by Darwin's management.

On March 19, 2008, at a telephone meeting of the Special Committee with representatives of Cleary Gottlieb and UBS, representatives of UBS presented their preliminary analysis to the Special Committee. A representative of Cleary Gottlieb reviewed the fiduciary duties of the directors associated with their evaluation of Darwin's strategic alternatives. The UBS representatives discussed the state of the mergers and acquisitions market for insurance companies and various considerations regarding Darwin and the property and casualty sector generally, including the cyclical nature of Darwin's business. The UBS representatives also reviewed with the Special Committee preliminary financial analyses of Darwin based on, in part, information provided by Darwin's management and an



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indicative timeline for a potential sale process as well as a preliminary list of parties, including domestic and international insurance companies and financial buyers, that might be interested in a business combination transaction with Darwin. The Special Committee members discussed the analysis, the timeline and the list of potential acquirors with the representatives of UBS. After further deliberation, the Special Committee members unanimously agreed that it was in the best interests of Darwin and its stockholders to explore a potential business combination transaction, including a possible sale of Darwin. The Special Committee requested that, prior to contacting potential strategic acquirors, UBS review the list of such potential acquirors with Darwin's management to consider the likelihood that each such potential acquiror would find a strategic fit with Darwin's business.

On March 27, 2008, the Special Committee held a telephone meeting with representatives of Cleary Gottlieb and UBS to discuss the parties to be contacted in connection with a potential business combination with Darwin. A representative of Cleary Gottlieb reviewed the fiduciary duties of the directors associated with their evaluation of Darwin's strategic alternatives. Representatives of UBS presented a list of potential financial and strategic acquirors to the Special Committee. A representative of UBS indicated that, as requested by the Special Committee, the list of potential strategic acquirors had been prepared after consultation with Darwin's senior management. In identifying the potential acquirors, UBS considered their known or potential interest in a transaction, their ability to complete a transaction of this size in a timely manner and, in the case of strategic acquirors, strategic interests that would be consistent with making a bid for Darwin. Of the initial 21 potential acquirors presented to the Special Committee, four were financial buyers, and the others were insurance companies.

The Special Committee reviewed and discussed the list of potential acquirors, the process for contacting such parties and UBS's further preliminary financial analyses of Darwin, which had been prepared in consultation with Darwin's senior management and were based, in part, on information provided by Darwin's management. After such discussions, the Special Committee instructed UBS to contact each of the potential acquirors identified by UBS.

Beginning on March 31, 2008 and through the month of April, UBS contacted representatives of each of the potential bidders. During this process, two additional parties contacted UBS to express interest in a potential transaction involving Darwin. Eleven potential bidders executed confidentiality agreements with Darwin containing customary confidentiality and standstill provisions.

During the month of April 2008, each of the parties who executed a confidentiality agreement received a process letter along with confidential information regarding Darwin's operations, financial performance and growth strategy. Interested bidders were asked to submit non-binding indications of interest by May 7, 2008.

On May 7, 2008, UBS received initial non-binding indications of interest from three potential acquirors. One of the indications of interest was from Allied World. The other bids were from two other insurance companies (referred to in this Proxy Statement as Bidder A and Bidder B). Allied World's indication of interest valued Darwin's capital stock between \$27.00 and \$30.00 per share and proposed a mixture of cash and stock as consideration for 100% of the shares of capital stock of Darwin. Bidder A's indication of interest valued the outstanding stock of Darwin in the range of \$433.70 million to \$484.70 million, or between \$25.50 and \$28.50 per share, for 100% of Darwin's outstanding capital stock. Bidder B's indication of interest valued Darwin's capital stock at \$32.00 per share for 100% of the outstanding stock (including shares underlying options or other convertible securities) of Darwin. Bidder A and Bidder B both proposed to pay 100% cash consideration. None of the indications of interest contained a financing contingency.

On May 8, 2008, the Special Committee held a telephone meeting to discuss the initial indications of interest. Representatives of Cleary Gottlieb and UBS participated in the meeting. The members of the Special Committee discussed the three proposals including the price and key non-financial terms and conditions. The Special Committee unanimously agreed to request final offers and comments to a draft merger agreement from Allied World and

Bidder B. The Special Committee instructed UBS to inform Bidder A that it would need to raise its offer substantially in order to be permitted to continue in the process.

UBS also communicated with Bidder A that it would need to increase its offer substantially in order to be permitted to continue in the process. Bidder A did not increase its offer or otherwise continue in the process.

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Management presentations to Allied World and Bidder B were given on May 15, 2008 and May 23, 2008, respectively. At the presentations, management provided information regarding Darwin's operations and business plan, recent financial performance and prospects.

On May 28, 2008, UBS provided Allied World and Bidder B with copies of a draft merger agreement and requested that each submit its definitive bid, including a mark-up of the merger agreement, by no later than June 9, 2008.

Prior to June 2, 2008, Darwin's management drafted a proposal concerning compensation payable to Darwin's management and other employees, in the event of a change of control of Darwin, under the incentive compensation plans of Darwin in which such persons participate. On June 2, 2008, prior to entering into negotiations with potential buyers, the Compensation Committee of the Board and the Special Committee held a joint telephone meeting to consider the proposal by Darwin's management. Representatives of Darwin's management attended the meeting in order to present their proposal. Cleary Gottlieb, Dewey & LeBoeuf and Alleghany's internal counsel participated in the meeting. The proposal provided for, among other things, immediate vesting of Darwin's LTIP in the event of a change of control (as provided for pursuant to the existing terms of the LTIP), continued payouts under the plan for profit pool years 2003 through 2008, continuation of Darwin's performance incentive plan for 2008 with certain changes to the administration of the plan and cash payments in lieu of restricted stock and option awards that would be paid in February 2009 pursuant to Darwin's Stock Incentive Plan in the absence of a change in control. After discussion, the Compensation Committee and the Special Committee recommended eliminating the cash payments in lieu of the restricted stock and option awards and requiring that for an employee to receive payments under the performance incentive plan, certain other conditions would need to be satisfied. The joint meeting adjourned. The Special Committee further discussed the proposal and then approved a term sheet, as amended, to reflect the changes discussed in the joint meeting.

On June 9, 2008, UBS received proposals from Allied World and Bidder B. Allied World proposed to acquire 100% of Darwin's equity interests on a fully diluted basis for \$32.00 per share in cash or approximately \$550 million in the aggregate. The proposal, which included a revised draft of the merger agreement, indicated it was subject to completion of due diligence, agreement with certain key employees of Darwin regarding their continued employment by Darwin following the transaction and execution of a voting agreement by Alleghany that would commit Alleghany to vote at least 40% of Darwin's shares of Common Stock in favor of the acquisition. Allied World indicated that its offer would be subject to revision if certain assumptions related to Darwin's retention bonus payments, LTIP accruals, deferred underwriting fees and certain transaction fees were incorrect. In addition, Allied World proposed in its revised draft of the merger agreement that if Darwin's representations and warranties relating to its capitalization were not true and correct in all respects as of the date of the merger agreement and as of the closing of the merger, Allied World would have the option not to close the merger (the "Capitalization Closing Condition"). Bidder B proposed to acquire 100% of Darwin's outstanding stock (including shares underlying options or other convertible securities) for \$31.00 per share in cash or approximately \$532.2 million in the aggregate. The proposal, which included a revised draft of the merger agreement, indicated it was subject to completion of due diligence, agreement with all key members of senior management of Darwin regarding their continued employment by Darwin following the transaction, including that they would invest their after-tax proceeds from the transaction in the common stock of Bidder B, and execution of a voting agreement with Alleghany. Bidder B's revised draft of the merger agreement provided that the unavailability of any of specified key members of management at the closing of the merger to provide services to Darwin would be deemed an event that would permit Bidder B to elect not to complete the transaction.

Following receipt of the proposals on June 9, 2008, the Special Committee held a telephone meeting to review the proposals. Representatives of Cleary Gottlieb and UBS participated in the meeting. After discussion of the proposals, the Special Committee determined that it needed more information from the potential acquirors, including as to their respective conditions related to the ongoing employment of Darwin's management. The Special Committee asked UBS

to seek such information from the potential acquirors and determine whether either bidder was prepared to improve its proposal.

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On June 11, 2008, representatives from Darwin, Allied World and Willkie Farr & Gallagher LLP, legal counsel to Allied World ( Willkie ), participated in a telephone conference call to discuss certain due diligence items regarding Darwin.

On June 12, 2008, UBS arranged (and attended) a meeting between senior members of management from Allied World and Darwin to discuss a potential strategic transaction between the companies and the role of Darwin's senior management following such a transaction. At the meeting, Darwin's chief executive officer informed the Allied World representatives that he did not expect to continue his employment with Darwin following a merger with Allied World.

On June 13, 2008, representatives of Bidder B advised UBS that Bidder B was prepared to increase its proposed merger price to \$32.00 per share in cash. UBS also offered Bidder B an opportunity to meet with Darwin's senior management so as to permit Bidder B to clarify the condition to its proposal related to the ongoing employment of senior management and an opportunity to complete its due diligence. Bidder B declined these opportunities, noting that it would require a period of exclusivity before proceeding further.

On June 13, 2008, the Special Committee held a telephone meeting to discuss the final offers. Representatives of Cleary Gottlieb and UBS participated in the meeting. Representatives of UBS presented the financial terms of the two proposals, which were now equivalent at \$32.00 per share in cash. Allied World proposed a termination fee of 4% of the aggregate offer price and Bidder B proposed a termination fee of 3% of the aggregate offer price. UBS noted that Allied World had completed substantially all of its due diligence, while Bidder B required additional diligence to confirm its proposal. UBS also noted that each of Allied World and Bidder B had requested a period of exclusivity as a condition to proceeding with further discussions. UBS and the Special Committee discussed the likelihood of obtaining an increase in the proposed purchase price from either bidder. UBS noted that Allied World had on several occasions in the preceding days, in response to inquiries from UBS, declined to increase its price.

Representatives of Cleary Gottlieb then reviewed with the Special Committee the non-financial terms of the two proposals, including the material adverse effect definitions, voting agreements, closing conditions, representations and warranties and termination fees. Cleary Gottlieb concluded that Allied World's draft was more favorable to Darwin in substantially all non-financial respects (including the representations and warranties, covenants and conditions) than Bidder B's draft. In addition, Bidder B requested agreements and other terms from Alleghany (including a request that Alleghany make representations and warranties regarding Darwin directly to Bidder B and indemnify Bidder B for certain matters) that the Special Committee was advised would be unacceptable to Alleghany and that Alleghany had no legal obligation to provide.

After discussion of the two proposals, including discussion of the number of terms proposed in Bidder B's draft of the merger agreement that were unfavorable to Darwin and Bidder B's statement that it was not prepared to proceed further with the transaction unless Darwin agreed to deal exclusively with Bidder B and a discussion of whether Darwin could deliver greater value to its shareholders as a standalone company, the Special Committee unanimously determined to instruct UBS to request that Allied World improve its proposal in three respects: (i) increase the price, (ii) reduce the termination fee and (iii) eliminate the material adverse effect trigger related to a reduction in Darwin's A.M. Best or credit ratings. If Allied World improved its proposal in response to items (ii) and (iii) above, the Special Committee also instructed UBS to advise Allied World that Darwin would like to work with Allied World with the goal of negotiating and signing a definitive merger agreement and agreeing on the related arrangements with management (which Allied World required as a condition to entering into a merger agreement). Shortly after completion of the meeting, UBS advised the Chair that Allied World had declined to raise its price, but had agreed to reduce the proposed termination fee from 4% to 3% and to eliminate the ratings trigger in the material adverse effect definition.

In the afternoon of June 13, 2008, representatives of Morris, Nichols, Arsht & Tunnell LLP ( Morris Nichols ), legal counsel to Alleghany, distributed a voting agreement that committed Alleghany to voting 40% of the shares of Common Stock of Darwin in favor of the Allied World transaction and against any competing transaction. Representatives of Goldman, Sachs & Co. ( Goldman Sachs ), financial advisors to Allied World, requested that Darwin enter into exclusive negotiations with Allied World. Cleary Gottlieb advised Willkie that the Special Committee had not authorized execution of an exclusivity agreement with Allied World, but that the Special Committee had not authorized proceeding with any other bidder at that time.

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From June 14, 2008 through the execution of the definitive merger agreement, Allied World and its advisors completed their due diligence review of Darwin, including reviewing drafts of Darwin's disclosure schedules to the draft merger agreement.

On June 14, 2008, the Chair and representatives of Cleary Gottlieb and UBS had a telephone meeting to discuss the status of Allied World's proposed separation arrangements with Darwin's chief executive officer and employment arrangements with the other members of Darwin's senior management. The Chair directed UBS to facilitate discussions among Allied World, Darwin's management and their respective legal representatives.

In the evening of June 14, 2008, Dewey & LeBoeuf distributed a revised draft of the merger agreement which, among other things, modified Allied World's proposed Capitalization Closing Condition so that Allied World would be required to close the merger unless the inaccuracy of the Capitalization Closing Condition was material.

On June 16, 2008, representatives of Cleary Gottlieb, Dewey & LeBoeuf and Willkie discussed the draft merger agreement by telephone.

On June 17, 2008, Willkie circulated a revised draft of the merger agreement. Later that day, representatives of Cleary Gottlieb, Dewey & LeBoeuf and Willkie held a telephone meeting to discuss the outstanding issues in the merger agreement, including the dollar amount above which the Capitalization Closing Condition needed to be inaccurate in order for Allied World not to close the merger.

From June 17, 2008 through June 27, 2008, members of Darwin's senior management and representatives of Allied World and UBS engaged in discussions regarding the post-merger employment and/or separation arrangements for such members of Darwin's senior management.

On June 18, 2008, representatives of Cleary Gottlieb, Goldman Sachs, UBS and Willkie held a telephone meeting to discuss the status of discussions among Allied World and members of Darwin's senior management with respect to proposed post-merger employment and separation arrangements.

Later on June 18, 2008, the Special Committee held a telephone meeting to discuss the status of the possible transaction with Allied World. Representatives of Cleary Gottlieb and UBS participated in the meeting. The Special Committee authorized the Chair to seek to facilitate the discussions among Darwin's management and Allied World. On June 19, 2008, the Chair discussed with the chief executive officer of Allied World the status of the transaction, including the negotiations with members of Darwin's senior management.

On June 21, 2008, representatives of Goldman Sachs and Willkie advised representatives of UBS and Cleary Gottlieb that Allied World wanted to resolve two issues before proceeding with the transaction: (i) reaching satisfactory post-merger employment arrangements with nine senior managers of Darwin (not including Darwin's chief executive officer) and (ii) reaching a satisfactory separation arrangement with Darwin's chief executive officer, including an extension of his existing post-employment restrictive covenants, contained in his current employment agreement, from one year to two years and an expansion of the scope of the restrictive covenants contained in that agreement. The Allied World representatives also communicated Allied World's position that any incremental amounts that would need to be paid to the chief executive officer to induce him to agree to such proposed separation arrangements, including the expansion and extension of his post-employment covenants from one year to two years, would result in a reduction by Allied World of the proposed merger consideration unless such amounts were borne by a third party such as Alleghany.

Later on June 21, 2008, representatives of Morris Nichols circulated a revised draft of the voting agreement to Allied World and its advisors.

On June 22, 2008, the Special Committee held a telephone meeting to discuss the status of the possible transaction with Allied World, including the status of discussions between Allied World and Darwin's senior management. Following a discussion of the employment and separation issues, representatives of Cleary Gottlieb reviewed the fiduciary duties of the directors in connection with their consideration of a possible transaction with Allied World as well as the basic terms and principal outstanding issues related to the merger agreement and the voting agreement. After discussion, the Special Committee unanimously concluded to continue the discussions with Allied World.



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Later that same day, at the direction of the Chair, a representative of UBS spoke with Alleghany's chief executive officer to ask that Alleghany consider bearing the cost of any additional payment to Darwin's chief executive officer in consideration of his agreement to expand and extend his post-employment restrictive covenants from one year to two years.

On June 23, 2008, representatives of Cleary Gottlieb, Dewey & LeBoeuf and Willkie held a conference call to continue negotiation of the merger agreement. Also, on June 23, 2008, the Chair held separate discussions with Darwin's chief executive officer and Alleghany's chief executive officer concerning separation arrangements for Darwin's chief executive officer and Allied World's position that any additional payment to be made to Darwin's chief executive officer in consideration of his agreement to expand and extend his post-employment restrictive covenants from one year to two years be paid by a third party such as Alleghany or else Allied World would reduce the proposed merger consideration amount.

On June 24, 2008, the Special Committee held a telephone meeting to discuss the status of the possible transaction with Allied World. Representatives of Cleary Gottlieb and UBS attended the meeting. The Special Committee discussed the status of negotiations regarding the merger agreement and voting agreement and the status of negotiations with Darwin's senior management. Representatives of Cleary Gottlieb informed the Special Committee that progress had been made with respect to employment agreements with certain of Darwin's senior managers but the separation arrangements with Darwin's chief executive officer were still under discussion.

Following additional separate discussions among Alleghany's chief executive officer, the Chair and Darwin's chief executive officer, on June 24 and 25, Alleghany agreed to pay \$973,413 of the incremental amounts to be paid to Darwin's chief executive officer to induce him to accept Allied World's proposal for expansion and extension of his post-employment restrictive covenants from one year to two years (such amount being the estimated amount of his projected base salary and cash bonus compensation for the additional year).

On June 25, 2008, the Special Committee held a telephone meeting to review the terms for the proposed transaction as negotiated to that date. Representatives of Cleary Gottlieb reviewed the principal terms of the proposed merger agreement with Allied World and responded to questions from the Special Committee regarding various terms. Representatives of UBS then reviewed with the Special Committee UBS's financial analysis of the consideration to be received by Darwin's shareholders in the proposed merger.

Later in the afternoon of June 25, 2008 and during the course of the day on June 26, 2008, Cleary Gottlieb, Dewey & LeBoeuf, Morris Nichols and Willkie continued negotiating the terms of the merger agreement and the voting agreement. Because the parties were unable to agree on a threshold amount regarding the Capitalization Closing Condition, the parties instead agreed that the per share purchase price would be subject to a potential downward adjustment in the event that certain of Darwin's capitalization representations and warranties prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the merger would be increased by more than \$1,000,000.

On June 27, 2008, Cleary Gottlieb, Dewey & LeBoeuf, Morris Nichols and Willkie concluded negotiations on the merger agreement and the voting agreement. Also, the employment arrangements with Darwin's senior management and the separation arrangements with Darwin's chief executive officer were concluded.

On that same date, the Special Committee held a meeting to receive a final update on the merger agreement, the voting agreement and the employment and separation arrangements between Allied World and Darwin's senior management. Representatives of Cleary Gottlieb reviewed with the Special Committee the fiduciary duties of the directors in connection with their consideration of the proposed transaction with Allied World, reviewed the status of discussions with respect to the merger and voting agreements and the employment and separation arrangements and

noted that such discussions were very close to completion. Representatives of UBS confirmed that their financial analysis had not changed materially since the analysis presented to the Special Committee on June 25, 2008. UBS then delivered to the Special Committee an oral opinion, subsequently confirmed in writing, to the effect that, as of such date and based on and subject to various assumptions, matters considered and limitations described in its opinion, the \$32.00 per share cash consideration to be received by the holders of shares of Common Stock (other than Alleghany, AIHL and their respective affiliates) in the proposed merger was fair, from a financial point of view, to such holders.

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After deliberation and based upon the totality of the information considered during its evaluation of the merger and the merger agreement, the Special Committee unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable and fair to, and in the best interests of, Darwin and its stockholders. In addition, the Special Committee resolved to recommend that the full board of directors approve and declare advisable the merger agreement and the transactions contemplated thereby, including the merger.

In the afternoon of June 27, 2008, the full Board (other than Mr. Phillip Ben-Zvi) held a meeting to consider the potential transaction with Allied World. Representatives of Cleary Gottlieb, Dewey & LeBoeuf, UBS and Morris Nichols participated in the meeting. Representatives of Dewey & LeBoeuf reviewed with the members of the Board their fiduciary duties in connection with their consideration of the potential transaction with Allied World. Representatives of Cleary Gottlieb and Dewey & LeBoeuf reviewed the principal terms of the proposed merger agreement with Allied World. Representatives of UBS presented UBS' analysis of the consideration to be received by Darwin's stockholders in the proposed merger from a financial point of view and delivered to the Board an oral opinion, subsequently confirmed in writing, to the effect that, as of such date and based on and subject to various assumptions, matters considered and limitations described in its opinion, the \$32.00 per share cash consideration to be received by the holders of shares of Common Stock (other than Alleghany, AIHL, and their respective affiliates) in the proposed merger was fair, from a financial point of view, to such holders. Darwin's chief executive officer described his arrangement to separate from Darwin and the expansion of his non-compete covenant. Following a discussion regarding the recommendation of the Special Committee and the proposed resolutions, the Board approved the merger agreement and the transactions contemplated by the merger agreement, including the merger, and resolved to recommend that the stockholders of Darwin vote to adopt the merger agreement and approve the merger.

The merger agreement and voting agreement were entered into on June 27, 2008 and the transaction was publicly announced on June 30, 2008.

## **Reasons for the Merger; Recommendation of the Special Committee and Our Board**

### ***Special Committee***

The Special Committee unanimously (i) determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable and fair to, and in the best interests of, Darwin and its stockholders and (ii) resolved to recommend to the Board that it approve and declare advisable the Merger Agreement and the transactions contemplated thereby, including the Merger.

In the course of reaching its determination, the Special Committee considered the following substantive factors and potential benefits of the Merger, each of which the Special Committee believed supported its decisions:

its belief that the Merger was more favorable to the stockholders than the potential value that might result from other alternatives available to Darwin, including remaining an independent company and pursuing the current business plan, given the potential rewards, risks and uncertainties associated with those alternatives. Such risks and uncertainties included those relating to Darwin's ability to achieve its business plan and projected future financial performance, the increasingly competitive nature of the specialty property-casualty insurance industry and Darwin's relatively small size in comparison with a number of its competitors;

the fact that the cash merger consideration of \$32.00 per share of Common Stock allows Darwin's stockholders to realize in the near term a fair value, in cash, for their investment and provides such stockholders certainty of value for their shares;

the current and historical market prices of the Common Stock relative to those of other industry participants and general market indices, and the fact that the cash merger consideration of \$32.00 per share of Common Stock represents a premium of approximately 30.4% over the 90-day average trading price of the Common Stock on the NYSE prior the announcement of the Merger;

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its analysis and understanding of the business, operations, financial performance, financial condition, earnings and future prospects for Darwin on a stand-alone basis;

the fact that the Special Committee consists solely of directors who are not officers, employees or controlling stockholders of Darwin, are not otherwise affiliated with Alleghany or Allied World and are all independent of Darwin management;

the fact that the Special Committee and its independent financial and legal advisors negotiated on an arm's-length basis with Allied World and its representatives;

the financial and other terms and conditions of the Merger Agreement, including the absence of a financing condition;

the fact that the terms of the Merger Agreement allow Darwin, prior to the adoption of the Merger Agreement by our stockholders, to respond to unsolicited acquisition proposals under certain circumstances;

the fact that, subject to compliance with the terms and conditions of the Merger Agreement, Darwin is permitted to terminate the Merger Agreement in order to approve an alternative transaction proposal by a third party that is a company superior proposal as defined in the Merger Agreement, upon the payment to Allied World of a \$16.5 million termination fee;

the availability of appraisal rights to holders of shares of Common Stock who comply with all of the required procedures under Delaware law, which allows such holders to seek appraisal of the fair value of their shares of Common Stock as determined by the Delaware Court of Chancery;

the terms of the voting agreement between Alleghany and Allied World, including the fact that the voting agreement would terminate if the Merger Agreement terminates or if the Board withdraws its approval of the Merger Agreement or the Merger; and

the financial presentations of UBS and its opinion as described above.

The Special Committee also considered a variety of risks and other potentially negative factors concerning the Merger and the Merger Agreement including the following:

the risks and costs to Darwin if the Merger does not close, including the diversion of management and employee attention, potential employee attrition and the effect on business and customer relationships;

the potential downward price adjustment of the per share purchase price to be paid by Allied World in the event that certain representations by Darwin in the Merger Agreement with respect to its capitalization prove to be inaccurate and, as a result of such inaccuracy, the aggregate consideration payable by Allied World in the Merger would be increased by more than \$1,000,000;

the fact that Darwin's stockholders whose shares of Common Stock are acquired for cash in the Merger will not participate in any future earnings or growth of Darwin and will not benefit from any appreciation in the value of Darwin;

the fact that certain of Darwin's officers and directors have interests in the Merger, described in the section Merger Interests of Darwin's Directors and Executive Officers in the Merger beginning on page 33, that may be

different from the interests of Darwin's stockholders;

the amount of time it could take to complete the Merger, including the fact that consummation of the Merger is subject to governmental and regulatory approvals and that there can be no assurance that such approvals will be received prior to the outside date, or at all;

the fact that an all-cash transaction would be taxable to Darwin's stockholders that are U.S. persons for U.S. federal income tax purposes; and

the fact that a termination fee is payable to Allied World under specified circumstances, including in the event the Board decides to terminate the Merger Agreement to accept a company superior proposal.

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This discussion summarizes the material factors considered by the Special Committee in its consideration of the Merger. After considering these factors, the Special Committee concluded that the positive factors relating to the Merger Agreement and the Merger outweighed the potential negative factors. In view of the wide variety of factors considered by the Special Committee, and the complexity of these matters, the Special Committee did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of the Special Committee may have assigned different weights to various factors. The Special Committee unanimously resolved that the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, are advisable and fair to, and in the best interests of the Company and its stockholders based upon the totality of the information presented to and considered by it.

### ***Our Board***

The Board, acting upon the unanimous recommendation of the Special Committee, has (i) determined that the Merger Agreement and the transactions contemplated thereby, including the Merger, are advisable and fair to, and in the best interests of, Darwin and its stockholders, (ii) approved and declared advisable the Merger Agreement and the transactions contemplated thereby, including the Merger, (iii) resolved to recommend that Darwin's stockholders adopt the Merger Agreement and (iv) directed that the Merger Agreement be submitted to Darwin's stockholders for their adoption.

In reaching these determinations, the Board considered (i) a variety of business, financial and market factors, (ii) each of the factors considered by the Special Committee in its unanimous recommendation, as described above, (iii) the financial presentation of UBS, including the opinion of UBS as to the fairness, from a financial point of view, to the holders of shares of Common Stock (other than Alleghany, AIHL or any of their respective affiliates) of the cash merger consideration and (iv) the unanimous recommendation of the Special Committee.

The foregoing discussion summarizes the material factors considered by the Board in its consideration of the Merger. In view of the wide variety of factors considered by the Board, and the complexity of these matters, the Board did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of the Board may have assigned different weights to various factors. The Board approved and recommends the Merger Agreement and the Merger based upon the totality of the information presented to and considered by it.

**Our Board recommends that you vote FOR the adoption of the Merger Agreement and FOR the adjournment of the special meeting, if Darwin deems such adjournment to be necessary or appropriate, to solicit additional proxies.**

### **Opinion of Financial Advisor**

On June 27, 2008, at meetings of the Special Committee and the Board held to evaluate the proposed merger, UBS delivered to each of the Special Committee and the Board an oral opinion, which opinion was confirmed by delivery of a written opinion dated June 27, 2008, addressed to each of the Special Committee and the Board, to the effect that, as of that date and based upon and subject to various assumptions, matters considered and limitations described in its opinion, the merger consideration of \$32.00 per share in cash to be received in the Merger by the holders of Common Stock (other than Alleghany, its subsidiary AIHL or any of their respective affiliates) was fair, from a financial point of view, to such holders.

The full text of UBS' opinion describes assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS. This opinion is attached as Annex B and is incorporated into this proxy statement by reference. **UBS' opinion was provided for the benefit of the Special Committee and the Board in connection with,**

**and for the purpose of, their evaluation of the merger consideration of \$32.00 per share in cash from a financial point of view and does not address any other aspect of the Merger. The opinion does not address the relative merits of the Merger as compared to other business strategies or transactions that might be available with respect to Darwin or Darwin's underlying business decision to effect the Merger. The opinion does not constitute a recommendation to any stockholder as to how to vote or act with respect to the Merger. Holders of shares of Common Stock are encouraged to read UBS' opinion carefully in its**



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**entirety.** The following summary of UBS' opinion is qualified in its entirety by reference to the full text of UBS' opinion.

In arriving at its opinion, UBS, among other things:

reviewed certain publicly available business and financial information relating to Darwin;

reviewed certain internal financial information and other data relating to the business and financial prospects of Darwin that were provided to UBS by Darwin's management and not publicly available, including financial forecasts and estimates prepared by Darwin's management that the Special Committee and the Board directed UBS to utilize for purposes of its analysis;

conducted discussions with members of Darwin's senior management concerning the business and financial prospects of Darwin;

reviewed publicly available financial and stock market data with respect to certain other companies UBS believed to be generally relevant;

compared the financial terms of the Merger with the publicly available financial terms of certain other transactions UBS believed to be generally relevant;

reviewed current and historical market prices of the Common Stock;

reviewed a draft dated June 26, 2008 of the merger agreement; and

conducted such other financial studies, analyses and investigations, and considered such other information, as UBS deemed necessary or appropriate.

In connection with its review, with the consent of the Special Committee and the Board, UBS assumed and relied upon, without independent verification, the accuracy and completeness in all material respects of the information provided to or reviewed by UBS for the purpose of its opinion. In addition, with the consent of the Special Committee and the Board, UBS did not make any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of Darwin, and was not furnished with any such evaluation or appraisal. With respect to the financial forecasts and estimates referred to above, UBS assumed, at the direction of the Special Committee and the Board, that such forecasts and estimates had been reasonably prepared on a basis reflecting the best currently available estimates and judgments of Darwin's management as to the future financial performance of Darwin. UBS' opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information available to UBS as of, the date of its opinion.

At the request of the Special Committee and the Board, UBS contacted third parties to solicit indications of interest in a possible transaction with Darwin and held discussions with certain of these parties prior to the date of UBS' opinion. At the direction of the Special Committee and the Board, UBS was not asked to, nor did it, offer any opinion as to the terms, other than the merger consideration of \$32.00 per share in cash to the extent expressly specified in UBS' opinion, of the Merger Agreement or any related documents or the form of the Merger. In addition, UBS expressed no opinion as to the fairness of the amount or nature of any compensation to be received by any officers, directors or employees of any parties to the Merger, or any class of such persons, relative to the merger consideration of \$32.00 per share in cash. In rendering its opinion, UBS assumed, with the consent of the Special Committee and the Board, that (i) the final executed form of the merger agreement would not differ in any material respect from the draft that UBS reviewed, (ii) Allied World and Darwin would comply with all material terms of the Merger Agreement and

(iii) the Merger would be consummated in accordance with the terms of the Merger Agreement without any adverse waiver or amendment of any material term or condition thereof. Except as described above, the Special Committee and the Board imposed no other instructions or limitations on UBS with respect to the investigations made or the procedures followed by UBS in rendering its opinion. The issuance of UBS' opinion was approved by an authorized committee of UBS.

In connection with rendering its opinion to the Special Committee and the Board, UBS performed a variety of financial and comparative analyses which are summarized below. The following summary is not a complete description of all analyses performed and factors considered by UBS in connection with its opinion. The preparation of a financial opinion is a complex process involving subjective judgments and is not necessarily susceptible to

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partial analysis or summary description. With respect to the selected public company analysis and selected precedent transactions analysis summarized below, no company or transaction used as a comparison was identical to Darwin or the Merger. These analyses necessarily involved complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or acquisition values of the companies concerned.

UBS believes that its analysis and the summary below must be considered as a whole and that selecting portions of its analysis and factors or focusing on information presented in tabular format, without considering all analyses and factors or the full narrative description of the analyses, could create a misleading or incomplete view of the processes underlying UBS' analyses and opinion. UBS did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion, but rather arrived at its ultimate opinion based on results of all analyses undertaken by it and assessed as a whole.

The estimates of the future performance of Darwin provided by Darwin's management in or underlying UBS' analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its analyses, UBS considered industry performance, general business and economic conditions and other matters, many of which were beyond the control of Darwin. Estimates of the financial value of companies do not purport to be appraisals or necessarily reflect the prices at which companies may actually be sold.

The merger consideration was determined through negotiation between Darwin and Allied World, and the decisions by the Special Committee to recommend the Merger and the Merger Agreement, and by the Board to enter into the Merger Agreement, were solely that of the Special Committee and the Board, respectively. UBS' opinion and financial analyses were only one of many factors considered by the Special Committee and the Board in their evaluation of the Merger and should not be viewed as determinative of the views of the Special Committee or the Board with respect to the Merger or the merger consideration.

The following is a brief summary of the material financial analyses performed by UBS and reviewed with the Special Committee and the Board on June 27, 2008 in connection with UBS' opinion relating to the proposed merger. **The financial analyses summarized below include information presented in tabular format. In order to fully understand UBS' financial analyses, 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. Considering the data 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 UBS' financial analyses.** Financial data of Darwin were based on Darwin's public filings, Institutional Brokers' Estimate System (IBES) estimates for Darwin and certain financial forecasts and estimates prepared by Darwin's management that the Special Committee and the Board directed UBS to utilize for purposes of its analyses.

### *Selected Public Company Analysis*

UBS compared selected financial information, ratios and public market data for Darwin to the corresponding data for the publicly traded companies identified below in the property and casualty insurance industry that were selected by UBS.

Although none of these companies is directly comparable to Darwin, these companies were selected, among other reasons, because their equity is publicly traded in the United States and they are in the property and casualty insurance industry:

American Physicians Capital, Inc.

FPIC Insurance Group, Inc.

First Mercury Financial Corporation

ProAssurance Corporation

RLI Corp.

Tower Group, Inc.

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For each of the companies selected by UBS, UBS reviewed, among other things:

closing market price per share of common stock, as of June 26, 2008, as a multiple of book value of common equity per share, as of the most recently completed fiscal quarter for which information was publicly available;

closing market price per share of common stock, as of June 26, 2008, as a multiple of estimated earnings per share of common stock ( EPS ) for each of fiscal years 2008 and 2009; and

estimated net income as a percentage of estimated average stockholders common equity for each of fiscal years 2008 and 2009.

UBS then compared these multiples and percentages derived for the selected companies with corresponding multiples and percentages implied for Darwin based on the closing price of the Common Stock on June 26, 2008 and the merger consideration of \$32.00 per share in cash in the Merger. Financial data for the selected companies were based on public filings and estimated financial data for the selected companies were based on IBES consensus estimates.

The results of these analyses are summarized in the following table:

Selected Companies	Closing Price per Share on June 26, 2008 / Book Value of Common Equity per Share as of Most Recently Completed Fiscal Quarter	Closing Price per Share on June 26, 2008 /		Estimated Net Income as a Percentage of Estimated Average Stockholders Common Equity	
		Estimated EPS 2008	2009	2008	2009
High	1.85x	12.5x	12.4x	20.3%	19.2%
Mean	1.51	9.8	9.7	15.0	13.9
Median	1.43	10.2	10.3	14.6	13.0
Low	1.25	7.4	6.9	11.3	10.2
<b>Darwin at Closing Price per share of Common Stock on June 26, 2008</b>					
IBES Consensus Estimates	1.80	11.2	12.1	13.8	12.0
Management Estimates	1.80	12.1	11.1	14.6	13.8
<b>Darwin at \$32.00 per share of Common Stock Merger Consideration</b>					

IBES Consensus Estimates	2.04	12.5	13.6	13.8	12.0
Management Estimates	2.04	13.7	12.7	14.6	13.8

***Selected Precedent Transactions Analysis***

UBS reviewed the transaction value, calculated as the purchase price paid for the target company's common equity, for each of the nine selected transactions set forth below involving target entities in the property and casualty insurance industry.

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<b>Date Announced</b>	<b>Acquiror</b>	<b>Target</b>
February 20, 2008	Meadowbrook Insurance Group, Inc.	ProCentury Corporation
January 10, 2008	Employers Holdings, Inc.	AmCOMP Incorporated
October 15, 2007	The Doctors Company	SCPIE Holdings Inc.
October 15, 2007	Munich Re Group	The Midland Company
June 11, 2007	D.E. Shaw & Company, LLC	James River Group, Inc.
March 2, 2007	Zurich Financial Services Group	Bristol West Holdings, Inc.
December 13, 2006	QBE Insurance Group, Ltd.	Praetorian Financial Group Inc.
December 5, 2006	Elara Holdings Inc.	Direct General Corp.
August 4, 2006	Delek Group Ltd.	Republic Companies Group, Inc.

For each selected transaction, UBS calculated and compared:

transaction value as a multiple of estimated earnings for the four fiscal quarters commencing with the first fiscal quarter for which results were not yet publicly available as of the announcement of the transaction ( NTM ); and

transaction value as a multiple of book value of common equity, as of the most recently completed fiscal quarter for which information was publicly available.

UBS then compared these multiples derived from the selected transactions to the multiple implied for Darwin based on the merger consideration of \$32.00 per share in cash in the Merger, Darwin's estimated NTM earnings and Darwin's book value of net assets as of March 31, 2008. Financial data for the selected transactions were based on publicly available information and various research reports, and estimated financial data for the selected transactions were based on various research reports and IBES consensus estimates at the time of announcement of the relevant transaction.

The following table summarizes the results of these analyses:

	<b>Transaction Value / NTM Earnings</b>	<b>Transaction Value / Book Value of Common Equity</b>
<b>Selected Precedent Property and Casualty Insurance Industry Transactions</b>		
High	16.7x	2.34x
Mean	13.4	1.76
Median	13.5	1.74
Low	10.4	1.23
<b>Darwin at \$32.00 per share of Common Stock Merger Consideration</b>		
IBES Consensus Estimates	13.1	2.04
Management Estimates	13.2	2.04

*Discounted Cash Flow Analysis*

UBS performed a discounted cash flow analysis of Darwin using certain financial forecasts and estimates prepared by Darwin's management for fiscal years 2008 through 2012 that the Special Committee and the Board directed UBS to utilize for purposes of its analysis. UBS calculated a range of implied present values as of June 30, 2008 of the stand-alone distributable cash flows that Darwin was forecasted to generate from July 1, 2008 through December 31, 2012 using discount rates ranging from 11.0% to 13.0%. UBS also calculated estimated terminal values for Darwin as of December 31, 2012, using price-to-book terminal multiples ranging from 1.60 to 1.90 times estimated stockholders common equity as of December 31, 2012. The estimated terminal values were then discounted to present value as of June 30, 2008 using discount rates ranging from 11.0% to 13.0%. The discounted



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cash flow analysis resulted in an implied equity reference range per share of Common Stock of approximately \$26 to \$32.

***Miscellaneous***

Under the terms of UBS' engagement, Darwin has agreed to pay UBS for its financial advisory services in connection with the Merger an aggregate fee currently estimated to be approximately \$5.0 million, approximately \$1.2 million of which was payable in connection with UBS' opinion and approximately \$3.8 million of which is contingent upon consummation of the Merger. In addition, Darwin has agreed to reimburse UBS for its reasonable expenses, including fees, disbursements and other charges of its counsel, and to indemnify UBS and related parties against liabilities, including liabilities under federal securities laws, relating to, or arising out of, its engagement.

Other than UBS' financial advisory services to Darwin in connection with the Merger, no material relationship existed during the two years prior to June 27, 2008, or was contemplated, between UBS, on the one hand, and any of Darwin, Allied World or Alleghany, on the other hand, in which any compensation was received or was intended to be received as a result of such relationship. In the ordinary course of business, UBS and its affiliates may hold or trade, for their own accounts and the accounts of their customers, securities of Darwin, Allied World and Alleghany and, accordingly, may at any time hold a long or short position in such securities.

Darwin selected UBS as its financial advisor in connection with the Merger because UBS is an internationally recognized investment banking firm with substantial experience in similar transactions and because of UBS' familiarity with Darwin and its businesses. UBS is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities and private placements.

**Projected Financial Data**

Darwin does not, as a matter of course, publicly disclose forecasts of future revenues, earnings, financial condition or other results. However, in connection with the discussions concerning the proposed merger described in "The Merger Background of the Merger" beginning on page 19, Darwin provided Allied World with financial forecasts of our operating performance for the fiscal years 2008 through 2012 prepared by Darwin's management, which we refer to as the "Projections." The Projections were also provided to our financial advisor, UBS, and were utilized by UBS, at the direction of the Special Committee and the Board, for purposes of its analyses in connection with its opinion.

The Projections were not prepared with a view to public disclosure and are included in this proxy statement because such information was made available, in whole or in part, to Allied World, in connection with its due diligence review of Darwin. The Projections were not prepared with a view to compliance with published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. Furthermore, our auditor has not examined, compiled or otherwise applied procedures to the Projections and, accordingly, assumes no responsibility for, and expresses no opinion on them.

The Projections provided are summarized as follows:

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Net Premiums Written (\$000s)	245,728	294,873	339,104	389,970	428,967
Net Income (\$000s)	40,015	43,486	52,278	61,403	69,163

The material assumptions made by Darwin in developing these Projections are as follows:

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Net Premiums Written Growth(1)	23.0%	20.0%	15.0%	15.0%	10.0%
Loss Ratio	54.7%	62.5%	62.5%	62.5%	62.5%
Expense Ratio	28.0%	27.1%	28.0%	29.0%	29.5%

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

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The development of the Projections entailed numerous assumptions, including assumptions regarding Darwin's industry, products and services, Darwin's ability to execute on its strategic growth plan and general business, economic, regulatory, market and financial conditions. Although the Projections are presented with numerical specificity, the Projections reflect numerous assumptions and estimates as to future events made by Darwin's management that Darwin's management believed were reasonable at the time the Projections were prepared. These Projections were initially created at the end of the third quarter of 2007 and were updated only to record actual results through the end of the first quarter of 2008. They do not take into account any circumstances or events occurring after the date that they were prepared, such as, among other things, increased pricing competition, changes in overall business strategy and employee turnover, and, accordingly, do not give effect to the Merger or any changes to our operations or strategy that may be implemented after completion of the Merger. For the foregoing reasons, the inclusion of the Projections in this proxy statement should not be regarded as an indication that Darwin, the Board, the Special Committee, Allied World, MergerCo, UBS or any other recipient of this information considered, or now considers, the Projections to be necessarily predictive of actual future events or conditions, and they should not be relied on as such. You should review our most recent SEC filings for a description of risk factors with respect to our business. See *Where You Can Find More Information* beginning on page 61.

No representation is made by Darwin or any other person to any Darwin stockholder regarding any information included in these Projections. Except to the extent required by applicable federal securities laws, we do not intend, and expressly disclaim any responsibility, to update or otherwise revise the Projections to reflect circumstances existing after the date when prepared or to reflect the occurrence of future events even in the event that any of the assumptions underlying the Projections are shown to be in error.

## **Financing of the Merger**

The Merger is not conditioned upon Allied World or MergerCo obtaining financing. Allied World and MergerCo estimate that the total amount of cash funds necessary to consummate the Merger and related transactions will be approximately \$550 million. Allied World has informed us that it expects that its cash on hand will be sufficient to complete the acquisition.

## **Interests of Darwin's Directors and Executive Officers in the Merger**

In considering the recommendations of the Board that you vote to adopt the Merger Agreement, Darwin's stockholders should be aware that certain of Darwin's directors and executive officers have interests in the Merger that are different from, or in addition to, the interests of Darwin's stockholders generally. These interests may present such directors and executive officers with actual or potential conflicts of interest, and these interests, to the extent material, are described below. The Special Committee and the Board were aware of these potential conflicts of interest and considered them, among other matters, in reaching their decisions to approve the Merger Agreement and the Merger and the recommendations that our stockholders vote in favor of adopting the Merger Agreement.

## ***Treatment of Stock Options***

Immediately prior to the effective time of the Merger, each Stock Option that is then outstanding, whether vested or unvested, will become fully vested and exercisable. At the effective time of the Merger, each unexercised Stock Option will be cancelled and converted into the right to receive a cash payment equal to the excess of the merger consideration of \$32.00 per share in cash over the exercise price of such Stock Option, without interest and less any applicable withholding taxes, multiplied by the number of shares of Common Stock underlying the Stock Option, subject to the potential downward purchase price adjustment.

The following table identifies, for each of our directors and executive officers, the aggregate number of shares of Common Stock subject to his outstanding vested and unvested Stock Options as of September 15, 2008, the aggregate number of shares of Common Stock subject to his outstanding unvested Stock Options that will become fully vested in connection with the Merger, the weighted average exercise price and the value of such unvested Stock Options, and the weighted average exercise price and value of his collective vested and unvested Stock Options. The information in the table assumes that all Stock Options included therein remain outstanding on the closing date of the Merger.

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<b>Name</b>	<b>Aggregate Shares of Common Stock Subject to Options</b>	<b>Number of Shares of Common Stock Underlying Unvested Stock Options</b>	<b>Weighted Average Exercise Price of Unvested Stock Options</b>	<b>Value of Unvested Stock Options(1)</b>	<b>Weighted Average Exercise Price of Vested and Unvested Stock Options</b>	<b>Value of Vested and Unvested Stock Options(2)</b>
<b>Directors</b>						
R. Bruce Albro	0					
Phillip N. Ben-Zvi	0					
Christopher K. Dalrymple	0					
Weston M. Hicks	0					
William C. Popik, M.D.	0					
George M. Reider, Jr.	0					
John L. Sennott, Jr.(3)	31,381	22,528	\$ 21.02	\$ 247,464	\$ 20.07	\$ 374,471
Stephen J. Sills(4)	95,487	63,003	\$ 20.02	\$ 754,763	\$ 19.00	\$ 1,241,120
James P. Slattery(5)	0					
Irving B. Yoskowitz	0					
<b>Executive Officers</b>						
Robert Asensio						