Darwin Professional Underwriters Inc
Form 10-Q
August 10, 2006

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended **June 30, 2006**
Commission file number: **001-32883**

Darwin Professional Underwriters, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**03-0510450**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 Farm Springs Road
Farmington, Connecticut 06032
(Address of principal executive offices) (Zip Code)
(860) 284-1300
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer	o	Accelerated filer	o	Non-accelerated filer	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
The number of shares of the Registrant s Common Stock, par value $0.01 per share, outstanding at August 7, 2006 was 17,042,496 shares.

Darwin Professional Underwriters, Inc.
Quarterly Report on Form 10-Q
For Quarterly Period Ended June 30, 2006
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Part I. Financial Information

Item 1. Financial Statements

DARWIN PROFESSIONAL UNDERWRITERS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
June 30, 2006 and December 31, 2005
(Dollars in thousands, except per share amounts)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS:		
Available for sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2006, $260,278; 2005, $120,832)	$ 255,877	$ 120,770
Short-term investments, at cost which approximates fair value	81,940	184,088
Total investments	337,817	304,858
Cash	22,407	10,255
Premiums receivable (net of allowance for doubtful accounts of $50 as of June 30, 2006 and December 31, 2005)	23,932	22,090
Reinsurance recoverable on paid and unpaid losses	72,125	51,260
Ceded unearned reinsurance premiums	41,957	33,853
Deferred insurance acquisition costs	9,663	7,603
Property and equipment at cost, less accumulated depreciation of $878 and $599, respectively	1,940	1,880
Intangible assets	7,306	7,092
Net deferred income tax asset	9,471	6,278
Current income taxes receivable		283
Other assets	3,263	1,539
Total assets	$ 529,881	$ 446,991
LIABILITIES AND STOCKHOLDERS EQUITY:		
Loss and loss adjustment expense reserves	$ 195,914	$ 138,089
Unearned premium reserves	110,340	88,280
Reinsurance payable	13,305	10,628
Due to brokers for unsettled trades		2,216
Current income taxes payable	769	
Accrued expenses and other liabilities	6,413	8,255
Total liabilities	326,741	247,468
Series A Preferred Stock; $0.10 par value; (Redeemable at $20.00 per share); authorized 500,000 shares; issued and outstanding 0 shares at June 30, 2006 and 105,300 shares at December 31, 2005. Aggregate liquidation preference of $0 at June 30, 2006 and $2,106 at December 31, 2005		2,106
Stockholders equity:		
Common stock; $0.01 par value; authorized 50,000,000 shares; issued and outstanding 17,042,596 shares at June 30, 2006 and 8,105,625 shares at	170	81

December 31, 2005		
Additional paid-in capital	201,997	195,950
Retained earnings	3,748	1,425
Accumulated other comprehensive income (loss)	(2,775)	(39)
Total stockholders equity	203,140	197,417
Total liabilities and stockholders equity	$ 529,881	$ 446,991

See accompanying notes to Condensed Consolidated Financial Statements.

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DARWIN PROFESSIONAL UNDERWRITERS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
Three and Six Months Ended June 30, 2006 and 2005
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues:				
Net premiums earned	$ 31,954	$ 19,945	$ 59,258	$ 38,689
Net investment income	3,763	931	7,123	1,563
Net realized investment gains (losses)	(3)		(13)	(60)
Total revenues	35,714	20,876	66,368	40,192
Costs and expenses:				
Losses and loss adjustment expenses	21,767	13,733	41,031	26,845
Commissions and brokerage expenses.	3,356	2,283	5,988	4,374
Other underwriting, acquisition and operating expenses	5,633	3,599	10,112	6,631
Other expenses	119	297	278	654
Total costs and expenses	30,875	19,912	57,409	38,504
Earnings before income taxes	4,839	964	8,959	1,688
Income tax expense	1,462	326	2,794	626
Net earnings	$ 3,377	$ 638	$ 6,165	$ 1,062
Basic earnings per share				
Net earnings per share	$ 0.13	$ 0.10	$ 1.04	$ 0.16
Weighted average shares outstanding	7,094,352	6,600,000	3,547,176	6,600,000
Diluted earnings per share:				
Net earnings per share	$ 0.10	$ 0.08	$ 0.37	$ 0.13
Weighted average shares outstanding	8,719,928	8,119,224	16,535,853	8,133,049

See accompanying notes to Condensed Consolidated Financial Statements.

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DARWIN PROFESSIONAL UNDERWRITERS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
For The Six Months Ended June 30, 2006 and 2005
(Unaudited)
(Dollars in thousands)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash flows provided by (used for) operating activities:		
Net earnings	$ 6,165	$ 1,062
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities:		
Deferred insurance acquisition costs	(7,216)	(5,131)
Amortization of insurance acquisition costs	5,156	5,672
Deferred income taxes	(1,590)	(1,412)
Depreciation	279	180
Net realized investment (gains) losses	13	60
Amortization of investment discounts and premiums	(2,158)	(260)
Stock-based compensation expense	187	
Change in:		
Premiums receivable	(1,842)	(1,665)
Reinsurance recoverable on paid and unpaid losses	(20,865)	(20,000)
Ceded unearned reinsurance premiums	(8,104)	(10,130)
Current income taxes payable/receivable	1,052	(1,197)
Other assets	(1,724)	(27)
Loss and loss adjustment expense reserves	57,825	46,024
Unearned premium reserves	22,060	12,800
Reinsurance payable	2,677	4,387
Accrued expenses and other liabilities	(1,842)	(56)
Net cash provided by (used for) operating activities	50,073	30,307
Cash flows provided by (used for) investing activities:		
Proceeds from sales of available-for-sale securities	7,823	4,848
Proceeds from sales of short-term investments	300,191	189,618
Maturities of available-for-sale securities	3,953	88
Due to brokers for unsettled trades	(2,216)	
Purchases of available-for-sale securities	(151,551)	(15,268)
Purchases of short-term investments	(195,568)	(209,127)
Purchases of fixed assets	(339)	(842)
Acquisition of insurance company, net of cash acquired	(214)	(25,575)
Net cash provided by (used for) investing activities	(37,921)	(56,258)
Cash flows provided by (used for) financing activities:		
Proceeds from issuance of common stock	96,000	
Issuance costs	(9,712)	
Redemption of Series A Preferred Stock	(2,297)	
Redemption of Series C Preferred Stock	(2,465)	
Redemption of Series B Convertible Preferred Stock	(81,526)	

Proceeds from capital contribution				25,240
Net cash provided by (used for) financing activities				25,240
Net increase (decrease) in cash		12,152		(711)
Cash, beginning of period		10,255		5,032
Cash, end of period	$	22,407	$	4,321
Supplemental disclosures of cash flow information:				
Cash paid for federal and state income taxes	$	3,332	$	3,241

See accompanying notes to Condensed Consolidated Financial Statements.

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DARWIN PROFESSIONAL UNDERWRITERS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

(1) Organization and Basis of Presentation

*(a) **Organization***

Darwin Professional Underwriters, Inc. (DPUI) was formed in March 2003 as an underwriting manager for certain insurance company subsidiaries of Alleghany Corporation (Alleghany), a publicly traded company, pending the establishment or acquisition of separate insurance companies for the DPUI business. Effective June 1, 2003, DPUI entered into underwriting management agreements with three wholly-owned subsidiaries of Alleghany, Capitol Indemnity Corporation, Capitol Specialty Insurance Corporation, and Platte River Insurance Company (collectively, the Capitol Companies), to underwrite and administer specialty liability insurance business. DPUI s specialty liability insurance business consists of directors and officers liability (D&O), errors and omissions liability (E&O) and medical malpractice liability insurance.

DPUI, located in Farmington, Connecticut, is a majority-owned publicly-traded insurance underwriting subsidiary of Alleghany Insurance Holdings, LLC (AIHL), which is a wholly-owned subsidiary of Alleghany. On May 19, 2006, DPUI had its initial public offering of its common shares (see Note 8). A minority interest in DPUI is owned by certain key employees of DPUI.

On February 3, 2004, Darwin Group, Inc. (Darwin Group), a wholly-owned subsidiary of AIHL, was formed as an insurance holding company for the purpose of acquiring Darwin National Assurance Company (DNA). DNA was acquired on May 3, 2004 as a wholly-owned subsidiary of Darwin Group. As of July 31, 2006, DNA is licensed to write property and casualty insurance on an admitted basis in 48 jurisdictions (including the District of Columbia) and is eligible to operate on an excess and surplus lines basis in one additional state (Arkansas). On May 2, 2005, DNA acquired Darwin Select Insurance Company (Darwin Select), as a wholly-owned insurance company subsidiary. As of July 31, 2006, Darwin Select is licensed to write property and casualty insurance on an admitted basis in Arkansas (its state of domicile) and is eligible to operate on an excess and surplus lines basis in 44 additional states. Effective as of January 1, 2006, Darwin Group was contributed by Alleghany to DPUI (see Note 1(b)).

The Capitol Companies are wholly-owned subsidiaries of AIHL and operate in 50 states and the District of Columbia. In addition to the business produced by DPUI and issued on policies of the Capitol Companies, the Capitol Companies have significant independent operations that are not included in these condensed consolidated financial statements. Alleghany acquired ownership of the Capitol Companies in January 2002. Prior to the formation of DPUI as an underwriting manager to underwrite professional liability coverages for the Capitol Companies in the directors and officers (D&O), errors and omissions (E&0) and medical malpractice lines, neither the Capitol Companies nor Alleghany wrote any of these lines of business.

DNA, Darwin Select and the Capitol Companies (in respect of the business produced by DPUI and issued on polices of the Capitol Companies) receive underwriting, claims, management, and administrative services from DPUI.

DPUI s products are marketed through independent producers located throughout the United States.

*(b) **Reorganization***

Effective October 1, 2005, Darwin Group, through its subsidiary DNA, entered into a series of reinsurance and commutation agreements with the Capitol Companies. Overall, these reinsurance agreements had the effect of transferring to DNA all of the in-force business produced by DPUI and issued on policies of the Capitol Companies, along with the corresponding financial statement effects of these policies. In addition, in November 2005, Alleghany made a capital contribution of $135,000 to Darwin Group, which subsequently contributed this capital to DNA.

Effective January 1, 2006, DPUI became the parent of Darwin Group and its subsidiaries, DNA and Darwin Select and, in connection therewith, DPUI issued to AIHL shares of Series B Convertible Preferred Stock with an aggregate liquidation preference of $197,178, equal to the book value of Darwin Group on December 31, 2005, in exchange for all of the outstanding common stock of Darwin Group held by AIHL. In addition, AIHL exchanged its 6,600,000 shares of common stock of DPUI, representing 80% of the issued and outstanding shares of DPUI, for 9,560 additional shares of Series A

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Preferred Stock of DPUI having an additional aggregate liquidation preference of $200, representing 80% of the book value of DPUI on December 31, 2005. As a result of the reorganization, the only shares of common stock outstanding as of January 1, 2006 were unvested restricted shares.

The condensed consolidated financial statements give retroactive effect to both the transfer of the in-force business to Darwin Group from the Capitol Companies and the contribution of Darwin Group to DPUI as transactions between entities under common control, accounted for as a pooling of interests. This results in a presentation that reflects the actual business produced and managed by DPUI, regardless of the originating insurance carrier, with all periods presented as if DPUI and Darwin Group, including the transferred in-force business, had always been combined.

Collectively these operations are referred to as Darwin or the Company.

(c) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Darwin have been prepared in accordance with U.S. generally accepted accounting principles and with Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and the elimination of intercompany transactions and balances) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006. The financial information included in the accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes for the fiscal year ended December 31, 2005 included in Darwin s registration statement (Form S-1), as amended. The condensed consolidated balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

On May 3, 2006, the Company s Board of Directors approved a 33-for-two stock split of the Company s shares of common stock, to be effected on the effective date of the Company s filing of a registration statement on Form S-1 in connection with its initial public offering, which occurred on May 19, 2006. In addition, the par value of the common stock has been adjusted to $0.01 per common share from $0.10 per common share. The resulting increase in common stock was offset by a decrease in additional paid-in capital.

All common stock and per share data included in these condensed consolidated financial statements, and the exchange ratios for the Series B Convertible Preferred Stock, have been retroactively adjusted to reflect the 33-for-two stock split and the change in par value for all periods presented.

(2) New Accounting Standards

In September 2005, the Accounting Standards Executive Committee issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments.* SOP 05-1 defines internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature of coverage within a contract. SOP 05-1 is effective for Darwin in fiscal year 2007, with earlier adoption encouraged. The Company has evaluated the effect of SOP 05-1 and does not expect the impact to have a significant effect on the operations or financial condition of Darwin.

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, *Accounting for certain Hybrid Instruments, an amendment to FASB Statement No. 133 and 140.* This statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The Company does not believe that this statement will have a material impact on its results of operations and financial condition.

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In July 2006 FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.* The Interpretation clarifies the accounting for income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. The Company will adopt the provisions of this Interpretation in the first quarter of 2007, and does not anticipate that it will have any material impact on its results of operations and financial condition.

(3) Share-Based Compensation

The Company has four share-based payment plans for employees and non-employee directors: the 2003 Restricted Stock Plan (as amended November 2005), the 2006 Stock Incentive Plan, the 2006 Employees Restricted Stock Plan and the 2006 Stock and Unit Plan for Nonemployee Directors (Directors Plan), which are described below.

In December 2004, FASB issued SFAS 123(R), *Share-Based Payment (as amended)* (SFAS No. 123(R)). SFAS No. 123(R) eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS No. 123. SFAS No. 123(R) requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all companies to apply a fair-value based measurement method in accounting generally for all share-based payment transactions with employees.

On January 1, 2006, the Company adopted SFAS No. 123(R) using a modified prospective method. Under this application, Darwin is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. The Company did not recognize any share-based compensation expense as a result of the adoption of SFAS No. 123(R) for periods prior to January 1, 2006.

Prior to the adoption of SFAS No. 123(R), the Company applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for the 2003 Restricted Stock Plan. Prior to January 1, 2006, the Company s share-based grants were restricted shares under the 2003 Restricted Stock Plan that had a nominal fair value at the date of grant. Darwin did not have any stock option or other share-based awards prior to January 1, 2006.

As a result of adopting SFAS No. 123(R) and the granting of shares under the plans at the time of the initial public offering on May 19, 2006, the Company recorded for the three months and six months ended June 30, 2006 total share-based compensation expense of $187. During the same periods, a deferred tax benefit of $75 related to the stock-based compensation expense was recorded. DPUI did not incur any stock-based compensation expense for the three and six months ended June 30, 2005.

(a) 2003 Restricted Stock Plan

The 2003 Restricted Stock Plan was adopted in July 2003 and was amended and restated in November 2005. The plan provides a means to attract, retain and motivate key employees with the granting of restricted stock. A maximum of 1,650,000 shares of common stock are reserved for issuance under the 2003 Restricted Stock Plan. The terms for awards of 1,546,875 restricted shares provide for vesting over a four-year period from the date of grant, with 50% of the restricted shares vesting on the third anniversary of the date of grant and the remaining 50% of the restricted shares vesting on the fourth anniversary of the date of grant. The terms for awards of the remaining 103,125 restricted shares provide for vesting over a three year period from the date of grant, with 50% of the restricted shares vesting on the second anniversary of the date of grant and the remaining 50% of the restricted shares vesting on the third anniversary of the date of grant.

As of December 31, 2005, 1,505,625 restricted shares were issued and outstanding under this plan, none of which had vested. The total fair value of the shares when granted in 2003 was $9, which was equal to the par value of the shares at the date of grant. On May 19, 2006, the remaining 144,375 restricted shares were granted at a fair value of $16.00 per share, the initial public offering price per share of the Company s common stock. In connection with the granting of these restricted shares, certain of the recipients received an additional cash payment calculated as a tax equalization payment (tax gross up). This tax gross up was paid to provide the recipients with a reduction in total tax expenses incurred or to be incurred in connection with the restricted share awards. The total amount of the tax gross up of $450 was expensed in May 2006, the period it was incurred and paid. The stock compensation expense for the restricted shares is based on the fair value when

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granted and is recognized ratably over the vesting period. For both the three months and six months ended June 30, 2006, the Company s stock-based compensation expense for the 2003 Restricted Stock Plan was $82. There was no forfeiture or vesting of shares during the three or six months ending June 30, 2006. As of June 30, 2006, 1,650,000 restricted shares were outstanding under the plan with 752,813 shares scheduled to vest in 2006, 804,375 shares scheduled to vest in 2007, 72,187 shares scheduled to vest in 2008 and 20,625 shares scheduled to vest in 2009.

(b) 2006 Stock Incentive Plan

The 2006 Stock Incentive Plan permits the Company to award a broad range of equity-based incentive compensation to key employees, including the types commonly known as restricted stock, stock options, stock appreciation rights and performance units, as well as any other types of equity-based incentive compensation awards. Under the terms of the plan, the exercise price of options and stock appreciation rights cannot be less than the fair market value of the common stock at the time of grant, and the term of options, stock appreciation rights and other awards under the 2006 Stock Incentive Plan can not exceed ten years. In addition, the plan permits the award of cash payments as a part of, or in addition to, an equity-based award. A maximum of 850,000 shares of common stock may be issued to participants under the plan, and awards of, or based upon, up to a maximum of 127,500 shares of common stock may be granted to any individual participant in any calendar year, in each case subject to anti-dilution and other adjustments in the case of certain events specified in the plan. The 2006 Stock Incentive Plan was adopted by the board of directors on May 17, 2006 and is subject to approval of the stockholders at the first annual meeting of shareholders following the initial public offering. If the shareholders do not approve the 2006 Stock Incentive Plan, the plan will terminate and all awards theretofore granted will be cancelled.

At the time of its initial public offering, the Company granted, under the terms of the 2006 Stock Incentive Plan, non-qualified stock options to purchase 170,060 shares of common stock to certain key employees at a price of $16.00 per share, the initial public offering price. The options are exercisable for ten years from the date of grant and vest at an annual rate of 25% on each anniversary of the grant date, provided that the option holder is still employed by DPUI.

The fair value of the option grant was estimated at $6.64 per share on the date of the grant using the Black-Scholes option pricing model. The expected term is based on the vesting period simplified method or 6.25 years. The stock price volatility for the award was 30.4 %, an estimate based on the average stock price volatility data for the expected term for similar property and casualty companies. The risk-free interest rate assumption is based on the 6.25 year U.S. Treasury for the expected term, which was 5.18%. The Company does not anticipate paying dividends for any of the years. The compensation expense is based on the fair value at grant and is recognized on a straight line basis over the vesting period. The Company s compensation expense for the options was $32 for both the three months and six months ended June 30, 2006. There was no forfeiture or exercised shares. As of June 30, 2006, 170,060 options were outstanding and not vested.

(c) 2006 Employees Restricted Stock Plan

The 2006 Employees Restricted Stock Plan, was adopted by the Board of Directors on May 17, 2006 to provide an opportunity for all employees of Darwin at the time of the initial public offering to be owners of common stock of Darwin. The Company granted an aggregate of 9,000 restricted shares of common stock under the 2006 Employees Restricted Stock Plan to employees who are not executive officers based upon the employee s length of service with the Company. The restricted shares had a fair value of $16.00 per share, the initial public offering price. No additional awards will be made under the 2006 Employees Restricted Stock Plan. Under the terms of the 2006 Employees Restricted Stock Plan, each grant of restricted stock will be forfeited if the employee s employment with the Company is terminated before the third anniversary of the date of grant for any reason other than death or disability, and during that period, the restricted shares may not be sold, assigned, pledged or transferred to any person. The related stock based compensation expense is based on the fair value of the restricted shares when granted and is recognized ratably over the three year vesting period. For both the three months and six months ended June 30, 2006, the Company s stock based compensation expense for the plan was $5. As of June 30, 2006, 9,000 restricted shares were outstanding under the plan.

(d) Directors Plan

The Directors Plan for non-employee directors (defined as a director who is not either an employee of the Company or an employee of any of our affiliates including Alleghany) is designed to align their interest with the stockholders interest through equity-based incentive compensation, including restricted stock and share unit accumulation. The Directors Plan provides for a maximum of 130,000 shares of common stock that may be issued to participants under the plan. As of June 30, 2006, the Company has made two awards to non-employee directors under the plan totaling 29,219 shares.

Initial Public Offering Restricted Stock Grant In connection with the Company s initial public offering, each non-employee director received a grant of 2,500 restricted shares of common stock based upon the initial public offering price of $16.00 per share upon the completion of the offering. The restricted stock vests at the time of the Company s next annual meeting of stockholders and will be forfeited if the non-employee director resigns from the board of directors prior to the first meeting of the board of directors following the anniversary of the date of grant of the restricted common stock. The directors compensation expense is based on the fair value of $16.00 per share and is being recognized on a straight line basis over an estimated twelve month vesting period from the Company s initial public offering on May 19, 2006. There was no forfeiture or vesting of shares during the six months ending June 30, 2006. The Company s directors compensation expense for the restricted shares was $23 for both the three months and six months ended June 30, 2006. As of June 30, 2006, 12,500 restricted shares were outstanding under the Directors Plan.

Annual Non-Employee Directors Share Unit Award Annually, Darwin pays its non-employee directors board and committee fees in connection with their services to the Company. These fee agreements provide that a minimum of 50% of all fees earned by a non-employee director are paid through the issuance of a number of share units which is equal to the number of shares of our common stock that could have been purchased with such fees, based upon the initial public offering price of $16.00 per share, in the case of the first determination of unit shares, and thereafter, based upon the closing price of the shares of common stock on the day after the annual meeting of stockholders. The share units are earned on a pro rata basis over the twelve month period between annual meetings. In addition to the 50% mandatory conversion, each non-employee director may elect to have up to a total of 100% of their fees converted into share units. No shares of common stock are actually purchased in connection with the share units, but the number of the share units is dependent upon the market value of the Company s shares of common stock. A non-employee director will receive distributions in respect of share units following the expiration of five calendar years following the year in which the fees were originally converted into share units, or following termination of service on the board of directors. On August 9, 2006 the Board of Directors voted to amend the Plan s distribution provision so that each distribution in respect of share units will be made in shares of the Company s common stock. For the 2006-2007 annual fee period, based upon the non-employee director s share unit awards elections, a total of 16,719 share units were granted. The directors fee expense for the share units is recognized as earned. As of June 30, 2006, 2,786 share units were deemed earned by the directors, resulting in directors fee expense to Darwin of $45 for the three and six month periods.

(4) Investments

The amortized cost and estimated fair value of fixed maturity securities at June 30, 2006 and December 31, 2005 are as follows:

June 30, 2006	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Type of investment				
U.S. Government bonds	$ 13,222	$	$ (295)	$ 12,927
State and municipal bonds	102,227	1	(1,929)	100,299
Mortgage/asset-backed securities	74,427	11	(1,087)	73,351
Corporate bonds and notes	70,402	14	(1,116)	69,300
Total fixed maturity securities	$ 260,278	$ 26	$ (4,427)	$ 255,877

December 31, 2005	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses

				Fair Value
Type of investment				
U.S. Government bonds	$ 16,163	$	$ (231)	$ 15,932
State and municipal bonds	30,686	342	(28)	31,000
Mortgage/asset-backed securities	39,233	70	(99)	39,204
Corporate bonds and notes	34,750	51	(167)	34,634
Total fixed maturity securities	$ 120,832	$ 463	$ (525)	$ 120,770

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The amortized cost and estimated fair value of fixed maturity securities at June 30, 2006, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 6,484	$ 6,437
Due after one year through five years.	58,658	57,872
Due after five years through ten years	24,245	23,533
Due after ten years	96,464	94,684
Mortgage/asset-backed securities	74,427	73,351
Total	$ 260,278	$ 255,877

An investment in a fixed maturity security which is available-for-sale is impaired if its fair value falls below its book value, and the decline is considered to be other-than-temporary. Darwin s assessment of a decline in fair value includes its current judgment as to the financial position and future prospects of the issuing entity of the security, the length of time and extent to which fair value has been below cost, and Darwin s ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery.

The following table summarizes, for all fixed maturity securities in an unrealized loss position at June 30, 2006, the aggregate fair value, and the gross unrealized loss by length of time such securities have continuously been in an unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Type of investment						
U.S. Government bonds	$ 3,547	$ (112)	$ 9,380	$ (183)	$ 12,927	$ (295)
State and municipal bonds	96,232	(1,867)	2,462	(62)	98,694	(1,929)
Mortgage/asset-backed securities	46,610	(907)	5,300	(180)	51,910	(1,087)
Corporate bonds and notes	47,864	(939)	6,318	(177)	54,182	(1,116)
Total fixed maturity securities.	$ 194,253	$ (3,825)	$ 23,460	$ (602)	$ 217,713	$ (4,427)