

21ST CENTURY INSURANCE GROUP  
Form DEF 14A  
April 19, 2006

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

**SCHEDULE 14A**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

21st Century Insurance Group  
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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NOTICE OF 2006 ANNUAL MEETING OF SHAREHOLDERS

AND PROXY STATEMENT

**21ST CENTURY INSURANCE GROUP**



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Dear Shareholder,

You are cordially invited to attend the Annual Meeting of Shareholders of 21st Century Insurance Group on Wednesday, May 24, 2006, at 10:00 a.m., local time, at the Sheraton Universal Hotel, 333 Universal Hollywood Drive, Universal City, California 91608.

Details of the business to be conducted at the annual meeting are given in the attached Notice of Annual Meeting and Proxy Statement.

Whether or not you plan to attend, it is important that your shares be represented and voted at the meeting. I therefore urge you to sign, date and promptly return your proxy card in the enclosed self-addressed envelope or to use one of the other available methods (by telephone or the Internet) so your shares can be voted in accordance with your instructions. You may attend the annual meeting and vote in person, if you so decide.

Tickets for the meeting are not required, though we ask that attendees sign the attendance register prior to the commencement of the meeting.

On behalf of the Board of Directors, I would like to express our appreciation for your continued interest in the affairs of the Company.

Sincerely,

ROBERT M. SANDLER  
*Chairman of the Board*

YOUR VOTE IS IMPORTANT

We encourage you to sign and return your proxy card or use the telephone or the Internet for voting your shares prior to the meeting

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21ST CENTURY INSURANCE GROUP

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

MAY 24, 2006

The Annual Meeting of Shareholders of 21st Century Insurance Group ( 21st Century or the Company ) will be held at the Sheraton Universal Hotel, 333 Universal Hollywood Drive, Universal City, California 91608 on May 24, 2006, at 10:00 a.m., local time, for the following purposes:

1. To elect eleven directors.
2. To ratify the appointment of PricewaterhouseCoopers LLP as independent auditors for 2006.
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on April 3, 2006, as the record date for the determination of those shareholders entitled to notice of, and to vote at the meeting.

By Order of the Board of Directors,

**MICHAEL J. CASSANEGO**



*Secretary*



Woodland Hills, California

DATED: April 21, 2006

**IMPORTANT**

Whether or not you expect to attend in person, we urge you to sign, date and return the enclosed Proxy, by mail, telephone or the Internet at your earliest convenience. This will ensure the presence of a quorum at the meeting. **Promptly submitting the Proxy will save the Company the expense and extra work of additional solicitation.** You can also vote your stock at the meeting if you desire to do so, as your Proxy is revocable at your option.

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21ST CENTURY INSURANCE GROUP

6301 OWENSMOUTH AVENUE

WOODLAND HILLS, CALIFORNIA 91367

PROXY STATEMENT

FOR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 24, 2006

GENERAL INFORMATION

This Proxy Statement and the accompanying Notice of Annual Meeting and Proxy Card are solicited by the Board of Directors of 21st Century Insurance Group for use at the Annual Meeting of Shareholders to be held on Wednesday, May 24, 2006, at 10:00 a.m., local time, at the Sheraton Universal Hotel, 333 Universal Hollywood Drive, Universal City, California 91608. These proxy materials will be sent on or about April 21, 2006, to all shareholders of the Company's common stock of record as of April 3, 2006. The Company's principal executive office is located at 6301 Owensmouth Avenue, Woodland Hills, California 91367.

All properly executed and returned proxies will be voted at the annual meeting as directed by the shareholder. Any shareholder may revoke a proxy by giving written notice to the Company, by submitting a duly executed proxy bearing a later date, or by voting in person at the meeting. If no directions are indicated, the shares represented by the signed proxy will be voted FOR the election of the nominees and FOR ratifying the appointment of PricewaterhouseCoopers LLP as the independent auditors for 2006. Your Board recommends a vote FOR each of these proposals. The cost of the solicitation of these proxies will be borne by the Company.

Only holders of the Company's common stock at the close of business on April 3, 2006, will be entitled to notice of, and to vote, at the meeting. As of that date, 85,997,184 shares of common stock, each having a par value \$0.001, of 21st Century Insurance Group (the "Common Stock") were outstanding. A quorum represented by a majority of the outstanding shares of common stock, present in person or by proxy, is necessary to conduct the meeting. Proxies marked as abstaining, and any proxies returned by brokers as "non-votes" on behalf of shares held in street name because beneficial owners' discretion has been withheld as to one or more matters on the agenda for the Annual Meeting, will be treated as present for purposes of determining a quorum for the Annual Meeting. With respect to the election of directors, any shares not voted as a result of an abstention or a broker non-vote will have no impact on the vote. With respect to the ratification of the selection of PricewaterhouseCoopers, LLP as independent auditors, a broker non-vote will have no impact on the vote while an abstention will effectively be treated as a vote against the proposal.

ELECTION OF DIRECTORS  
(PROPOSAL 1)

The Board of Directors recommends the election of the eleven nominees named in this Proxy Statement to hold office until the next annual meeting or until their successors are elected and qualified. It is intended that the accompanying proxy will be voted in favor of the nominees listed below to serve as directors unless the shareholder indicates to the contrary on the proxy. It is not expected that any of the nominees will become unavailable for election as a director, but if any should prior to the meeting, proxies will be voted for such persons as the persons named in the accompanying form of proxy may determine in their discretion.

NOMINEES FOR BOARD OF DIRECTORS

**Robert M. Sandler**  
Director since 1994

Chairman of the Board of the Company. Executive Vice President Domestic Personal Lines, Senior Casualty Actuary and Senior Claims Officer of American International Group ( AIG ) located in New York, NY.

Age 63

**Steven J. Bensinger**  
Director since 2005

Executive Vice President and Chief Financial Officer of AIG located in New York, NY. He previously served as Executive Vice President and Chief Financial Officer of Combined Specialty Group (now Axis Specialty) in 2002 and as Executive Vice President of Trenwick Group Ltd. from 1999 to 2001. He currently is a director of Transatlantic Holdings, Inc., a majority owned subsidiary of AIG ( TRH ), and International Lease Finance Corporation, a wholly owned subsidiary of AIG ( ILFC ).

Age 51

**John B. De Nault, III**  
Director since 1988

Chairman of the Board of Omnitruster, Inc. in Orange, CA and private investor with offices in Orange County, CA. He also currently serves as Vice Chairman of the Board of Liberty Bank. Mr. De Nault is a trustee for the University of Redlands. He is the son of John B. De Nault, former Chairman and Director of the Company.

Age 58

**Carlene M. Ellis**  
Director since 2004

Retired as a Vice President of Intel Corporation in 2003. She currently is a director of Merix Corporation and The Education Financing Foundation of California. Ms. Ellis is also a member of the Advisory Board for the Graduate School of Management for the University of California at Davis.

Age 59

**R. Scott Foster, M.D.**  
Director since 1986

Ophthalmologist in Stockton, CA and Clinical Professor at Stanford University. He is the son of the late Louis W. Foster, Founder of the Company.

Age 65

**Roxani M. Gillespie**  
Director since 1998

Partner in the law firm of Barger & Wolen located in San Francisco, CA. She served as the California Insurance Commissioner from 1986 to 1991.

Age 64

**Jeffrey L. Hayman**  
Director since 2002

Mr. Hayman joined AIG in 1998 and is currently Regional President and COO, General Insurance, AIG Companies Far East (Japan and Korea); Chairman of AIU Insurance Company Japan Branch. He also serves on the Board of Directors of Fuji Fire & Marine Insurance Company and Japan International accident & Fire Insurance Company. Mr. Hayman is a Chartered Financial Consultant and Chartered Life Underwriter.

Age 46

**Phillip L. Isenberg**  
Director since 2004

President of Isenberg/O Haren Government Relations since 2004. Mr. Isenberg previously served as a member of the California State Assembly from 1982 to 1996 and Mayor of Sacramento from 1975 to 1982.

Age 67

**Bruce W. Marlow**  
Director since 2000

Vice Chairman of the Board, Chief Executive Officer and President of the Company. Mr. Marlow previously served as Chief Operating Officer of auto insurer Progressive Corporation and as a Senior Vice President of Allstate Corporation. He is a board member of the Property Casualty Insurance Association (PCI) and the Los Angeles Philharmonic.

Age 57

**Keith W. Renken**  
Director since 2002

Retired as Senior Partner and Chairman, Executive Committee of Southern California, of the public accounting firm Deloitte & Touche in 1992, Mr. Renken currently serves as an adjunct professor at the University of Southern California and as a director of East West Bank.

Age 71

Thomas R. Tizzio  
Director since 2006

Retired from AIG as Senior Vice Chairman, General Insurance in 2006. Mr. Tizzio remains as an Honorary Director of and adviser to AIG and serves as a director of TRH and ILFC. Mr. Tizzio joined AIG in 1967 and subsequently held a number of management positions in AIG's property-casualty insurance and reinsurance operations. He also currently serves as a trustee of the American Institute for Property and Liability Underwriters and the Insurance Institute of America .

Age 68



## EXECUTIVE OFFICERS

The following is information concerning the executive officers of the Company.

Officers of the Company	Age	Served As Officer Since	Business Background
Bruce W. Marlow	57	2000	Vice Chairman of the Board, Chief Executive Officer and President of the Company. Mr. Marlow previously served as Chief Operating Officer of auto insurer Progressive Corporation and as a Senior Vice President of Allstate Corporation. He is a board member of the Property Casualty Insurance Association (PCI) and the Los Angeles Philharmonic.
Richard A. Andre	56	1988	Senior Vice President, Human Resources. Before joining the Company in 1988, Mr. Andre was with Fidelity National Title Insurance Company. Prior to that time, he was with Safeco Corporation where he held a variety of positions including Vice President of Personnel for Safeco Title Insurance Company.
Michael J. Cassanego	55	1999	Senior Vice President, General Counsel and Secretary. Mr. Cassanego joined the Company in 1999. He was previously employed by Industrial Indemnity Company, serving in several positions including Senior Vice President, Secretary and General Counsel, and its successor, Fremont Compensation Insurance Group.
John L. Ingersoll	40	2001	Vice President, Marketing. Prior to joining the Company in 2001, Mr. Ingersoll served as President of Netcubator, LLC and as Senior Vice President of InsWeb Corporation.
Marlis S. Kerby	53	2004	Vice President, Information Technology. Ms. Kerby joined the Company in 1998, serving in various capacities in the Information Services Department. She has over 25 years of information technology experience.
Allen Lew	42	2003	Vice President and Chief Actuary. Mr. Lew joined the Company in April 2003. He was previously employed by Allstate Insurance Company as Director of Pricing from 2001 to 2003 and New England Fidelity Insurance Company as Senior Vice President, Chief Financial Officer and Treasurer from 1999 to 2001.
John M. Lorentz	53	1996	Vice President, Finance. Mr. Lorentz joined the Company in 1996. He was previously employed by Transamerica Financial Services in various capacities, including Vice President and Controller.
Michael T. Ray	51	2005	<b>Senior Vice President, Customer Processes.</b> Before joining the Company in June 2005, Mr. Ray served as President of MTR Technical Services for 3 years and as Executive Vice President or Group Vice President of American Bankers Insurance (now Assurant) for 19 years.
Caren L. Silvestri	52	2000	Vice President, Customer Processes. Ms. Silvestri joined the Company in 1982, serving in various positions in Marketing, Operations and Underwriting. She has over 25 years experience in the insurance industry.
Dean E. Stark	52	1993	Senior Vice President, Claims. Mr. Stark joined the Company in 1979, serving in numerous claim positions including Vice President. He has over 25 years of experience in the insurance industry.
Jesus C. Zaragoza	32	2006	Vice President and Controller. Mr. Zaragoza joined the Company in 2003, serving as Assistant Vice President and Controller. Previously, he worked at Deloitte & Touche in its audit practice for 7 years.

Each executive officer serves at the pleasure of the Board of Directors. Every person chosen by the Board of Directors to be an executive officer is listed above.



## BOARD OF DIRECTORS AND COMMITTEE MEETINGS

The business of the Company is managed under the direction of the Board of Directors. The Board meets on a regularly scheduled basis during the year to review significant developments affecting the Company and to act on matters requiring Board approval. It holds special meetings when an important matter requires Board action and meets in non-management sessions, presided over by a director selected by the non-management directors. The Board of Directors met five times during 2005. Each Board member participated in at least 75% of the meetings of the Board and Committees of the Board on which he or she served. Board members, unless excused by the Chairman of the Board of Directors, are expected to attend the Annual Meeting of Shareholders. In year 2005, every director attended the meeting.

Pursuant to the rules of the New York Stock Exchange ( NYSE ), the Company is deemed a controlled company because over 50% of the outstanding Common Stock is owned by subsidiaries of AIG. Therefore, the Board of Directors has determined that a majority of the nominees are not independent directors pursuant to the rules of the NYSE and the Securities & Exchange Commission ( SEC ) due to either their affiliation with AIG or their status as an employee of the Company. The Board of Directors has reviewed these rules and its Director Independence Standards and considered the qualifications of all nominees, including business relationships with AIG. After due consideration, the present Board has determined that John B. De Nault, III, Carlene M. Ellis, Phillip L. Isenberg, R. Scott Foster, and Keith W. Renken are independent directors pursuant thereto. The Board thereafter determined that each of these individuals, except Mr. Isenberg, is eligible to serve on its Audit Committee. Shareholders are urged to read the Director Independence Standards, attached as Appendix A, in their entirety. Also, neither the Nominating and Corporate Governance Committee nor the Compensation Committee is required to have members comprised solely of independent directors as a result of the Company status as a controlled company . Nevertheless, each committee presently has at least one independent director (as determined by the Board) serving thereon.

The Board of Directors has standing audit, compensation, and nominating and corporate governance committees, identified below. The committees' charters, the Corporate Governance Guidelines, the Code of Ethics and the Code of Business Conduct are available on the Company's website (21st.com) and, upon request, are available in print to any shareholder.

**Nominating and Corporate Governance Committee.** The committee met twice last year. The committee's purposes include but are not limited to:

(1) Identify and recommend qualified individuals to be members of the Board of Directors and its committees. Nominees to the Board of Directors may be proposed by current Board members, Company management, its shareholders and others. Evaluations are based upon several criteria including a person's:

Personal and professional ethics, values and integrity;

Ability to work together as part of a team;

Commitment to representing the long-term interests of the Company;

Skill, diversity, background and experience with businesses and other organizations that the Board of Directors deems relevant;

Interplay of the person's experience with the experience of other Board members, including the extent to which the person's experiences would be a desirable addition to the Board and any of its committees; and

Ability and willingness to commit adequate time to the Company over an extended period of time.

The Committee utilizes a variety of methods for identifying and evaluating nominees. Its general policy is to assess the appropriate size of the Board of Directors and determine whether any vacancies are expected due to retirement or otherwise. If a vacancy is anticipated, the Committee considers potential candidates to fill the vacancy but, since 21st Century is a controlled company, deference is given to candidates suggested by AIG, the majority shareholder. The Committee strives to maintain an appropriate number of independent Board members while recognizing that a majority of the Board membership will be AIG nominees. Candidates may come to the attention of the Committee through its current members, shareholders, other Board members or

other persons. Any shareholder nomination, proposed for consideration by the Committee, should include the nominee's name and qualifications for Board of Director membership and be addressed to the Committee, c/o the Corporate Secretary. These candidates are evaluated at regular or special Committee meetings. The Board of Directors considers properly submitted stockholder nominations for candidacy.

(2) Advise the Board of Directors on corporate governance matters, including the development and recommendation of Company's corporate governance guidelines.

(3) Oversee the evaluation of the Board's performance.

The Committee has the authority to obtain advice and assistance from, and receive appropriate funding from the Company for outside counsel, experts and other advisors as the Committee deems appropriate to assist it in the performance of its functions.

Current committee members are Roxani M. Gillespie, Keith W. Renken and Robert M. Sandler. The Board of Directors has determined that Mr. Renken is independent within the meaning of the NYSE's listing standards.

**Compensation Committee.** The Compensation Committee met four times last year. The Compensation Committee reviews and approves compensation policies and makes recommendations regarding executive compensation to the Board of Directors. The committee also reviews and approves equity-based compensation policies and makes recommendations regarding equity-based compensation to the Board of Directors. The annual Compensation Committee Report begins on page 19 below. No member of the committee is a former or current officer or employee of the Company or any of its subsidiaries. Current members of the committee are Robert M. Sandler, Carlene M. Ellis, and R. Scott Foster.

**Audit Committee.** The Audit Committee met nine times during 2005. This committee is governed by a written charter, attached as Appendix B and available on the Company's website, and is primarily concerned with the accuracy and effectiveness of the audits of our financial statements by our internal audit staff and our independent auditors and oversees the Company's financial reporting process on behalf of the Board of Directors. Its duties include:

- (1) select an independent auditor;
- (2) review the scope and results of the audits conducted by the independent auditor and the internal audit function;
- (3) approve audit and non-audit services provided to the Company by the independent auditor; and
- (4) oversee the monitoring of the integrity of the financial statements and the effectiveness of internal

control as well as compliance with legal and regulatory requirements.

Current members of the Committee, who the Board believes meet the financial and independence standards of the NYSE, are John B. De Nault, III, Carlene M. Ellis, R. Scott Foster and Keith W. Renken. Mr. Renken, as a former senior partner of the accounting firm of Deloitte & Touche and a current adjunct professor at the University of Southern California, was determined by the Board, at its February 2006 meeting, to be an audit committee financial expert, as defined in the SEC and NYSE rules, and is also independent within the meaning of those rules.

*Executive Sessions.* Pursuant to the Company's Corporate Governance Guidelines, the non-management directors meet at regularly scheduled executive sessions, with no members of management present. Executive sessions of non-management directors are presided over by the Chairman of the Board of Directors or by another director selected by the majority of the non-management directors in attendance. Those directors who are classified as independent directors also meet in executive session at least once a year. Executive sessions of independent directors will be presided over by the Chairman of the Audit Committee or by another director selected by the majority of the independent directors in attendance. Both the non-management directors and the independent directors met once last year.



*BENEFICIAL OWNERSHIP OF SECURITIES*





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### PRINCIPAL SHAREHOLDERS

The following table lists the beneficial ownership of each person or group who owned as of March 31, 2006, to the Company's knowledge, more than five percent of any class of its outstanding voting securities.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common	American International Group, Inc. Through its subsidiaries: American Home Assurance Company, Commerce & Industry Insurance Company, National Union Fire Insurance Company of Pittsburgh, Pa. and New Hampshire Insurance Company 70 Pine Street New York, NY 10270	53,445,620	62.1%
Common	American Union Insurance Company 120 N. Center Street, 3rd Floor Bloomington, IL 61701	6,100,000	7.1%

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In the ordinary course of business, the Company and its subsidiaries have completed various transactions with AIG to meet its investment, reinsurance, and insurance needs. The Company's reinsurance and investment services are purchased through competitive bidding processes with the Company selecting the services providing a combination of the best services and the lowest bids. In 2005, the investment services cost \$915,800 while reinsurance premiums, covering automobile catastrophes, payable to AIG totaled \$810,000. In addition, 20% of the reinsurance was placed with Transatlantic Reinsurance, a company majority owned by AIG. The Company has obtained the following corporate insurance policies from AIG subsidiaries:

1. General liability;
2. Automobile liability;
3. Workers' compensation;
4. Umbrella excess insurance;
5. Property insurance;
6. Fiduciary liability insurance;
7. Fidelity;
8. Employment practices liability insurance; and

9. Errors and omissions insurance through September 30, 2005.

Premiums for these insurance coverages totaled \$2.9 million.

## MANAGEMENT OWNERSHIP

The following table summarizes the ownership of equity securities of 21st Century Insurance Group and an affiliated company, AIG, by the directors, the Company's Chief Executive Officer and the four other highest paid executive officers, and the directors and officers as a group.

Equity Securities of 21st Century Insurance Group and AIG as of March 31, 2006					
Title of Class	Name and Address (1) of Beneficial Owner	21st Century Amount and Nature of Beneficial Ownership (2)(3) As of March 31, 2006	Percent Of Class	AIG Amount and Nature of Beneficial Ownership (4) As of March 31, 2006	Percent of Class
Common	Robert M. Sandler	38,000	*	486,077	*
Common	Steven J. Bensinger	4,000	*	15,500	*
Common	John B. De Nault, III	1,268,500	1.4%	0	*
Common	Carlene M. Ellis	18,000	*	0	*
Common	R. Scott Foster	941,386	1.0%	600	*
Common	Roxani M. Gillespie	36,500	*	0	*
Common	Jeffrey L. Hayman	16,000	*	10,856	*
Common	Phillip L. Isenberg	8,000	*	500	*
Common	Keith W. Renken	23,000	*	0	*
Common	Thomas R. Tizzio	0	*	900,231	*
Common	Bruce W. Marlow	1,948,645	2.1%	0	*
Common	Michael J. Cassanego	454,724	*	317	*
Common	Dean E. Stark	448,129	*	221	*
Common	Richard A. Andre	365,629	*	0	*
Common	Lawrence P. Bascom (5)	55,404	*	0	*
Common	All Directors and Officers as a Group (21 individuals)	6,288,269	7.0%		*

\* Less than 1%

(1) All addresses are c/o 21st Century Insurance Group, 6301 Owensmouth Avenue, Woodland Hills, California 91367.

(2) Under the rules of the Securities and Exchange Commission (the "SEC"), a person is deemed to be a beneficial owner of a security if he or she has or shares the power to vote or to direct the voting of such security, or the power to dispose or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days, as well as any securities owned by such person's spouse, children or relatives living in the same household. Accordingly, more than one person may be deemed to be a beneficial owner of the same securities.

(3) *Amount of equity securities shown includes shares of 21st Century Common Stock subject to options which may be exercised within 60 days as follows: Sandler 36,000 shares, Bensinger 4,000 shares, De Nault 36,000 shares, Ellis 8,000 shares, Foster 36,000 shares, Gillespie 32,000 shares, Hayman 16,000 shares, Isenberg 8,000 shares, Renken 16,000 shares, Marlow 1,910,581 shares, Cassanego 438,989 shares, Stark 436,720 shares, Andre 357,179 shares, Bascom 55,404, and all directors and executive officers of TW as a group 3,386,873 shares.*

(4) *Amount of equity securities shown includes shares of AIG Common Stock subject to options which may be exercised within 60 days as follows: Sandler 166,249 shares, Bensinger 15,500 shares, Hayman 10,213 shares, Tizzio 296,364 shares.*

(5) **Mr. Bascom's employment with the Company concluded on April 7, 2006.**



**SECTION 16(a) BENEFICIAL OWNERSHIP**

## REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Executive officers, directors and greater-than-ten-percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of reports furnished to the Company and written representations that no other reports were required during the 2005 fiscal year, all Section 16(a) filing requirements were complied with, except Mr. De Nault failed to timely report his exercise of 2000 stock options. The untimely filing was inadvertent and the required report has since been filed.

## COMPENSATION OF DIRECTORS

For 2005, each outside director of the Company received annual base remuneration of \$25,000. All directors received \$1,500 for each meeting of the Board of Directors attended. In addition, each member of the Audit Committee receives an additional annual retainer of \$5,000. Also, each committee member received \$1,500 for each meeting of a committee attended, if otherwise entitled. No director is entitled to more than \$1,500 for any calendar day, regardless of the number of meetings attended on that day. Directors are reimbursed for reasonable travel and other expenses. Mr. Bensinger declined receipt of any remuneration while Mr. Hayman's remuneration concluded, at his request, after October 31, 2005.

Under the Company's 2004 Stock Option Plan, nonemployee directors each receive an option to purchase 4,000 shares of the Company's Common Stock on the day of each Annual Meeting of Shareholders or the date on which the individual initially becomes a director. The options have an exercise price equal to the fair market value of the underlying shares subject to the option on the date of grant and become exercisable one year after the date of grant.

Ms. Gillespie is a partner in the law firm of Barger & Wolen, who rendered services to the Company currently not exceeding 5% of its gross revenues.



## SUMMARY COMPENSATION TABLE

The following table sets forth the annual and long-term compensation and the compensation paid during each of the Company's last three years to the Company's Chief Executive Officer and the four highest-paid executive officers (the "Named Executives"), based on base salary and bonus earned during 2005.

Name and Principal Position	Year	Annual Compensation		Long Term Compensation (2) Awards			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)(1)	Restricted Stock Awards (\$)(3)	Securities Underlying Options (#)(4)	All Other Compensation (\$)(5)
Bruce W. Marlow (6)	2005	800,000	864,000			484,848	13,320
CEO, President, Vice Chairman & Director	2004	800,000	936,000			396,040	13,095
	2003	800,000	1,028,000			425,531	303,390
Michael J. Cassanego	2005	350,000	200,000			106,061	33,372
Senior Vice President	2004	349,385	307,125			86,634	34,244
General Counsel & Secretary	2003	328,815	350,000			117,021	20,875
Dean E. Stark	2005	315,000	170,000			95,455	29,510
Senior Vice President, Claims	2004	314,538	296,413			77,970	30,190
	2003	299,203	300,000			106,882	18,977
Richard A. Andre	2005	275,600	150,000			83,515	26,650
Senior Vice President, Human Resources	2004	275,274	241,839			68,218	26,628
	2003	264,305	255,394			70,478	16,366
Lawrence P. Bascom	2005	400,000	100,000			121,212	7,016
Senior Vice President, CFO & Treasurer	2004	23,077	200,000			150,000	
	2003						

(1) Each Named Executive's Other Annual Compensation was less than \$50,000 and 10% of his combined total salary and bonus.

(2) During 2005, there were no awards of Stock Appreciation Rights (SARs), nor were there any Long-Term Incentive Plan (LTIP) payouts.

(3) Restricted Stock awards are for a five-year period, vesting at 20% per year. During the restriction period, participants are entitled to receive dividends on and may vote for the shares. The following table sets forth the restricted stock award information and the vesting schedule for the named executives.

Restricted Shares

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	<b>Date Awarded</b>	<b>Shares Awarded</b>	<b>Award Value</b>	<b>Shares Vested</b>	<b>Balance as of 12/30/05</b>	<b>Present Value As of 12/30/05 \$16.18 per share</b>
Bruce W. Marlow	2/09/00	32,990	\$ 600,000	32,990	-0-	-0-

(4) Represents the number of shares of the Company's Common Stock for which options were granted under the Company's 1995 and 2004 Stock Option Plans.

- (5) Includes the following other compensation for each Named Executive for 2005:
- (a) Imputed income of group term life in excess of \$50,000.
- (b) Deferred employer's contribution to the Company's qualified 401(k) Plan and supplemental 401(k) Plan.

Other Compensation

	(a) (\$)	(b) (\$)	2005 Total (\$)
Bruce W. Marlow	3,870	9,450	13,320
Michael J. Cassanego	3,801	29,571	33,372
Dean E. Stark	1,996	27,514	29,510
Richard A. Andre	3,365	23,285	26,650
Lawrence P. Bascom	716	6,300	7,016
<b>Total</b>	<b>13,748</b>	<b>96,120</b>	<b>109,868</b>

- (6) Mr. Marlow considered his salary level to be appropriate and asked the Compensation Committee to not adjust it. The committee honored his request.

OPTION GRANTS AND EXERCISES IN 2005

The following table sets forth as to each of the Named Executives information with respect to options granted for the year ended December 31, 2005, and the present value of the options on the date of grant.

Stock Options

Name	Number of Securities Underlying Options Granted (1)	Percent of Total Options Granted to Employees In 2005	Exercise (\$/Sh) (1)	Expiration Date	Grant Date Present Value (\$ (3)
Bruce W. Marlow	484,848	28.8%	14.27	02/16/15	2,536,361
Michael J. Cassanego	106,061	6.3%	14.27	02/16/15	515,456
Dean E. Stark	95,455	5.7%	14.27	02/16/15	463,911
Richard A. Andre	83,515	5.0%	14.27	02/16/15	405,883
Lawrence P. Bascom	121,212	7.2%	14.27	02/16/15(2)	589,090

- (1) Options were granted to the Named Executives on February 16, 2005. The respective exercise price is equal to the closing price of \$14.27 of the Company's Common Stock on the date of grant, as reported in the Wall Street Journal, Western Edition. These options vest in three equal annual installments beginning February 16, 2006.
  
- (2) Shares expire on July 6, 2006.
  
- (3) Present value was calculated using the Black-Scholes option pricing model valued at \$4.86. Use of this model should not be viewed in any way as a forecast of the future performance of the Company's Common Stock, which will be determined by future events and unknown factors. The estimated values under the Black-Scholes model are based upon certain assumptions as to variables, including expected stock price volatility of .32, an annual interest rate of 3.92%, a dividend yield of 1.12% for the options granted on February 16, 2005, and an expected term of six (6) years.

## DECEMBER 31, 2005 OPTION VALUES

The following table provides information as to the value of options held by each of the Named Executives at December 31, 2005.

## AGGREGATED OPTION EXERCISES DURING THE YEAR ENDED

## DECEMBER 31, 2005, AND DECEMBER 31, 2005, OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2005 (#)		Value of Unexercised In-the-Money Options at December 31, 2005 (\$)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Bruce W. Marlow			1,475,109	890,718	1,563,904	2,034,321
Michael J. Cassanego			335,750	202,824	413,155	480,913
Dean E. Stark			353,284	183,062	377,015	435,164
Richard A. Andre			293,109	152,486	260,852	346,180
Lawrence P. Bascom			15,000	256,212	48,000	663,514

(1) In accordance with SEC reporting requirements, values of both exercisable and unexercisable options are based on the difference between the exercise price of each option and \$16.18, the closing price of the Company's Common Stock on December 31, 2005, as reported in The Wall Street Journal, Western Edition.

## EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants And Rights	Weighted- Average Exercise Price Of Outstanding Options, Warrants And Rights	Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (A))
Equity compensation plans approved by security holders	8,869,211	\$ 16.22	4,245,000
Equity compensation plans not approved by security holders	None	N/A	N/A
Total	8,869,211	\$ 16.22	4,245,000

## RETIREMENT PLANS

**Pension Plan.** The Company's Pension Plan is a noncontributory defined benefit plan for all regular employees under which normal retirement is at age 65 and early retirement can be elected by any participant who has reached age 55 and has at least 10 years of service. The plan, subject to certain maximum and minimum provisions, bases pension benefits on an employee's career average compensation and length of service. The annual pension benefit payable upon normal retirement is equal to the sum of the accruals for each year a participant was in the plan.

At retirement, the participant has various life and contingent annuity payment elections. For purposes of this plan, compensation includes base annual salary plus overtime and bonuses. These pension benefits serve as an offset in calculating benefits for participants under the Supplemental Executive Retirement Plan.

**Supplemental Executive Retirement Plan.** Employees nominated by the Chief Executive Officer and approved by the Board of Directors are eligible to participate in the Supplemental Executive Retirement Plan. The plan is a nonqualified defined benefit plan under which normal retirement is age 65 with at least 5 years of service, and early retirement can be elected by any participant who has reached age 55 with at least 10 years of service. The annual retirement benefit payable for 15 years is equal to 60% of the average of the three highest consecutive years of compensation during the ten-year period preceding retirement, reduced by the participant's benefit under the Pension Plan and 50% of the participant's social security benefit.

**Pension Supplemental Plan and 401(k) Supplemental Plan.** Effective January 1, 1996, the Company adopted the Pension Supplemental Plan and the 401(k) Supplemental Plan. Each is a non-qualified deferred compensation plan designed for certain executives and key employees of the Company whose benefits under the Company's qualified Pension and 401(k) Plans have been limited by certain provisions of the Internal Revenue Code (the "Code").

The Pension Supplemental Plan provides a benefit equal to the difference between the pension that would be payable under the Pension Plan, absent the Code's limitations upon compensation considered in calculating pension benefits, and the actual benefits payable subject to those limitations. If a participant in this plan is also entitled to receive benefits under the Supplemental Executive Retirement Plan, the Pension Supplemental Plan benefits will be reduced accordingly.

The 401(k) Supplemental Plan permits certain executives and key employees to defer an amount of current compensation which, in addition to amounts actually contributed to the 401(k) Plan, allows the participant to defer the full amount of contributions that could have been deferred under the 401(k) Plan without regard to limitations which the Code places on contributions and eligible compensation. To the extent that such limitations preclude a participant's account from receiving matching contributions under the 401(k) Plan, the participant will receive a like amount of matching contributions under the 401(k) Supplemental Plan.

The table below sets forth the benefit payable for 15 years after retirement from the Pension Plan, Supplemental Executive Retirement Plan, the Pension Supplemental Plan, and one-half of the Social Security benefit (assuming the recipient is entitled to the age 65 Social Security benefit).

Number of Years of Service

Final Average Compensation	5	10	15 or more
\$ 200,000	60,000	90,000	120,000
300,000	90,000	135,000	180,000
400,000	120,000	180,000	240,000
500,000	150,000	225,000	300,000
600,000	180,000	270,000	360,000
700,000	210,000	315,000	420,000
800,000	240,000	360,000	480,000
900,000	270,000	405,000	540,000
1,000,000	300,000	450,000	600,000
1,100,000	330,000	495,000	660,000
1,200,000	360,000	540,000	720,000
1,300,000	390,000	585,000	780,000
1,400,000	420,000	630,000	840,000
1,500,000	450,000	675,000	900,000

As set forth above, compensation used in calculating the Pension, Supplemental Executive Retirement Plan and Pension Supplemental retirement benefit includes annual base salary and bonuses and will approximate and fall within 10% of the total of 2003 through 2005 salary and bonus amounts shown in the Summary Compensation Table for the listed individuals.

The credited years for the Named Executives in the Summary Compensation Table are Bruce W. Marlow 5 years; Michael J. Cassanego 6 years; Dean E. Stark 26 years; Richard A. Andre 17 years; and Lawrence P. Bascom 1 year.

#### COMPANY PLANS AND AGREEMENTS

**Retention Agreements.** The agreements, with certain exceptions and limitations, require the Company to do the following in the event that an officer party to a Retention Agreement is terminated without Cause or resigns with Good Reason (as defined in the Retention Agreement) or in the event that a successor to the Company or an affiliate of the Company to which the officer is transferred fails to assume the Retention Agreement:

pay to such officer other than Mr. Marlow a cash lump sum equal to 2.5 times his or her annual base salary (Mr. Marlow is entitled to 3.5 times annual base salary);

vest all of such officer's stock options, waive the 90 day post-termination provisions in such officer's stock option agreements, and allow such options to be exercisable for their full remaining term, subject to a 5-year maximum; and

provide to the officer and his or her spouse and dependents for 30 months all life, disability, accident and health benefits at substantially similar benefit levels.

If the officer is entitled to and actually receives severance benefits payable under the Executive Severance Plan, he or she is not entitled to benefits under the Retention Agreement.



**Executive Severance Plan.** The Company has enacted an Executive Severance Plan covering each of its executive officers. If an officer is terminated for reasons other than death, long-term disability, or good cause within a three-year period following a change of control of the Company, or if the officer resigns after significant adverse changes in his authority, duties, compensation, benefits or geographical location during the three-year period following a change in control, then the officer is entitled to a lump sum severance payment of one to three times his or her current annual salary and most recent cash bonus. Junior officers are eligible to receive one year of severance payments; senior officers, two years; and the Chief Executive Officer, three years; with all severance payments limited to the amount deductible to the Company under the provisions of Internal Revenue Code Section 280G.

**Stock Option Plan.** In 2004, the Company's shareholders approved the Company's 2004 Stock Option Plan in order to enable the Company to attract, retain and motivate key employees and nonemployee directors and to further align their interests with those of the Company's shareholders by providing for or increasing their proprietary interest in the Company. The Stock Option Plan is administered by the Compensation Committee of the Board of Directors. The committee has the authority to select persons to be granted options and to determine exercise prices, vesting schedules and other provisions not inconsistent with the provisions of the Stock Option Plan.

Each option gives a grantee the right to purchase shares of the Company's Common Stock at a specified price in the future. Shares vest at fixed numbers of shares per year over varying future periods. The Stock Option Plan provides that on the day of an annual meeting of shareholders of the Company each nonemployee director will be granted an option to purchase 4,000 shares of the Company's Common Stock. Nonemployee director options have an exercise price equal to the fair market value of the underlying shares subject to the option on the date of grant and become exercisable one year after the date of grant.

**Restricted Shares Plan.** The shareholders at their meeting held on May 23, 1982 approved the 21st Century Insurance Group Restricted Shares Plan. Pursuant to the Plan, the Board of Directors established a committee of its members entitled the Compensation Committee (the Committee) to designate the participants in the Plan, the amount of benefits thereunder, and to otherwise administer the Plan. Members of the Committee are not eligible for benefits under the Plan. Designation of an employee for benefits under the Restricted Shares Plan does not necessarily entitle the employee to benefits under any other Company benefit plan.

In general, the shares granted are restricted for a period of three to five years, vesting uniformly over the prescribed period of time. If the employment of the participant is terminated within that restricted period, all shares not then vested are forfeited. Any shares forfeited may be regranted to an existing participant or any other employee eligible to be designated as a participant. During the restricted period, a participant has the right to receive dividends and the right to vote the shares.

The Plan does not create any right of any employee or class of employees to receive a grant, nor does it create in any employee or class of employees any right with respect to continuation of employment by the Company.

**Executive Medical Reimbursement Plan.** The Company offers an Executive Medical Reimbursement Plan covering each of its executive officers and their immediate family members. Reimbursement of up to \$5,000 of medical, dental, and

other similar expenses annually (that are not covered under the Company's other medical and dental plans) is available to the officers under a fully insured plan.

## COMPENSATION COMMITTEE REPORT ON EXECUTIVE MANAGEMENT COMPENSATION

The Compensation Committee (the Committee) is currently composed of one non-employee director, Mr. Sandler, and two non-employee, independent directors, Ms. Ellis and Dr. Foster. The Committee reviews the overall compensation program for the Chief Executive Officer and other members of senior management, including the executive officers listed in the Summary Compensation Table above (the named executive officers), and determines and administers their compensation, subject to approval by the entire Board. The Committee also oversees the administration of the Company's overall incentive compensation plans and equity-based compensation plans. In fulfilling these responsibilities, the Committee seeks input, as necessary, from independent consultants. The Committee submits the following report on executive compensation.

### GENERAL COMPENSATION POLICY

The Committee's fundamental policy has been to offer the Company's executive officers competitive compensation opportunities based in large part upon their contributions to the success of the Company and upon their personal performance. The Company believes in compensating its executives for demonstrated and sustained levels of performance in their individual jobs. The achievement of higher levels of performance and contribution is rewarded by higher levels of compensation. The Board of Directors' criteria for short-term compensation and long-term incentives for senior management are detailed below.

The compensation package is comprised of these three elements:

- (1) base salary, perquisites and other benefits designed principally to be competitive with compensation levels in the industry;
- (2) short-term incentive plan providing cash compensation based upon performance levels achieved in relation to pre-established target levels; and
- (3) long-term incentive plan providing stock option grants to its officers equal in value to the target percentages of base salary.

Some of the more important factors, which the Board considered in establishing the components of each executive officer's compensation package for the 2005 fiscal year, are summarized below.

### BASE SALARY, PERQUISITES AND OTHER BENEFITS

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Base salary for each officer is set subjectively, after reviewing personal performance, internal comparability considerations and salary levels in effect for comparable positions in the marketplace. The Company uses salary survey information to assign a salary grade range to each position, including executive officers. Salary range midpoints are targeted at the 50th percentile of like business enterprises in the same geographic area, if possible.

Salary recommendations for the year were based in part upon salary survey information published by the Property Casualty Insurers Association of America, SNL Executive Compensation Review for Insurance Companies, and Sibson & Company. The Committee believes that information provided by these groups presents a broadly based cross-section of insurance company compensation practices. Individual salary adjustments for executive officers were based upon analysis of base salary levels, effectiveness of performance, changes in job responsibilities and a subjective assessment of their personal contributions to the effectiveness of the organization as a whole. All of the factors enumerated were applied in a subjective, non-quantitative manner to establish an executive officer's base salary. The information examined in establishing these compensation levels does not include the compensation practices of the industry group utilized in the Shareholder Return Performance Graph shown on page 23 below because the industry group includes several companies which are not located within major metropolitan areas and

whose compensation packages are not necessarily indicative of the costs of living in a locale such as Los Angeles, California.

Senior executives are entitled to several benefits generally not available to all other Company employees. They include the Executive Medical Reimbursement, the Supplemental Executive Retirement, the Pension Supplemental and the 401(k) Supplemental Plans referenced below under Company Benefit Plans. The Company also pays for annual physical examinations, car allowances and the fees for DSL lines in their homes. The cost for these benefits for senior management totaled \$1,909,047 for 2005, including \$734,974 for Mr. Marlow and \$594,291 for the named executive officers.

**Supplemental Executive Retirement Plan.** Upon the specific approval of the Board of Directors, certain executives (currently only those with the rank of Vice President and above) are eligible for the Supplemental Executive Retirement Plan described below in this proxy statement under the section entitled Retirement Plans. The Committee considers this plan important for attracting and retaining key executives.

#### SHORT-TERM INCENTIVE COMPENSATION ( STI )

STI payments for the officers and other participants in the Company's STI Plan are based upon the enhancement of value to the shareholders as measured by a pre-established formula based on the Company's revenue growth rate and GAAP combined ratio. The CEO and participants receive STI payments based on targeted percentages of their base salary. The formula and targets were approved by the Company's Board of Directors, including, for Mr. Marlow, compliance with the Chief Executive Officer Short Term Incentive Plan ( CEO Plan ) approved by the shareholders in 2004. The overall amount of incentive compensation awarded was based on the Company's 2005 results using the approved formula and targeted percentages of base salary of all participants. Individual bonuses awarded were based upon the formula and applicable target income percentage, subject to modification based upon individual results and contributions. Meeting the target percentages for the CEO and the four named executive officers could result in payments to them of up to 200% of base salary. For 2005 performance, the CEO and the named executive officers were awarded STI payments of up to 108% of base salary. The Committee set the CEO's target bonus percentage at 150% of his paid salary.

#### LONG-TERM INCENTIVE COMPENSATION ( LTI )

The Company's LTI Plan currently uses stock option awards granted under this Plan as its long-term compensation vehicle for its executive officers and a choice of stock option awards or restricted shares grants to its managerial staff.

**Restricted Shares Plan.** The Board of Directors, based upon the recommendation of the Compensation Committee, may grant Restricted Shares Awards to executive officers and others consistent with a policy designed to align the interests of these individuals with those of the shareholders. Such grants provide officers with a significant incentive to manage the Company from the perspective of an owner with an equity stake in the Company. In 2005, no executive officer received a grant of Restricted Shares but other managers and professionals have outstanding grants totaling 84,016 Restricted Shares. In general, the shares granted are restricted for a period of three years, vesting uniformly over the prescribed period of time. If the participant's employment is terminated within that restricted period, all shares not then vested are forfeited. During the restricted period, a participant has the right to receive dividends and to vote the shares.

**Stock Option Plan.** In 2004, the Committee concluded that a stock option plan would enhance the linkage between shareholder value and executive compensation. Upon this Committee's recommendation, the Board of Directors adopted and shareholders approved the 2004 Stock Option Plan to replace the expiring 1995 Stock Option Plan. The Company's LTI Plan currently uses stock option awards granted under this Plan as its primary long-term compensation vehicle for its executive officers and as an optional one for other members of management. Eligible employees may receive stock options from time to time, giving them the right to purchase shares of the Company's common stock at a specified price in the future. The Stock Option Plan is currently administered by the Committee, which has authority to select optionees and to determine the number of shares

granted to them. Generally, options vest equally over a three-year period based on the grant date and have a ten-year term. All options are based upon the fair market value of Company common stock on the date of grant. Upon vesting, optionees are permitted to exercise any options at any time, subject to Company procedures and legal restrictions relating to insider trading. The LTI Plan currently provides for annual awards to executive officers equal in value to target percentages of base salary. During 2005, the Committee, utilizing an outside consultant, considered changes to the LTI Plan, including accelerated vesting of stock options, but did not approve any revisions. The Committee, in February 2006, granted stock options to the executive officers, including 561,331 options to Mr. Marlow and 441,268 options to the named executive officers.

**Retention Agreements.** In order to retain certain members of management, the Company has entered into retention agreements with five senior officers. The Board of Directors has approved these agreements to minimize the distractions or concerns these executives may have regarding substantial or adverse changes at the Company. Retention agreements were entered into with Richard A. Andre, Lawrence P. Bascom, Michael J. Cassanego, Bruce W. Marlow and Dean E. Stark. These retention agreements are summarized under the section entitled "Retention Agreements" below. On December 14, 2005, the Board of Directors approved changes to the Company's Retention Agreements with these executives to avoid potential taxes to the executives under Section 409A of the Internal Revenue Code of 1986 ("Section 409A"). None of the changes enhanced the benefits to the executives in any respect. Certain changes were made to comply with Section 409A requirements. Other changes were made to ensure that the severance benefit did not constitute "deferred compensation" under Section 409A, particularly with respect to outstanding stock options. Certain changes were also made to the form of stock option agreements for stock option grants made in February 2006, to the foregoing executives, to ensure compliance with Section 409A.

**Executive Severance Plan.** The Company maintains an "Executive Severance Plan" for the protection of its interests and those of the executive officers in the case of a Change of Control, as defined therein. The goal is to maintain the continuity of company operations. This plan is further described under the section entitled "Executive Severance Plan".

## CEO COMPENSATION

Bruce W. Marlow's annual salary of \$800,000 remained unchanged during 2005 per his request. In February 2005, Mr. Marlow received an LTI award of 484,848 stock options under the 2004 Stock Option Plan. He also received, in February 2006, an STI award of \$864,000 for services rendered in 2005, based upon the STI formula and targeted percentage of salary previously approved by the Committee and Board of Directors.

The Compensation Committee's recommendations as outlined in this report for compensation of the CEO and named executive officers have been submitted to, reviewed and approved by the Board of Directors.

The Company has reviewed Section 162(m) of the Internal Revenue Code, which generally limits the deduction of compensation paid to a company's chief executive officer and each of the other four highest compensated executive officers, to \$1,000,000 for each individual, unless certain requirements for performance-based compensation are satisfied. The Committee believes that payments to Mr. Marlow pursuant to the CEO Plan will be deductible under Section 162(m). None of the compensation deduction attributable to stock options granted by the Company is limited by this section, but compensation deductions attributable to restricted stock grants, generally equaling the fair market value of the underlying stock on the date of vesting, do not qualify as an exception. While the Compensation Committee considers Section 162(m) in evaluating compensation of executive officers, it is only one of several factors considered in arriving at a compensation package.

Submitted by the Compensation Committee.

Robert M. Sandler  
Carlene M. Ellis  
R. Scott Foster



COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

As indicated above, the Company's Compensation Committee consists of Robert M. Sandler, Carlene M. Ellis and R. Scott Foster. No Committee member is or was an officer or employee of the Company or any of its subsidiaries.

Bruce W. Marlow, Director and Chief Executive Officer also participated in deliberations concerning executive officers' compensation during 2005, other than his own. Mr. Marlow has been Chief Executive Officer and a director since February 9, 2000.

**SHAREHOLDER RETURN PERFORMANCE GRAPH**



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Set forth below is a line graph comparing the cumulative total shareholder return on the Company's Common Stock against the cumulative total return of the Standard & Poor's 500 Stock Index and the Standard & Poor's Property & Casualty Insurance Index for the period of five years commencing December 31, 2000, and ending December 31, 2005. The graph and table assume the \$100 was invested on December 31, 2000, in each of the Company's Common Stock, the Standard & Poor's 500 Stock Index and the Standard & Poor's Property & Casualty Insurance Index, and that all dividends were reinvested. This data was furnished by Research Data Group, Inc.

	<b>Cumulative Total Return</b>					
	12/00	12/01	12/02	12/03	12/04	12/05
21st Century (TW)	100.00	138.95	91.10	100.67	100.15	120.41
S&P 500	100.00	88.12	68.64	88.33	97.94	102.75
S&P P&C	100.00	91.98	81.85	103.46	114.24	131.51

## INDEPENDENT AUDITORS

## (PROPOSAL 2)

The Audit Committee has approved a resolution retaining PricewaterhouseCoopers LLP as the Company's independent auditors for 2006. It is intended that unless otherwise directed by the shareholders, proxies will be voted for the ratification of this appointment.

The following table describes fees for professional audit services rendered by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, for the audit of our annual financial statements for the years ended December 31, 2005, and December 31, 2004, and fees billed for other services rendered by PricewaterhouseCoopers LLP during those periods.

	2005	2004
Audit Fees (1)	\$ 948,000	\$ 1,401,000
Audit Related Fees (2)	94,000	30,000
Tax Fees		
All Other Fees (3)	1,000	31,000
<b>Total</b>	<b>\$ 1,043,000</b>	<b>\$ 1,462,000</b>

(1) Includes fees associated with the annual audits of the Company's consolidated financial statements, reviews of the Company's quarterly reports on Form 10-Q, statutory audits of the financial statements of the Company's insurance subsidiaries, issuance of comfort letters and consents, and assistance with review of documents filed with the SEC.

(2) Includes assurance and related services not included in Audit Fees, including audits of employee benefit plans and an actuarial opinion provided in connection with a licensing application filed with the state of Minnesota.

(3) Includes use of research tool software owned by PricewaterhouseCoopers LLP. The 2004 expenditures include fees involving a privacy market conduct examination in Washington, DC of AIG and the Company.

#### Procedures For Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

Pursuant to its charter, the Audit Committee of the Board of Directors is responsible for reviewing and approving, in advance, any audit and any permissible non-audit engagement or relationship between the Company and its independent auditors. PricewaterhouseCoopers LLP's engagement to conduct the 2005 audit of the Company was approved by the Audit Committee on February 15, 2005. Additionally, each permissible non-audit engagement or relationship between the Company and PricewaterhouseCoopers LLP entered during the last fiscal year has been reviewed and approved by the Audit Committee, as provided in its charter.

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We have been advised by PricewaterhouseCoopers LLP that substantially all of the work done in conjunction with its audit of the Company's financial statements for the most recently completed fiscal year was performed by full-time employees and partners of PricewaterhouseCoopers LLP.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the annual meeting to make a statement, if they desire, and to be available to respond to appropriate questions.

### **REPORT OF THE AUDIT COMMITTEE**

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors, including oversight of the integrity of the Company's financial statements and the effectiveness of the system of

internal controls, compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditor and the performance of the Company's internal audit function, and is comprised of the four directors listed below. Each committee member is an independent director as defined by the rules of the NYSE. In addition, the Board of Directors has determined that Mr. Renken also qualifies as an audit committee financial expert as defined in Item 401(h)(2) of regulation S-K. In fulfilling its oversight responsibilities, the Committee reviewed the audited consolidated financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the consolidated financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited consolidated financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards. In addition, the Committee has discussed with the independent auditors the auditors' independence from the Company and its management including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 and has considered the compatibility of non-audit services with the auditors' independence. The independent auditors also represented that their presentations during the discussions referred to above included the matters required to be discussed with the independent auditors by Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee met with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's consolidated financial reporting.

During the course of the 2005 fiscal year, management completed the testing and evaluation of Company's system of internal control over financial reporting in accordance with the requirements set forth in Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations. The Audit Committee was kept apprised of the progress of the evaluation and provided oversight and advice to management during the process. In connection therewith, the Committee received periodic updates provided by management and PricewaterhouseCoopers LLP. The Committee reviewed the report of management contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the SEC, as well as PricewaterhouseCoopers LLP's Report of Independent Registered Public Accounting Firm included in the Company's Annual Report on Form 10-K related to its audit of (i) the consolidated financial statements and financial statement schedule, (ii) management's assessment of the effectiveness of internal control over financial reporting, and (iii) the effectiveness of internal control over financial reporting. The Committee continues to oversee the Company's efforts related to its internal control over financial reporting and management's preparations for its evaluation for 2006 year.

In reliance on the reviews and discussions referred to above, this Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the SEC.

The Audit Committee's recommendations as outlined in this report have been submitted to, reviewed, and approved by the Board of Directors.

Submitted by the Audit Committee

John B. De Nault, III  
Carlene M. Ellis  
R. Scott Foster  
Keith W. Renken



## SHAREHOLDERS PROPOSALS

### AT 2006 ANNUAL MEETING OF SHAREHOLDERS

If a shareholder desires to present a proposal at the Annual Meeting of Shareholders of the Company for the year 2007, such proposal must conform with all of the requirements of Rule 14a-8, paragraphs (a), (b), and (c) under the Securities Exchange Act of 1934, and must be received at the principal executive offices of the Company at 6301 Owensmouth Avenue, Woodland Hills, California 91367 no later than December 22, 2006. In addition, if shareholders wish to present other matters for action at the 2007 Annual Meeting of Shareholders (other than matters included in the Company's proxy materials in accordance with Rule 14a-8 under the Securities Exchange Act of 1934), the Company must receive such notice at the address noted above no earlier than February 5, 2007 and no later than March 7, 2007.

## ADDITIONAL INFORMATION

The Annual Report to Shareholders on Form 10-K for the year ended December 31, 2005, is being mailed to the shareholders along with this Proxy Statement.

On request, the Company will provide, without charge, a copy of 21st Century Insurance Group's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The request may be directed to the principal executive offices of the Company at 6301 Owensmouth Avenue, Woodland Hills, California 91367.

Any shareholder interested in communicating with members of the Board of Directors may send written communications to the Board of Directors or any of the Directors, to the attention of the Corporate Secretary. The e-mail address, mailing address and telephone number are available on the Company website, 21st.com. Communications, including suggestions of nominees eligible to become members of the Board of Directors, are forwarded to the Board of Directors or to any individual director or directors to whom the communication is directed, unless the communication is unduly hostile, threatening, illegal, does not reasonably relate to the Company or its business, or is similarly inappropriate. The Corporate Secretary has the authority to discard or disregard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications.

## OTHER BUSINESS

The Company is unaware of any matter to be acted upon at the meeting by shareholder vote, except the election of directors and ratification of the appointment of independent auditors. In the case of any matter properly coming before the meeting for shareholder vote, the proxies named in the proxy card accompanying this statement shall vote shares held by them in accordance with their best judgment.

APPENDIX A

21ST CENTURY INSURANCE GROUP

DIRECTOR INDEPENDENCE STANDARDS

Pursuant to the New York Stock Exchange ( NYSE ) listing standards, a director shall be deemed to have a material relationship with 21st Century Insurance Group and its affiliates ( 21st ) and shall not be considered independent if any of the following relationships with 21st exists:

A director who is, or has been within the last three years, employed by 21st or AIG or has an immediate family member employed as an executive officer of 21st.

A director who receives, or has an immediate family member who has received, during any twelve month period within the last three years, more than \$100,000 from 21st or AIG, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not in any way contingent on continued service) and other than compensation received by an immediate family member as a non-executive employee of 21st or AIG.

A director (A) who is or has an immediate family member who is, a current partner of a firm that is 21st's internal or external auditor; (B) who is a current employee of such a firm; (C) who has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (D) who was, or has an immediate family member who was, within the last three years (but no longer) a partner or employee of such a firm and personally worked on 21st's audit within that time.

A director who is, or has been within the last three years, employed, or has an immediate family member who is, or has been within the last three years, employed as an executive officer of another company where any of 21st's present executives serves on that company's compensation committee.

A director who is currently employed, or has a family member currently employed as an executive officer, by a for-profit company that makes payments to or receives payments from 21st for property or services in an amount which, in any of the last three fiscal years, exceeds, in any single fiscal year, the greater of \$1 million or 2% of the other company's consolidated gross revenues.

The following relationships and transactions shall not be deemed material for purposes of the NYSE listing standards. The fact that a particular relationship or transaction is not addressed by the below standards or exceeds the thresholds in these standards shall not create a presumption

that the director is or is not independent .

A relationship arising solely from a director's status as an executive officer, employee or a greater than 10% equity owner of a for-profit corporation or organization that has made payments to or received payments from 21st or AIG so long as the payments made or received during any of the past three fiscal years are not in excess of the greater of \$1 million or 2% of the other company's consolidated gross revenues for the fiscal year in which the payments were made (based on the other company's most recently available financial statements).

A relationship arising solely from director's ownership of 10% or less of the equity interests in an entity that has a relationship or engages in a transaction with 21st or AIG.

A relationship arising solely from a director's position as a director or advisory director (or similar position) of another for-profit or not-for-profit corporation or organization that engages in a transaction with 21st or AIG or receives contributions from 21st, AIG or the Starr Foundation.

A relationship arising solely from a director's affiliation with a charitable organization as an executive

officer that receives contributions from 21st, AIG or The Starr Foundation, so long as such contributions (other than employee matching contributions) for a calendar year are not in excess of the greater of \$1 million or 2% of the organization's consolidated gross revenues for the charitable organization's most recent fiscal year for which financial statements are publicly available.

The ownership by a director of equity securities of 21st or AIG.

Any other relationship or transaction that is not required to be disclosed pursuant to Item 404(a) of Regulation S-K.

Any relationship or transaction with an immediate family member of a director that would fall within one of the preceding standards.

In addition to satisfying all of the independence criteria set forth above, all members of the Audit Committee must also meet the following requirements:

Director's fees are the only compensation that members of the Audit Committee may receive from the Company or AIG. Audit Committee members may not receive consulting, advisory or other compensatory fees from the Company or AIG (other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other committee of the Board).

No member of the Audit Committee may be an affiliated person of the Company, any of its subsidiaries, or AIG, as such term is defined by the Securities and Exchange Commission.

**APPENDIX B**

**21ST CENTURY INSURANCE GROUP**

**AUDIT COMMITTEE CHARTER**

**I. Purpose of the Audit Committee**

The Audit Committee (the Committee) of the Board of Directors (the Board) of 21st Century Insurance Group (21st) shall:

A. Represent and assist the Board in fulfilling its oversight responsibility for:

- (i) the integrity of 21st's financial statements and the effectiveness of the system of internal controls,
- (ii) 21st's compliance with legal and regulatory requirements,
- (iii) the qualifications, independence and performance of 21st's independent auditor and
- (iv) the performance of 21st's internal audit function; and

B. Review and approve the Audit Committee report that the Securities and Exchange Commission (SEC) rules require to be included in 21st's annual proxy statement.

**II. Responsibilities**

21st's business is managed under the oversight of the Board and the various committees of the Board, including the Committee. The basic responsibility of the Committee is to exercise its business judgment in carrying out the responsibilities described in this Charter in a manner the Committee members reasonably believe to be in the best interests of 21st and its shareholders.

The preparation of 21st's financial statements in accordance with generally accepted accounting principles is the responsibility of management. The independent auditor is responsible for the planning and conducting of audits and determining whether the financial statements present fairly in all material respects 21st's financial position and results of operations.

**III. Committee Membership**





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The Committee shall be comprised of at least three directors, each of whom shall serve at the pleasure of the Board and be independent under the rules of the New York Stock Exchange, Inc. ( NYSE ) applicable to directors and audit committee members, as determined by the Board. The Board shall appoint a chairperson of the Committee.

Each member of the Committee shall be financially literate , and at least one member of the Committee shall be an audit committee financial expert as defined by SEC rules, each as determined by the Board.

No Committee member shall simultaneously serve on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of that Committee member to effectively serve on the Committee.

Determinations of independence, audit committee financial expertise, financial literacy and accounting or related financial management expertise shall be made by the Board as the Board interprets such qualifications in its business judgment and in accordance with applicable law and regulation, including SEC and NYSE rules.

#### **IV. Organization**



The Committee will endeavor to meet at least once every fiscal quarter or more frequently as it deems necessary or appropriate to carry out its responsibilities.

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**The chairperson of the Committee shall, in consultation with other Committee members, set the agenda for and preside at meetings of the Committee. The Secretary of 21st or another designated individual shall record and keep minutes of all Committee meetings.**

**V. Relationship with Independent Auditor**

A. The independent auditor for 21st is accountable to the Board and the Committee, as representatives of the shareholders. The Committee, in its capacity as a committee of the Board, shall be directly responsible for the appointment, compensation, retention, and oversight of the work of the independent auditor, who shall report directly to the Committee (including resolution of disagreements between management and the independent auditor regarding financial reporting) and any other registered public accounting firm retained for the purpose of preparing or issuing an audit report or performing other audit, review, or attestation services for 21st. The Committee's selection shall annually be submitted to 21st's shareholders for ratification.

B. The Committee shall discuss with the independent auditor, at least on an annual basis, the matters required to be discussed by

- (1) Statement on Auditing Standards No. 61, as it may be amended, relating to the conduct of the audit and
- (2) Statement on Auditing Standards No. 100, as it may be amended ( SAS100 ), relating to the conduct of a review of interim financial information.

C. The Committee shall review with the independent auditor the items as to which the independent auditor is required to report to the Committee pursuant to Section 10A(k) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), and any rules and regulations promulgated thereunder, as in effect from time to time. These include

- (1) all critical accounting policies and practices to be used,
- (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management,
- (3) the ramifications of the use of such alternative disclosures and treatment,
- (4) the treatment preferred by the independent auditor and
- (5) other material written communications between the independent auditor and management.

D. The Committee shall review with the independent auditor

- (1) any management letter provided by the independent auditor and management's response to that letter,
- (2) a summary of the major audit reports issued by the internal audit department and management's response thereto, and

(3) any accounting adjustments that were noted or proposed by the independent auditor but were passed (as immaterial or otherwise).

E. The Committee shall review with the independent auditor audit problems or difficulties encountered by the independent auditor in the course of its annual audit work and management's response, including any restrictions on the scope of the independent auditor's activities or access to required information, and any significant disagreements with management.

F. The Committee shall obtain from the independent auditor assurance that the audit was conducted in a manner consistent with Section 10A of the Exchange Act, which sets forth certain procedures to be followed in any audit of financial statements required under the Exchange Act.

G. As required by the NYSE, the Committee shall, at least annually, obtain and review a report by the independent auditor describing

- (1) the firm's internal quality-control procedures,
- (2) any material issues raised by
  - a. the most recent internal quality-control review (or peer review) of the firm or
  - b. any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues,
- (3) any steps taken to deal with any such issues, and
- (4) all relationships between the independent auditor and 21st, including the matters set forth in the letter provided by the independent auditor pursuant to Independence Standards Board Standard No.1, and any other relationships that may affect the auditor's independence, to enable the Committee to assess the independent auditor's independence. This evaluation shall take into account the opinions of management and the internal auditors.

H. The Committee shall annually receive a formal written statement from the independent auditor on the fees billed in each of the last two fiscal years for each of the following categories of services rendered by the independent auditor:

- (1) the audit of 21st's annual financial statements and the reviews of the financial statements included in 21st's Quarterly Reports on Form 10-Q or services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements;
- (2) assurance and related services not included in clause (1) that are reasonably related to the performance of the audit or review of 21st's financial statements, in the aggregate and by each service;
- (3) tax compliance, tax advice and tax planning services, in the aggregate and by each service; and
- (4) all other products and services rendered by the independent auditor, in the aggregate and by each service.

I. The Committee shall at least annually evaluate the qualifications, performance, and independence of the independent auditor, including the lead partner of the independent audit (in each case, in light of SEC and NYSE independence and other applicable standards then in effect). In this regard, the Committee will consider whether the provision of permitted non-audit services is compatible with maintaining the independent auditor's independence.

The Committee shall assure the regular rotation of the lead audit partner at least every five years as required by law and shall consider and discuss with management whether there should be a regular rotation of the independent auditor itself.

J. The Committee shall present its conclusions with respect to the independent auditor to the Board at least annually.

K. The Committee shall set clear policies for 21st s hiring of employees or former employees of the independent auditor.

**VI. Financial Disclosure**





A. The Committee shall meet with the independent auditor and the principal internal auditor, prior to the commencement of the annual audit, to review and discuss the planning and scope of the audit.

B. The Committee shall generally discuss the type and presentation of information to be included in earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies. It is not expected that the Committee will pre-approve each such release or guidance. The Committee shall discuss 21st s quarterly earnings press releases with management and the independent auditor prior to public release.

C. The Committee shall meet to review and discuss generally with management and the independent auditor the annual audited financial statements and the quarterly financial statements, including 21st s specific disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations . The Committee shall also review and discuss 21st s disclosure controls and procedures with management on a quarterly basis. The Committee shall recommend to the Board whether the audited financial statements should be included in 21st s Annual Report on Form 10-K.

D. The Committee shall discuss with management, the internal auditors, and the independent auditor major issues regarding accounting principles and financial statement presentations, including

- (1) any significant change in 21st s selection or application of accounting principles,
- (2) any major issues relating to the adequacy of 21st s internal controls,
- (3) any audit steps adopted in light of material control deficiencies,
- (4) the effect of regulatory and accounting initiatives on 21st s financial statements,
- (5) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of 21st s financial statements and
- (6) any fraud, material or otherwise, that involved management or other employees who have a significant role in 21st s internal controls and that have come to the attention of management, the internal auditors or the independent auditor.

**VII. Communication with Management and Employees**

A. The Committee shall review and discuss with 21st's General Counsel legal, compliance or regulatory matters that may have a material impact on 21st's business, financial statements or compliance policies and any material reports or inquiries received from regulators and government agencies.

B. The Committee will endeavor to meet at least quarterly in separate private sessions with management, the director of the principal internal auditor, and the independent auditor to discuss any matters that the Committee believes appropriate. The Committee may request any officer or employee of 21st or its subsidiaries, 21st's outside counsel, or independent auditor to attend a meeting of the Committee or to meet with any members of, or experts and advisors to, the Committee.

C. The Committee shall establish, oversee and review procedures for the receipt, retention, and treatment of complaints received regarding accounting, internal accounting controls, or auditing matters and for the confidential and anonymous submission by 21st employees of concerns regarding accounting or auditing matters.

**VIII. Other Responsibilities**

- A. The Committee shall review and discuss the organization of the internal audit department, the adequacy of its resources, and the competence of its staff.
- B. The Committee shall review and discuss the scope and results of the risk assessment and internal audit annual plan and ensure that there are no unjustified restrictions or limitations on the internal audit department.
- C. The Committee shall review and concur the appointment, replacement, and dismissal of the principal internal auditor.
- D. The Committee shall annually review the adequacy of (and compliance with) the Company Code of Business Conduct and its Code of Ethics for the CEO, CFO, and Financial Managers.
- E. The Committee shall prepare any report or other disclosure required by the Committee pursuant to the rules of the SEC for inclusion in 21st s annual proxy statement.
- F. The Committee shall discuss the guidelines and policies governing the process by which senior management of 21st and the relevant operations of 21st assess and manage 21st s exposure to risk, as well as 21st s major financial risk exposures, and the steps management has taken to monitor and control such exposures.
- G. The Committee shall pre-approve all audits and permitted non-audit services from the independent auditor as required by SEC rules and establish policies and procedures for the pre-approval of audit and permissible non-audit services to be provided by the independent auditor.

H. The Committee may delegate authority to individual Committee members, as the Committee deems appropriate, and shall review the actions of such individuals as appropriate. The chairperson of the Committee is delegated the authority to discuss with the independent auditor the matters required to be discussed by SAS100.

I. The Committee shall report regularly to the Board. The Committee shall review with the Board any issues that arise with respect to the overall risk environment, the quality or integrity of 21st s financial statements, 21st s compliance with legal or regulatory requirements, the performance and independence of 21st s independent auditor, and the performance of the internal audit function.

J. The Committee shall exercise such other powers and authority as the Board shall, from time to time, confer upon it.

**IX. Committee Self-Assessment**

The Committee shall conduct an annual evaluation of its performance and report the results of such review to the Board. In connection with that annual review, the Committee shall also recommend to the Board any modifications of this Charter that the Committee deems necessary or appropriate. The Committee shall determine the format of the self-assessment.

**X. Resources and Authority of the Committee**

The Committee shall have direct access to, and complete and open communications with, senior management and may obtain advice and assistance from internal legal, accounting, and other advisors to assist it, as it determines necessary to carry out its duties. The Committee may, without seeking the approval of the Board, retain independent legal, accounting, and other advisors to assist it, and may determine the compensation of such advisors, and 21st shall be responsible for any costs or expenses so incurred. 21st shall also be responsible for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

As of December 13, 2005.

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ANNUAL MEETING OF SHAREHOLDERS OF

21ST CENTURY INSURANCE GROUP

May 24, 2006

Proof #1

Please date, sign, and mail your proxy card in the envelope provided as soon as possible.

Please detach along perforated line and mail in the envelope provided.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF DIRECTORS AND FOR PROPOSAL 2. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE y

1. Election of Directors:		FOR	AGAINST	ABSTAIN
<input type="radio"/>	FOR ALL NOMINEES	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<input type="radio"/>	WITHHOLD AUTHORITY			
<input type="radio"/>	FOR ALL EXCEPT			
	(See instructions below)			

  

<b>NOMINEES:</b>	2. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent auditors of the Company for 2006.
S. J. Bensinger	
J. B. De Nault, III	3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.
C. M. Ellis	
R. S. Foster, M.D.	

  

Unless otherwise marked, the proxies are appointed with authority to vote FOR all nominees for election, FOR Item 2, and in their discretion, to vote upon matters which may properly come before the meeting.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

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B. W. Marlow  
K. W. Renken  
R. M. Sandler  
T. R. Tizzio

**INSTRUCTION:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here:

**PLEASE CHECK THIS BOX IF YOU PLAN TO ATTEND THE MEETING.**

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Shareholder

Date:

Signature of  
Shareholder

Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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**Proof #1**

**21ST CENTURY INSURANCE GROUP**

**PROXY**

**This Proxy is Solicited on Behalf of the Board of Directors**

The undersigned hereby appoints Robert M. Sandler, Ssteven J. Bensinger and Bruce W. Marlow as Proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this card, all the shares of common stock of 21st Century Insurance Group held of record by the undersigned on April 3, 2006 at the Annual Meeting of Shareholders to be held at the Sheraton Universal Hotel, 333 Universal Hollywood Drive, Universal City, California 91608 on May 24, 2006 at 10:00 A.M. or any adjournment thereof.

**(Continued and to be signed on other side.)**

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ANNUAL MEETING OF SHAREHOLDERS OF

**21ST CENTURY INSURANCE GROUP**

May 24, 2006

Proof #1

**PROXY VOTING INSTRUCTIONS**

**MAIL** - Date, sign and mail your proxy card in the envelope provided as soon as possible.

- OR -

**COMPANY NUMBER  
ACCOUNT NUMBER**

**TELEPHONE** - Call toll-free **1-800-PROXIES** (1-800-776-9437) from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

- OR -

**INTERNET** - Access **www.voteproxy.com** and follow the on-screen instructions. Have your proxy card available when you access the web page.

You may enter your voting instructions at 1-800-PROXIES or www.voteproxy.com up until 11:59 PM Eastern Time the day before the cut-off or meeting date.

Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF DIRECTORS AND FOR PROPOSAL 2.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE ↓**

1. Election of Directors:

FOR

AGAINST

ABSTAIN

X.

Resources and Authority of the Committee

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- FOR ALL NOMINEES**
  - NOMINEES:**
  - S. J. Bensinger
  - J. B. De Nault,
  - III
- WITHHOLD AUTHORITY FOR ALL NOMINEES**
  - C. M. Ellis
  - R. S. Foster,
  - M.D.
  - R. M. Gillespie
- FOR ALL EXCEPT**
  - J. L. Hayman
  - P. L. Isenberg

2. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent auditors of the Company for 2006.

3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

**Unless otherwise marked, the proxies are appointed with authority to vote FOR all nominees for election, FOR Item 2, and in their discretion, to vote upon matters which may properly come before the meeting.**

(See instructions below)

- B. W. Marlow
- K. W. Renken
- R. M. Sandler
- T. R. Tizzio

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.**

**INSTRUCTION:** To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here:

**PLEASE CHECK THIS BOX IF YOU PLAN TO ATTEND THE MEETING.**

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Shareholder \_\_\_\_\_ Date: \_\_\_\_\_ Signature of Shareholder \_\_\_\_\_ Date: \_\_\_\_\_

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.