

MEADOWBROOK INSURANCE GROUP INC  
Form 10-Q  
August 09, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-14094

Meadowbrook Insurance Group, Inc.  
(Exact name of Registrant as specified in its charter)

Michigan  
(State of Incorporation)

38-2626206  
(IRS Employer Identification No.)

26255 American Drive, Southfield, Michigan 48034  
(Address, zip code of principal executive offices)

(248) 358-1100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate number of shares of the Registrant's Common Stock, \$.01 par value, outstanding on August 2, 2012, was 49,776,011.

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## PART 1 - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

MEADOWBROOK INSURANCE GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended June 30,

	2012	As Adjusted 2011
	(Unaudited)	
	(In thousands, except share data)	
Revenues		
Premiums earned		
Gross	\$ 248,581	\$ 209,676
Ceded	(37,278 )	(28,206 )
Net earned premiums	211,303	181,470
Net commissions and fees	8,552	7,897
Net investment income	13,683	13,765
Realized gains (losses):		
Total other-than-temporary impairments on securities	-	-
Portion of loss recognized in other comprehensive income	-	-
Net other-than-temporary impairments on securities recognized in earnings	-	-
Net realized gains excluding other-than-temporary impairments on securities	1,567	1,094
Net realized gains	1,567	1,094
Total revenues	235,105	204,226
Expenses		
Losses and loss adjustment expenses	196,976	141,356
Reinsurance recoveries	(31,218 )	(19,953 )
Net losses and loss adjustment expenses	165,758	121,403
Policy acquisition and other underwriting expenses	68,993	62,694
General, selling and administrative expenses	6,327	5,631
General corporate expenses	758	(719 )
Amortization expense	1,307	1,206
Interest expense	2,033	2,082
Total expenses	245,176	192,297
(Loss) income before taxes and equity earnings	(10,071 )	11,929
Federal and state income tax (benefit) expense	(1,782 )	2,323
Equity earnings of affiliates, net of tax	562	173
Equity (losses) earnings of unconsolidated subsidiaries, net of tax	(5 )	1
Net (loss) income	\$ (7,732 )	\$ 9,780
(Losses) Earnings Per Share		
Basic	\$ (0.15 )	\$ 0.18
Diluted	\$ (0.15 )	\$ 0.18
Weighted average number of common shares		
Basic	50,251,591	53,100,479

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Diluted	50,251,591	53,248,573
Dividends paid per common share	\$ 0.05	\$ 0.04

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of ContentsMEADOWBROOK INSURANCE GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME

For the Six Months Ended June 30,

	2012	As Adjusted 2011
	(Unaudited)	
	(In thousands, except share data)	
Revenues		
Premiums earned		
Gross	\$ 476,027	\$ 410,362
Ceded	(71,909 )	(58,234 )
Net earned premiums	404,118	352,128
Net commissions and fees	17,517	16,335
Net investment income	27,415	27,337
Realized gains (losses):		
Total other-than-temporary impairments on securities	-	(84 )
Portion of loss recognized in other comprehensive income	-	-
Net other-than-temporary impairments on securities recognized in earnings	-	(84 )
Net realized gains excluding other-than-temporary impairments on securities	2,299	1,990
Net realized gains	2,299	1,906
Total revenues	451,349	397,706
Expenses		
Losses and loss adjustment expenses	358,495	270,079
Reinsurance recoveries	(59,990 )	(43,414 )
Net losses and loss adjustment expenses	298,505	226,665
Policy acquisition and other underwriting expenses	132,106	120,851
General, selling and administrative expenses	12,666	11,875
General corporate expenses	2,131	636
Amortization expense	2,723	2,438
Interest expense	4,010	4,254
Total expenses	452,141	366,719
(Loss) income before taxes and equity earnings	(792 )	30,987
Federal and state income tax expense	73	7,782
Equity earnings of affiliates, net of tax	1,250	1,246
Equity losses of unconsolidated subsidiaries, net of tax	(13 )	(22 )
Net income	\$ 372	\$ 24,429
Earnings Per Share		
Basic	\$ 0.01	\$ 0.46
Diluted	\$ 0.01	\$ 0.46
Weighted average number of common shares		
Basic	50,583,368	53,175,824
Diluted	50,583,368	53,323,802
Dividends paid per common share	\$ 0.10	\$ 0.08

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of ContentsMEADOWBROOK INSURANCE GROUP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended June 30,

	2012	As Adjusted 2011
	(Unaudited)	
	(In thousands)	
Net (loss) income	\$(7,732 )	\$ 9,780
Other comprehensive (loss) income, net of tax:		
Unrealized gain on securities	7,900	13,528
Unrealized gains in affiliates and unconsolidated subsidiaries	16	50
Increase (decrease) on non-credit other-than-temporary impairments on securities	34	(231 )
Net deferred derivative losses - hedging activity	(413 )	(381 )
Less reclassification adjustment for investment gains included in net income	(1,645 )	(1,070 )
Other comprehensive gains	5,892	11,896
Comprehensive (loss) income	\$(1,840 )	\$ 21,676

MEADOWBROOK INSURANCE GROUP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Six Months Ended June 30,

	2012	As Adjusted 2011
	(Unaudited)	
	(In thousands)	
Net income	\$372	\$ 24,429
Other comprehensive income, net of tax:		
Unrealized gains on securities	7,732	11,148
Unrealized gains (losses) in affiliates and unconsolidated subsidiaries	165	(1 )
Increase on non-credit other-than-temporary impairments on securities	292	85
Net deferred derivative (losses) gains - hedging activity	(113 )	285
Less reclassification adjustment for investment gains included in net income	(2,356 )	(1,880 )
Other comprehensive gains	5,720	9,637
Comprehensive income	\$6,092	\$ 34,066

The accompanying notes are an integral part of the Consolidated Financial Statements.



Table of ContentsMEADOWBROOK INSURANCE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	As Adjusted December 31, 2011
(In thousands, except share data)		
<b>ASSETS</b>		
Investments		
Debt securities available for sale, at fair value (amortized cost of \$1,352,554 and \$1,252,775)	\$ 1,466,000	\$ 1,358,749
Equity securities available for sale, at fair value (cost of \$23,065 and \$25,176)	25,823	27,174
Cash and cash equivalents	88,159	101,757
Accrued investment income	14,528	13,757
Premiums and agent balances receivable, net	216,485	183,160
Reinsurance recoverable on:		
Paid losses	12,788	9,870
Unpaid losses	349,361	315,884
Prepaid reinsurance premiums	37,678	33,754
Deferred policy acquisition costs	80,554	74,467
Goodwill	121,041	120,792
Other intangible assets	32,837	34,483
Other assets	102,351	96,251
Total assets	\$ 2,547,605	\$ 2,370,098
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities		
Losses and loss adjustment expenses	\$ 1,301,002	\$ 1,194,977
Unearned premiums	424,760	386,750
Debt	61,000	28,375
Debentures	80,930	80,930
Accounts payable and accrued expenses	39,233	38,716
Funds held and reinsurance balances payable	34,264	25,903
Payable to insurance companies	6,059	4,321
Deferred income taxes, net	8,966	8,453
Other liabilities		