

MEADOWBROOK INSURANCE GROUP INC

Form 10-Q

August 10, 2009

Table of Contents

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 2009**
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Edgar Filing: MEADOWBROOK INSURANCE GROUP INC - Form 10-Q

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 3, 2009, was 57,447,707.

TABLE OF CONTENTS

		Page
<u>PART I FINANCIAL INFORMATION</u>		
<u>ITEM 1</u>	<u>FINANCIAL STATEMENTS</u>	
	<u>Consolidated Statements of Income (unaudited)</u>	2-3
	<u>Consolidated Statements of Comprehensive Income (unaudited)</u>	4
	<u>Consolidated Balance Sheets (unaudited)</u>	5
	<u>Consolidated Statement of Shareholders' Equity (unaudited)</u>	6
	<u>Consolidated Statement of Cash Flows (unaudited)</u>	7
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	8-32
<u>ITEM 2</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	33-50
<u>ITEM 3</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	51-52
<u>ITEM 4</u>	<u>CONTROLS AND PROCEDURES</u>	52
<u>PART II OTHER INFORMATION</u>		
<u>ITEM 1</u>	<u>LEGAL PROCEEDINGS</u>	53
<u>ITEM 1A</u>	<u>RISK FACTORS</u>	53
<u>ITEM 2</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	53
<u>ITEM 4</u>	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	53-54
<u>ITEM 6</u>	<u>EXHIBITS</u>	54
	<u>SIGNATURES</u>	55
	<u>EX-31.1</u>	
	<u>EX-31.2</u>	
	<u>EX-32.1</u>	
	<u>EX-32.2</u>	

Table of Contents**PART 1 FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****MEADOWBROOK INSURANCE GROUP, INC.****CONSOLIDATED STATEMENTS OF INCOME****For the Six Months Ended June 30,**

	2009	2008
	(Unaudited)	
	(In thousands, except share data)	
Revenues		
Premiums earned		
Gross	\$ 308,077	\$ 179,515
Ceded	(51,899)	(36,462)
Net earned premiums	256,178	143,053
Net commissions and fees	18,633	21,663
Net investment income	24,739	14,065
Realized losses:		
Total other-than-temporary impairment losses on securities	(4,827)	(168)
Portion of loss recognized in other comprehensive income	1,734	
Net other-than-temporary impairment losses on securities recognized in earnings	(3,093)	(168)
Net realized gains (losses) excluding other-than-temporary impairment losses on securities	143	(9)
Net realized losses	(2,950)	(177)
Total revenues	296,600	178,604
Expenses		
Losses and loss adjustment expenses	175,874	108,158
Reinsurance recoveries	(35,623)	(26,955)
Net losses and loss adjustment expenses	140,251	81,203
Salaries and employee benefits	39,772	26,898
Policy acquisition and other underwriting expenses	51,108	25,863
Other administrative expenses	20,310	16,793
Amortization expense	2,928	3,114
Interest expense	5,441	2,565
Total expenses	259,810	156,436

Edgar Filing: MEADOWBROOK INSURANCE GROUP INC - Form 10-Q

Income before taxes and equity earnings	36,790	22,168
Federal and state income tax expense	11,701	6,790
Equity earnings of affiliates	96	117
Net income	\$ 25,185	\$ 15,495
Earnings Per Share		
Basic	\$ 0.44	\$ 0.42
Diluted	\$ 0.44	\$ 0.42
Weighted average number of common shares		
Basic	57,420,255	37,016,568
Diluted	57,481,241	37,126,782
Dividends paid per common share	\$ 0.04	\$ 0.04

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

Table of Contents**MEADOWBROOK INSURANCE GROUP, INC.****CONSOLIDATED STATEMENTS OF INCOME****For the Three Months Ended June 30,**

	2009	2008
	(Unaudited)	
	(In thousands, except share data)	
Revenues		
Premiums earned		
Gross	\$ 153,063	\$ 95,544
Ceded	(25,923)	(18,513)
Net earned premiums	127,140	77,031
Net commissions and fees	8,396	9,632
Net investment income	12,397	6,917
Realized losses:		
Total other-than-temporary impairment losses on securities	(2,776)	(168)
Portion of loss recognized in other comprehensive income	1,734	
Net other-than-temporary impairment losses on securities recognized in earnings	(1,042)	(168)
Net realized gains excluding other-than-temporary impairment losses on securities	84	22
Net realized losses	(958)	(146)
Total revenues	146,975	93,434
Expenses		
Losses and loss adjustment expenses	87,176	59,419
Reinsurance recoveries	(16,712)	(15,877)
Net losses and loss adjustment expenses	70,464	43,542
Salaries and employee benefits	19,945	14,143
Policy acquisition and other underwriting expenses	27,139	12,716
Other administrative expenses	9,917	7,961
Amortization expense	1,420	1,563
Interest expense	2,659	1,254
Total expenses	131,544	81,179
Income before taxes and equity earnings	15,431	12,255
Federal and state income tax expense	3,827	3,879
Equity earnings of affiliates	41	61

Edgar Filing: MEADOWBROOK INSURANCE GROUP INC - Form 10-Q

Net income	\$	11,645	\$	8,437
Earnings Per Share				
Basic	\$	0.20	\$	0.23
Diluted	\$	0.20	\$	0.23
Weighted average number of common shares				
Basic		57,447,707		37,021,032
Diluted		57,516,750		37,126,911
Dividends paid per common share	\$	0.02	\$	0.02

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

Table of Contents**MEADOWBROOK INSURANCE GROUP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Six Months Ended June 30,**

	2009	2008
	(Unaudited)	
	(In thousands)	
Net income	\$ 25,185	\$ 15,495
Other comprehensive income, net of tax:		
Unrealized gains (losses) on securities	12,406	(4,446)
Non-credit impairment losses on securities	(1,734)	
Net deferred derivative gains (losses) hedging activity	1,746	(115)
Less: reclassification adjustment for losses included in net income	2,994	174
Other comprehensive gains (losses), net of tax	15,412	(4,387)
Comprehensive income	\$ 40,597	\$ 11,108

MEADOWBROOK INSURANCE GROUP, INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Three Months Ended June 30,**

	2009	2008
	(Unaudited)	
	(In thousands)	
Net income	\$ 11,645	\$ 8,437
Other comprehensive income, net of tax:		
Unrealized gains (losses) on securities	6,371	(6,235)
Non-credit impairment losses on securities	(1,734)	
Net deferred derivative gains hedging activity	1,417	334
Less: reclassification adjustment for losses included in net income	980	109
Other comprehensive gains (losses), net of tax	7,034	(5,792)
Comprehensive income	\$ 18,679	\$ 2,645

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

Table of Contents**MEADOWBROOK INSURANCE GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

	June 30, 2009	December 31, 2008
	(Unaudited)	
	(In thousands, except share data)	
ASSETS		
Investments		
Debt securities available for sale, at fair value (amortized cost of \$1,014,019 and \$977,613)	\$ 1,041,043	\$ 986,483
Equity securities available for sale, at fair value (amortized cost of \$27,304 and \$27,660)	25,091	22,577
Cash and cash equivalents	76,377	76,588
Accrued investment income	11,105	10,441
Premiums and agent balances receivable, net	136,213	117,675
Reinsurance recoverable on:		
Paid losses	8,999	8,337
Unpaid losses	258,890	260,366
Prepaid reinsurance premiums	28,829	31,885
Deferred policy acquisition costs	59,027	56,454
Deferred federal income taxes	14,532	22,718
Goodwill	119,092	119,028
Other intangible assets	44,123	46,951
Other assets	54,768	54,413
Total assets	\$ 1,878,089	\$ 1,813,916
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Losses and loss adjustment expenses	\$ 902,406	\$ 885,697
Unearned premiums	290,891	282,086
Debt	55,500	60,250
Debentures	80,930	80,930
Accounts payable and accrued expenses	32,042	27,839
Funds held and reinsurance balances payable	24,172	27,793
Payable to insurance companies	808	3,221
Other liabilities	13,898	7,930
Total liabilities	1,400,647	1,375,746
Shareholders Equity		
Common stock, \$0.01 stated value; authorized 75,000,000 shares; 57,447,707 and 57,341,989 shares issued and outstanding	574	573

Edgar Filing: MEADOWBROOK INSURANCE GROUP INC - Form 10-Q

Additional paid-in capital	314,081	314,641
Retained earnings	151,563	127,157
Note receivable from officer	(839)	(852)
Accumulated other comprehensive income (loss)	12,063	(3,349)
Total shareholders' equity	477,442	438,170
Total liabilities and shareholders' equity	\$ 1,878,089	\$ 1,813,916

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

Table of Contents

MEADOWBROOK INSURANCE GROUP, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings	Note Receivable from Officer (In thousands)	Accumulated Other Comprehensive (Loss) Income	Total Shareholders Equity
Balances December 31, 2008	\$ 573	\$ 314,641	\$ 127,157	\$ (852)	\$ (3,349)	\$ 438,170