MEADOWBROOK INSURANCE GROUP INC
Form 10-K
March 15, 2010

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

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

or

o **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	**38-2626206**
(State of Incorporation)	*(IRS Employer Identification No.)*
26255 American Drive, Southfield, MI	**48034-6112**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: (248) 358-1100
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark whether the Registrant 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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2009 was $347,543,421. As of March 10, 2010, there were 55,201,542 shares of the Company s common stock ($.01 par value) outstanding.

Documents Incorporated by Reference

Certain portions of the Registrant s Proxy Statement for the 2010 Annual Shareholders Meeting scheduled for May 18, 2010 are incorporated by reference into Part III of this report.

MEADOWBROOK INSURANCE GROUP, INC.

PART I

ITEM 1. *BUSINESS*

The Company

Meadowbrook Insurance Group, Inc. (We, Our, Us, or Meadowbrook) (NYSE: MIG) is a holding company organiz as a Michigan corporation in 1985. Meadowbrook was founded in 1955 as Meadowbrook Insurance Agency and was subsequently incorporated in Michigan in 1965. Our principal executive offices are located at 26255 American Drive, Southfield, Michigan 48034-6112 (telephone number: (248) 358-1100.

We serve as a holding company for our wholly owned subsidiary Star Insurance Company (Star), and Star s wholly owned subsidiaries, Savers Property and Casualty Insurance Company (Savers), Williamsburg National Insurance Company (Williamsburg), and Ameritrust Insurance Corporation (Ameritrust), as well as, American Indemnity Insurance Company, Ltd. (American Indemnity). We also serve as a holding company for Meadowbrook, Inc. (Meadowbrook), Crest Financial Corporation, and their respective subsidiaries. In addition, as described below, we also serve as a holding company for ProCentury Corporation (ProCentury) and its wholly owned subsidiaries. ProCentury s wholly owned subsidiaries consist of Century Surety Company (Century) and its wholly owned subsidiary ProCentury Insurance Company (PIC). In addition, ProCentury Risk Partners Insurance Co. (Propic) is a wholly owned subsidiary of ProCentury.

Star, Savers, Williamsburg, Ameritrust, Century, and PIC are collectively referred to as the Insurance Company Subsidiaries.

Pursuant to accounting guidance, Accounting Standards Codification (ASC) 810 *Consolidations* (ASC 810), we do not consolidate our subsidiaries, Meadowbrook Capital Trust I and II (the Trusts), as they are not variable interest entities and we are not the primary beneficiary of the Trusts. Our consolidated financial statements, however, include the equity earnings of the Trusts. In addition and in accordance with ASC 810, we do not consolidate our subsidiary American Indemnity. While we and our subsidiary Star are the common shareholders, neither are the primary beneficiaries of American Indemnity. Our consolidated financial statements, however, include the equity earnings of American Indemnity. The equity earnings in our Trusts and American Indemnity are reflected in our Consolidated Statement of Income as equity earnings of unconsolidated subsidiaries.

ProCentury Merger

On July 31, 2008, the merger of Meadowbrook Insurance Group, Inc. and ProCentury Corporation (ProCentury) was completed (Merger). Under the terms of the merger agreement, ProCentury shareholders were entitled to receive, for each ProCentury common share, either $20.00 in cash or Meadowbrook common stock based on a 2.5000 exchange ratio, subject to adjustment as described within the merger agreement. In accordance with the merger agreement, the stock price used in determining the final cash and share consideration portion of the purchase price was based on the volume-weighted average sales price of a share of Meadowbrook common stock for the 30-day trading period ending on the sixth trading day before the completion of the Merger, or $5.7326. Based upon the proration, the total purchase price was $227.2 million, of which $99.1 million consisted of cash, $122.7 million in newly issued common stock, and approximately $5.4 million in transaction related costs. The total number of common shares issued for purposes of the stock portion of the purchase price was 21.1 million shares. Refer to Note 2 *ProCentury Merger* in the Notes to the Consolidated Financial Statements for additional discussion of the Merger and a pro forma presentation of financial results for the combined company.

ProCentury is a specialty insurance company, which primarily underwrites general liability, commercial property, environmental, garage, commercial multi-peril, commercial auto, surety, and marine insurance primarily in the excess and surplus lines, or non-admitted, market through a select group of general agents.

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The excess and surplus lines market provides insurance coverage for customers with hard-to-place risks that standard or admitted insurers typically choose not to insure.

Five months of earnings of ProCentury are included in our financial statements as of and for the year ended December 31, 2008. Twelve months of earnings are included for the year ended December 31, 2009.

Since the completion of the Merger, we have been executing on numerous revenue enhancement opportunities and leveraging the infrastructure as summarized below:

- Revenue enhancement opportunities:
  - launching a new wholesale relationship in the Midwest;
  - offering a surplus lines market for an existing workers compensation partner in New England; and
  - utilization of existing program capabilities for Century general agents.
- Leveraging shared infrastructure and increased size:
  - developing Centers of Expertise for claims management;
  - increased size and diversity benefit costs of reinsurance;
  - enhanced marketing capabilities through joint business development functions; and
  - geographic expansion of Century offerings through existing admitted markets.
- Executing on opportunities to leverage other niche capabilities;
  - combined capabilities allow us to receive and evaluate more opportunities; and
  - independently, neither company would have been able to meet the comprehensive risk management solutions that some opportunities require.

Other Significant Acquisitions

In April 2007, we acquired the business of U.S. Specialty Underwriters, Inc. (USSU). USSU is a specialty program manager that produces fee based income by underwriting targeted classes within excess workers compensation coverage for a select group of insurance companies.

In November 2005, we acquired the business of Insurance & Benefit Consultants (IBC) of Sarasota, Florida. IBC is a retail and wholesale agency specializing in group and individual health insurance products and personal financial planning services.

In August 1999, we acquired the assets of TPA Associates, Inc., all the outstanding stock of TPA Insurance Agency, Inc., and Preferred Insurance Agency, Inc. (collectively, TPA). TPA is a program-oriented risk management company that provides risk management services to self-insured clients, manages alternative risk management programs, performs underwriting, and loss control services for unaffiliated insurance companies.

In July 1998, we acquired Florida Preferred Administrators, Inc. (Florida Preferred), a third party administrator and Ameritrust. In December 2002, Ameritrust became a wholly owned subsidiary of Star. Florida Preferred provides a broad range of risk management services for Ameritrust and other third parties.

In July 1997, we acquired Crest Financial Corporation (Crest), a California-based holding company, which formerly owned Williamsburg. Crest provides risk management services primarily to Williamsburg. On December 31, 1999, Williamsburg became a wholly owned subsidiary of Star.

In July 1990, we acquired Savers.

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Recent Equity Investment

In July 2009, our subsidiary, Star, purchased a 28.5% ownership interest in an insurance holding limited liability company for $14.8 million in cash. We are not required to consolidate this investment as we are not the primary beneficiary of the business. Our ownership interest is significant, but is less than a majority ownership and, therefore, we are accounting for this investment under the equity method of accounting. Therefore, Star will recognize 28.5% of the profits and losses as a result of this equity interest ownership.

Employees

At March 5, 2010, we employed approximately 918 associates to service our clients and provide management services to our Insurance Company Subsidiaries as described below. We believe we have good relationships with our associates.

Overview and Operational Structure

For over thirty years, we have specialized in providing full service risk management and insurance solutions for our clients. By forming risk-sharing partnerships, we align our financial objectives with our clients. By utilizing our products and services, small to medium-sized client groups gain access to more sophisticated risk management techniques previously available only to larger corporations. This enables our clients to control insurance costs and achieve more predictable underwriting results.

We were founded in 1955 as a retail insurance agency. We earn commission revenue through the operation of our retail property and casualty insurance agencies, located in Michigan, California, and Florida.

We define our business segments as specialty insurance operations and agency operations. These two distinct business operations derive revenue from the following sources:

Specialty Insurance Operations:

Net earned premiums derived from admitted and non-admitted products and programs, as well as risk sharing vehicles.

Fee-for-service revenue derived from managed program revenue, as well as municipality and association clients.

Investment income.

Agency Operations:

Commission revenue agency commission from non-affiliated carriers.

Our specialty insurance operations and agency operations are entirely supported by our full-service processing capabilities, which provide the essential functions necessary in a risk management organization.

Specialty Insurance Operations

Our specialty insurance operations provide underwriting and insurance administration services. We market and underwrite specialty property and casualty insurance programs and products on both an admitted and non-admitted basis through a broad and diverse network of independent retail, wholesale program administrators and general agents, who value service, specialized knowledge, and focused expertise. Our primary focus is on niche or specialty products and program business and risk management solutions for our customers. The services and coverages we provide are tailored to meet specific requirements of defined client groups and their members, which may include specialty program underwriting; admitted and excess and surplus lines insurance products; alternative risk transfer solutions, and insurance administration services. Program business refers to an aggregation of individually underwritten risks that have some unique characteristic and are distributed through a select group of general agencies, retail agencies and program administrators. We provide various

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types of property and casualty insurance coverage, primarily to associations or similar groups of members and to the specified classes of business of our agents. With our specialty programs and products, we seek to combine profitable underwriting, investment returns and efficient capital management to deliver consistent long-term growth in shareholder value.

As an admitted carrier we provide a market for more traditional lines of business and coverages that are offered by standard markets. Traditional admitted markets typically serve businesses that:

- are low to medium hazard;
- have more predictable underwriting results;
- are adequately rated and priced by rates and policy forms that are filed and approved by state regulatory agencies;
- require the protection of state guaranty funds; and
- are required to purchase admitted insurance products.

As an excess and surplus lines provider we market to customers with hard-to-place risks, for which standard or admitted insurers typically choose not to insure. In the excess and surplus lines market, we serve businesses that are unable to obtain coverage from standard or admitted carriers for a variety of reasons, including the following:

- the unique nature of the insured business is outside the risk profile of standard lines carriers;
- the risk associated with an insured is higher than the risk anticipated by a standard lines carrier when it filed its rates and forms for regulatory approval, which prevents it from charging a premium that is thought to be appropriate for the heightened risk;
- many geographic regions are considered to be adverse or more risky markets in which to operate due to legal, regulatory or claims issues or because they are too remote to warrant a marketing effort and, as a result, agents in theses areas have a limited choice of admitted insurers; and
- small agent organizations who do not generate enough premium volume to qualify for direct relationships with standard lines carriers.

Our insurance programs are diversified geographically, by class and line of business, type of insured and distribution. Within the workers compensation line of business, we have a regional focus in California and New England. Within the commercial auto and commercial multiple peril line of business, we have a regional focus in the Southeast and California. Within the general liability line of business we have a focus in Texas. Our fee-for-service business is managed on a regional basis with an emphasis in the Midwest, New England, and southeastern regions of the United States. Our corporate strategy emphasizes a regional focus and diverse sources of revenue between underwritten premiums, service fee revenue, and commissions. This allows us to leverage fixed costs over a larger revenue base and take advantage of new opportunities.

We recognize revenue related to the services and coverages from our specialty insurance operations within seven categories: net earned premiums, management fees, claims fees, loss control fees, reinsurance placement, investment income, and net realized gains (losses).

Specialty Insurance Operations Programs and Products

The admitted programs that we write as part of our specialty insurance operations are characterized by risks that are homogeneous within programs but have a diverse geographic profile. Generally, the average account premium is small and due to the specialized nature of the program and distribution style, our admitted programs have high premium retention levels. This helps create stability in our business amid the cyclicality of the insurance industry. Two examples of admitted programs we write are coverages for picture framers and music equipment stores. We seek to write rollover programs that have a history of proven profitable performance. The admitted programs that we write and retain are the result of long-term, stable relationships with distribution partners that have a targeted and specialized distribution style.

The excess and surplus lines business we write is characterized by broad classes of Main Street commercial risks that are ineligible for coverage by the standard market. Similar to our admitted programs, the average account premium size for the excess and surplus lines risks we write is small. Two examples of markets we serve with our excess and surplus lines offering are restaurants and habitational classes, such as apartments and hotels. The excess and surplus lines regulatory environment allows rate and form freedom, which gives us the flexibility to design tailored coverage forms that are often more restrictive than those available in the admitted market. The high degree of flexibility contributes to heightened competition during soft markets and creates the potential for rapid expansion during hard markets.

The non-admitted programs we write have characteristics that are similar to our admitted programs, however, the commercial risks we provide coverage for are ineligible for coverage by the standard or admitted market. With this focus on non-admitted program underwriting, we are able to provide coverage for start-up organizations and relatively low volume programs that other markets are unable or unwilling to serve. Two examples of non-admitted programs we offer are coverages for pet-sitters and oil and gas contractors.

We also offer coverage for specialty markets, where specific and unique underwriting expertise is required. We develop solutions for specific market segments that may leverage either our admitted market or non-admitted market product capabilities, or both, depending on the market need. The specific and unique underwriting expertise that is required to write business profitably in the segments we serve creates barriers to entry for new competitors. Two examples of specialty markets we serve are the transportation and environmental markets.

Description of Specialty Insurance Operations

Based upon the particular risk management goals of our clients, market conditions and our assessment of the opportunity for operating profit, our specialty insurance operations offer solutions on a fully-insured basis, a risk-sharing basis, or a managed basis, in response to a specific market opportunity. In a managed program, we earn service fee revenue by providing certain operational functions and other services to a client s risk-bearing entity, but generally do not share in the operating results. In a risk-sharing program, we share the operating results with the client through a reinsurance agreement with an insurance company, captive, or rent-a-captive. In a profit-sharing structure, we pay an agent a commission that is adjusted based on the operating results of the program. These structures, other than the profit-sharing commission structure, are licensed insurance or reinsurance companies and are accounted for in accordance with accounting guidance as it relates to reinsurance and insurance products. In risk-sharing programs, we derive revenue from net earned premiums, fee-for-service revenue and commissions, and investment income. In addition, we may benefit from the fees our risk management subsidiary earns for services we perform on behalf of our Insurance Company Subsidiaries. These fees are eliminated upon consolidation. However, the fees associated with the captive s portion of the program are reimbursed through a ceding commission. For a fully-insured program, we provide insurance products without a risk-bearing mechanism and derive revenue from net earned premiums and investment income.

Fully-Insured Programs and Products:

With a fully-insured program, we provide our insurance products and derive revenue from net earned premiums and investment income. Fully-insured programs are generally developed in response to specific market opportunities and may evolve into a risk-sharing relationship.

Risk-Sharing Programs:

Quota Sharing: With a client risk-sharing program, our Insurance Company Subsidiaries underwrite individual primary insurance policies for members of a group or association, or a specific industry and then

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share the operating results with the client or client group through a reinsurance agreement with an insurance company, captive, or rent-a-captive. In some instances, a captive owned by a client or client group reinsures a portion of the risk on a quota-share basis. A captive is an insurance company or reinsurance company, which is formed for the purpose of insuring or reinsuring risks related to the businesses of its shareholders or members. A rent-a-captive allows organizations to obtain the benefits of a captive insurance company, without the initial costs and capital investment required to form their own captive. This is often an interim step utilized by groups and associations prior to forming their own captive. As part of its participation in a rent-a-captive, the client group purchases redeemable preferred stock of our unconsolidated subsidiary. These shares entitle the client group to participate in profits and losses of the program through a dividend or additional capital contribution. Dividends or additional capital contributions are determined and accrued on the basis of underwriting profits or losses plus investment income on trust accounts less costs. These structures are licensed insurance or reinsurance companies, which have a self-sustaining integrated set of activities and assets, and are in the reinsurance business for the purpose of providing a return to their investors, who are the shareholders (primary beneficiaries) of the captive company. The primary beneficiaries have their own equity at risk, decision making authority, and the ability to absorb losses. The transactions associated with these structures are accounted for in accordance with accounting guidance as it relates to reinsurance and insurance products.

In addition to premium revenue and investment income from the net retained portion of our operating results, we may also be compensated through the receipt of fees for policy issuance services and acquisition costs, captive administration, reinsurance placement, loss prevention services, and claims administrative and handling services. However, the fees associated with the captive s portion of the program are reimbursed through a ceding commission. For financial reporting purposes, ceding commissions are treated as a reduction in underwriting expenses. In addition, we may benefit from the fees our risk management subsidiary earns for services we perform on behalf of our Insurance Company Subsidiaries. These fees are eliminated upon consolidation.

Our experience has been that the number of claims and the cost of losses tend to be lower in risk-sharing programs than with traditional forms of insurance. We believe that client risk-sharing motivates participants to focus on underwriting selection, loss prevention, risk control measures and adherence to stricter underwriting guidelines.

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The following schematic illustrates the basic elements in many of our client risk-sharing programs.

QUOTA SHARE REINSURANCE RISK-SHARING STRUCTURE

(1) We account for transactions with these risk-sharing clients as reinsurance, in accordance with accounting guidance as it relates to reinsurance and insurance products.

The captive s shareholders, which may or may not include the insured, and its board of directors make the decision to form the captive or terminate the captive, based upon either their own analysis or the analysis performed by an independent third party consultant they hire. The shareholders of the captive make the decision whether to invest and how much to invest in the captive. This decision may be based upon advice from third party consultants.

The agent of the business will make the decision to submit the risk to the insurance company for underwriting and the policyholders make the decision to purchase the quoted policy.

The captive administrator provides administrative services to the captive in exchange for a fee. This fee is usually a fixed amount, but can be a variable amount based upon premium volume, and is negotiated on an annual basis with the captive s board of directors. Such services may include bookkeeping, providing regulatory information, and other administrative services. We also may provide loss prevention, claims handling, underwriting, and other insurance services directly to certain of our captives. However, our risk management services subsidiary provides these services to our Insurance Company Subsidiaries for a fee, which is eliminated upon consolidation. The costs associated with these services are included within the premium quoted to the policyholder.

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In accordance with ASC 810, our variable interest in the captive is limited to administrative fees based upon a fixed amount or a percentage of premiums and the credit risk associated with any reinsurance recoverables recognized.

The captives are generally capitalized with common stock and may use preferred stock in isolated instances. The captive s variability is: (1) created based upon the experience of their portion of business directly written through our Insurance Company Subsidiaries and ceded to the captive on a quota share basis; and (2) absorbed by the captive s shareholders.

In general, the captive s common and/or preferred shareholders are either the agents or producers of the business, a sponsoring group or association, a group of policyholders, a policyholder, or a general agent. The captive s shareholders are not related parties of ours pursuant to related accounting guidance.

By design, the capital base of the captive is structured to absorb the projected losses of the program, and the captive s shareholders bear the risk of loss. Through a trust agreement, we protect ourselves from potential credit risk related to reinsurance recoverables from the captive by a collateral requirement of up to 110% of the estimated reserves for losses and unearned premiums. In addition, we monitor the capital adequacy and financial leverage ratios of the captive to mitigate future credit risk.

In another variation of client risk-sharing, we establish retrospectively rated programs for individual accounts. With this type of program, we work with the client to develop the appropriate self-insured retention and loss fund amount and then help arrange for excess-of-loss reinsurance. The client reimburses us for all claim payments within the client s retention. We generally earn a management fee (which includes claims and loss control fees). In most of these programs, we also share in the operating results with the client and receive a ceding commission in the excess-of-loss reinsurance contract to reimburse us for expenses, including a fee for services.

Profit-Sharing: In a profit-sharing commission program, we provide our agent the opportunity to accept an upfront provisional commission rate that is then adjusted either upward or downward, based on the actual underwriting results as compared to predetermined metrics.

Managed Programs:

With a fee-for-service or managed program, we earn revenue by providing certain operational and administrative functions and other services to a client s risk-bearing entity, but generally do not share in the operating results of the program. We believe our fee-for-service or managed programs provide a consistent source of revenue, as well as opportunities for revenue growth without a proportionate increase in capital requirements. Revenue growth may occur through the sale of existing products to additional members of the group, the expansion of coverages and services provided to existing programs and the creation of programs for new client groups.

Services for which we receive revenue from fee-for-service or managed programs include:

program design and development;

underwriting;

reinsurance placement;

policy administration;

loss prevention and control;

claims administration and handling;

litigation management;

information technology and processing;

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accounting functions; and

general operational functions and oversight of the program.

The fees we receive from these managed programs are generally either a fixed amount or based on a percentage of premium serviced or by claim count.

We also provide insurance management services to public entity associations and currently provide services to public entity pools and other insurance entities, which provide insurance coverage for participants, including city, county, township, villages and other quasi governmental entities in three states, as well as other diverse industry groups.

Description of Major Specialty Insurance Services

Our risk management subsidiary provides the following services to our fee-for-service clients and to our Insurance Company Subsidiaries for a fee. The fees associated with services provided to our Insurance Company Subsidiaries are eliminated upon consolidation. The costs associated with these services are charged to our insureds in the form of premiums.

Program and Product Design. Before implementing a new program, we generally review: (1) financial projections for the contemplated program, (2) historical loss experience, (3) actuarial studies of the underlying risks, (4) the credit worthiness of the potential agent or client, and (5) the availability of reinsurance. Our senior management team and associates representing each of the risk-management disciplines work together to design, market, and implement new programs. Our due diligence process is structured to provide a risk assessment of the program and how the program fits within our entity wide business plan and risk profile.

Underwriting Risk Selection and Policy Issuance. Through our risk management subsidiary, we perform underwriting services for our Insurance Company Subsidiaries that meet our corporate underwriting guidelines. We retain ultimate underwriting authority and monitor adherence to our corporate underwriting guidelines through periodic audits. Our underwriting personnel help develop the proper criteria for selecting risks, while actuarial and reinsurance personnel evaluate and recommend the appropriate levels of rate and risk retention. The program is then tailored according to the requirements and qualifications of each client. With managed programs, we may also perform underwriting services based upon the profile of the specific program for a fee.

Claims Administration and Handling. Through our risk management subsidiary, we provide substantially all claims management and handling services for workers compensation and most other lines, such as property, professional liability, and general liability. Our claims handling standards are set by our corporate claims department and are monitored through self-audits, corporate claim audits, internal controls, and other executive oversight reports. We handle substantially all claims functions for the majority of the programs we manage. Our involvement in claims administration and handling provides feedback to program managers in assessing the client s risk environment and the overall structure of the program.

Loss Prevention and Control. Through our risk management subsidiary, we provide loss control services, which are designed to help clients prevent or limit the impact of certain loss events. Through an evaluation of the client s workplace environment, our loss control specialists assist the client in planning and implementing a loss prevention program and, in certain cases, provide educational and training programs. With our managed programs, we provide these same services for a fee based upon the profile of the specific program.

Administration of Risk-Bearing Entities. We generate fee revenue by assisting in the formation and administration of risk-bearing entities for clients and agents. Through our subsidiaries in Bermuda and Washington D.C., we provide administrative services for certain captives and/or rent-a-captives.

Reinsurance Placement. Through our reinsurance intermediary subsidiary, we earn commissions from placing excess-of-loss reinsurance and insurance coverage with high deductibles for insurance companies, captives, and managed self-insured programs. Reinsurance is also placed for clients who do not have other business relationships with us.

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Sales, Marketing, and Public Relations. We market our programs and services to associations, professional and trade groups, local, regional and national insurance agents, and insurance consultants. Sales and marketing efforts include personal contact through independent agents, direct mail, telemarketing, association publications/newsletters, advertising, Internet-based marketing including our corporate website (www.meadowbrook.com), and subsidiary branch/division websites. We access or manage a range of distribution systems and regional agency networks on a program-specific basis.

Business Processing Technology Platform. We provide a select set of internet-based business processing systems to our agents to automate the capability to rate, quote, bind and service insurance policies in a timely and efficient manner. Advantage is a processing system for quoting and binding workers compensation insurance policies. CenturyOnLine (COL) is a processing system for quoting and binding general liability, property and garage insurance policies underwritten by our excess and surplus lines facility, Century. Further, we provide additional systems on a network-accessible basis for processing select package and commercial auto programs. In addition to reducing our internal administrative processing costs, these systems enhance underwriting practices by automating risk selection criteria.

We also participate in seminars, trade and industry conventions such as Target Markets Program Administrators Association, American Association of Managing General Agents, American Society of Association Executives, Self Insurance Institute of America, National Association of Professional Surplus Lines Offices, Public Risk Management Association, and various individual state independent agent associations.

Agency Operations

Our agency operations segment earns commission revenue through the operation of its retail property and casualty insurance agencies, located in Michigan, California, and Florida. These agencies produce commercial, personal lines, life and accident and health insurance, with more than fifty unaffiliated insurance carriers. These agencies produce an immaterial amount of business for our affiliated Insurance Company Subsidiaries.

Customer Concentration

In our opinion, no material part of our business is dependent upon a single customer or group of customers. The loss of any one customer would not have a material adverse effect on our results of operations or financial condition. No one customer or group of affiliated customers accounts for 10% or more of the Company s consolidated revenues.

Objective and Strategy

Our corporate objective is to generate predictable earnings across the market cycle, with a long term targeted return on average equity range of 10%-17%. Our strategy is to maximize the unique characteristics of our balanced business model to:

Generate profitable underwriting results from our insurance operations;

Generate consistent investment income with a low-risk, high-quality, primarily fixed income portfolio;

Leverage invested assets to equity;

Generate stable, consistent fee and commission income through our agency and specialty insurance operations; and

Generate free cash flow from dividends from our Insurance Company Subsidiaries and non-regulated insurance administration services.

Our overall objectives and strategies may be influenced by interest rates, insurance market cycle conditions, and general economic conditions.

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Approach on Underwriting Discipline

As an underwriter, we underwrite for predictability and profitability by adhering to the following business practices as they relate to our corporate underwriting discipline:

- Re-underwrite excess and surplus lines business for accuracy and completeness;
- Limit exposure to catastrophe-prone areas and purchase reinsurance;
- Our associates have a broad and deep underwriting experience and expertise;
- Our actuarial team supports underwriting with pricing and loss analysis;
- New opportunities undergo a thorough new business due diligence process;
- Robust program controls help monitor all programs for performance; and
- We maintain long-term agent relationships, which are matched with high quality reinsurance partners.

Insurance Company Subsidiaries

Our Insurance Company Subsidiaries issue insurance policies. Through our Insurance Company Subsidiaries, we provide specialty insurance programs and products where we market and underwrite specialty property and casualty insurance products on both an admitted and non-admitted basis through a broad and diverse network of independent retail, wholesale program administrators and general agents. Our Insurance Company Subsidiaries primarily focus is on specialty products and program business for our customers, which consist of select independent, general agents, and wholesale agents with either a defined geographic specialty and / or product specialty. These programs are generally designed specifically for trade groups and associations, whose members are homogeneous in nature. Members are typically small-to-medium sized businesses. We compensate our distribution network primarily on a flat commission rate based upon premiums written, or other risk-sharing mechanism, as previously described.

Through our excess and surplus lines insurance carriers, we provide coverage for risks that either do not fit the underwriting criteria of standard carriers with which the retail agent has a direct relationship, or they are of a class or risk that the standard market generally avoids since the regulated nature of that market does not allow for customized terms or rates. Non-standard risks can be underwritten profitably, however, by the excess and surplus market, by using highly specific coverage forms with terms based on individual risk assessment, rather than the risk profile of the most desirable members of the class. When a certain risk has been excluded from the standard market, the retail agents need quick placement with the excess and surplus lines market in order to maintain coverage for the insured. As a result, the primary basis for competition within the excess and surplus lines industry can be focused more on service and availability rather than rate.

Our programs focus on select classes of property and casualty business which, through our due diligence process, we believe have demonstrated a fundamentally sound prospect for generating underwriting profits. We occasionally do offer our programs on a multi-state basis; but more generally, our programs operate on a regional or state-specific basis. We provide underwriting authority to our regional offices based upon underwriting guidelines established by our corporate underwriting department, which we monitor through underwriting audits and a series of executive underwriting and rate monitor reports. We seek to avoid geographic concentration of risks that might lead to aggregation of exposure to losses from natural or intentionally caused catastrophic events. We also handle the majority of our claims through our regional offices based upon standards set forth by our corporate claims office and monitored through a series of self-audits and corporate claims audit, internal control audits, and executive claims monitoring reports. American Indemnity, a Bermuda-based insurance company which offers our clients a captive or rent-a-captive option, complements our Insurance Company Subsidiaries.

MEADOWBROOK INSURANCE GROUP, INC.

In addition, we may at times place risks directly with third party insurance carriers and participate in the risk as a reinsurer. Such arrangements typically generate management fee revenue and provide a means to manage premium leverage ratios.

Our Insurance Company Subsidiaries primarily offer workers compensation, commercial multiple peril, general liability, marine and other liability coverages on both an admitted and non-admitted basis. Our Insurance Company Subsidiaries maintain a variety of licenses in order for us to write on an admitted and / or a non-admitted basis in all fifty states, including the District of Columbia.

Our insurance operations are subject to various leverage tests (e.g., premium to statutory surplus ratios), which are evaluated by regulators and rating agencies. Our targets for gross and net written premium to statutory surplus are 2.75 to 1.0 and 2.25 to 1.0, respectively. As of December 31, 2009, on a statutory consolidated basis, gross and net premium leverage ratios were 2.0 to 1.0 and 1.6 to 1.0, respectively.

The following table summarizes gross written premiums, net earned premiums, and net written premiums for the years ended December 31, 2009, 2008, 2007, 2006, and 2005 (in thousands):

ten Premium	2009	%	2008	%	2007	%	2006	%	2005
Compensation	$ 233,269	33.87%	$ 137,503	30.04%	$ 116,717	33.69%	$ 118,794	35.90%	$ 133,732
l Multi-Peril	43,428	6.31%	29,114	6.36%	69,970	20.20%	67,764	20.48%	59,928
l Multi-Peril	54,901	7.97%	37,519	8.20%					