MEADOWBROOK INSURANCE GROUP INC

Form 10-Q May 09, 2014

**UNITED STATES** 

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

#### FORM 10-Q

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

For the quarterly period ended March 31, 2014

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o 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 38-2626206

(State of Incorporation) (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 x 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 (§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 x No o

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 o Accelerated filer x Non-accelerated filer o 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). Yeso No x

The aggregate number of shares of the Registrant's Common Stock, \$.01 par value, outstanding on May 1, 2014, was 50,091,766.

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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 March 31, 2014

	2014 (Unaudited) (In thousands data)	2013 , except share
Revenues		
Premiums earned		
Gross	\$216,793	\$264,342
Ceded	(54,254	(93,754)
Net earned premiums	162,539	170,588
Net commissions and fees	12,047	9,634
Net investment income	11,261	11,140
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	3,025	316
Net realized gains	3,025	316
Total revenues	188,872	191,678
Expenses		
Losses and loss adjustment expenses	139,972	191,974
Reinsurance recoveries	(36,782	*
Net losses and loss adjustment expenses	103,190	121,816
Policy acquisition and other underwriting expenses	59,198	50,605
General, selling and administrative expenses	8,495	6,023
General corporate expenses	1,633	1,516
Amortization expense	987	1,071
Interest expense	3,462	2,197
Total expenses	176,965	183,228
Income before taxes and equity earnings	11,907	8,450
Federal and state income tax expense	2,846	1,836
Equity earnings of affiliates, net of tax	1,293	438
Equity earnings of unconsolidated subsidiaries, net of tax	2	30
Net income	\$10,356	\$7,082
Earnings Per Share		
Basic	\$0.21	\$0.14
Diluted	\$0.21	\$0.14
Weighted average number of common shares		
Weighted average number of common shares	40 076 072	40 002 000
Basic Diluted	49,976,073	49,823,882
Diluicu	49,984,743	49,845,023

Dividends paid per common share

\$0.02

\$0.02

The accompanying notes are an integral part of the Consolidated Financial Statements.  $\boldsymbol{2}$ 

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MEADOWBROOK INSURANCE GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2014

	2014	2013
	(Unaudited)	
	(In thousands)	
Net income	\$10,356	\$7,082
Other comprehensive loss, net of tax:		
Unrealized gains (losses) on securities	11,268	(2,782)
Unrealized gains in affiliates and unconsolidated subsidiaries	114	12
Increase on non-credit other-than-temporary impairments on securities	-	-
Net deferred derivative gains - hedging activity	(604)	805
Less reclassification adjustment for investment gains included in net income	(1,966)	(187)
Other comprehensive losses, net of tax	8,812	(2,152)
Comprehensive income	\$19,168	\$4,930

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

# <u>Table of Contents</u> MEADOWBROOK INSURANCE GROUP, INC. CONSOLIDATED BALANCE SHEETS

		December
	March 31,	31,
	2014	2013
	(Unaudited)	
	(In thousands, except	
	share data)	
ASSETS		
Investments		
Debt securities available for sale, at fair value (amortized cost of \$1,456,456 and		
\$1,455,754 in 2014 and 2013, respectively)	\$1,478,573	\$1,463,046
Equity securities available for sale, at fair value (cost of \$97,907 and \$95,346 in 2014 and		
2013, respectively)	111,915	109,982
Cash and cash equivalents	111,371	94,776
Accrued investment income	14,965	14,266
Premiums and agent balances receivable (net of allowance of \$5,456 and \$5,094 in 2014		
and 2013, respectively)	195,418	214,144
Reinsurance recoverable on:		
Paid losses	15,338	14,453
Unpaid losses	517,352	505,431
Prepaid reinsurance premiums	49,400	63,908
Deferred policy acquisition costs	66,436	62,773
Deferred income taxes, net	34,170	41,435
Goodwill	5,644	5,644
Other intangible assets	23,522	24,509
Other assets		