

MEADOWBROOK INSURANCE GROUP INC
Form 10-Q
November 10, 2014

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 quarterly period ended September 30, 2014

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 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 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

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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 November 3, 2014, was 50,093,690.

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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 September 30,

	2014	2013
	(Unaudited)	
	(In thousands, except share data)	
Revenues		
Premiums earned		
Gross	\$200,822	\$260,273
Ceded	(39,073)	(79,217)
Net earned premiums	161,749	181,056
Net commissions and fees	11,960	10,458
Net investment income	11,087	11,695
Realized gains:		
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	2,973	675
Net realized gains	2,973	675
Total revenues	187,769	203,884
Expenses		
Losses and loss adjustment expenses	141,753	197,314
Reinsurance recoveries	(35,095)	(65,067)
Net losses and loss adjustment expenses	106,658	132,247
Policy acquisition and other underwriting expenses	60,816	54,228
General, selling and administrative expenses	9,949	7,026
General corporate expenses	1,372	1,025
Amortization expense	1,011	1,037
Interest expense	3,506	3,581
Total expenses	183,312	199,144
Income before taxes and equity earnings	4,457	4,740
Federal and state income tax expense	445	356
Equity earnings of affiliates, net of tax	953	1,164
Equity earnings of unconsolidated subsidiaries, net of tax	2	(32)
Net income	\$4,967	\$5,516
Earnings Per Share		
Basic	\$0.09	\$0.11
Diluted	\$0.09	\$0.11
Weighted average number of common shares		
Basic	50,092,755	49,887,200

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Diluted	50,092,755	49,933,540
Dividends paid per common share	\$0.02	\$0.02

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

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CONSOLIDATED STATEMENTS OF INCOME

For the Nine Months Ended September 30,

	2014	2013
	(Unaudited)	
	(In thousands, except share data)	
Revenues		
Premiums earned		
Gross	\$630,275	\$789,468
Ceded	(141,864)	(262,043)
Net earned premiums	488,411	527,425
Net commissions and fees	33,349	28,631
Net investment income	33,557	34,603
Realized gains:		
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	9,252	3,860
Net realized gains	9,252	3,860
Total revenues	564,569	594,519
Expenses		
Losses and loss adjustment expenses	423,991	590,095
Reinsurance recoveries	(104,483)	(190,661)
Net losses and loss adjustment expenses	319,508	399,434
Policy acquisition and other underwriting expenses	179,373	163,283
General, selling and administrative expenses	25,196	18,950
General corporate expenses	4,420	3,301
Amortization expense	2,959	3,146
Goodwill impairment expense	-	115,397
Interest expense	10,440	9,431
Total expenses	541,896	712,942
Income (loss) before taxes and equity earnings	22,673	(118,423)
Federal and state income tax expense (benefit)	4,474	(15,412)
Equity earnings of affiliates, net of tax	2,870	2,547
Equity earnings of unconsolidated subsidiaries, net of tax	18	4
Net income (loss)	\$21,087	\$(100,460)
Earnings (Losses) Per Share		
Basic	\$0.42	\$(2.01)
Diluted	\$0.42	\$(2.01)
Weighted average number of common shares		
Basic	50,054,031	49,866,326
Diluted	50,054,031	49,866,326
Dividends paid per common share	\$0.06	\$0.06

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended September 30,

	2014	2013
	(Unaudited)	
	(In thousands)	
Net income	\$4,967	\$5,516
Other comprehensive income, net of tax:		
Unrealized (losses) gains on securities	(932)	3,243
Unrealized gains (losses) in affiliates and unconsolidated subsidiaries	41	(316)
Increase on non-credit other-than-temporary impairments on securities	-	-
Net deferred derivative gains - hedging activity	232	140
Less reclassification adjustment for investment gains included in net income	(1,933)	(457)
Other comprehensive (losses) gains, net of tax	(2,592)	2,610
Comprehensive income	\$2,375	\$8,126

MEADOWBROOK INSURANCE GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Nine Months Ended September 30,

	2014	2013
	(Unaudited)	
	(In thousands)	
Net income (loss)	\$21,087	\$(100,460)
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities	22,819	(32,026)
Unrealized gains (losses) in affiliates and unconsolidated subsidiaries	159	(254)
Increase on non-credit other-than-temporary impairments on securities	-	-
Net deferred derivative (losses) gains - hedging activity	(973)	3,178
Less reclassification adjustment for investment gains included in net income	(6,014)	(2,534)
Other comprehensive gains (losses), net of tax	15,991	(31,636)
Comprehensive income (loss)	\$37,078	\$(132,096)

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

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CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (Unaudited)	December 31, 2013 (Unaudited)
(In thousands, except share data)		
ASSETS		
Investments		
Debt securities available for sale, at fair value (amortized cost of \$1,445,409 and \$1,455,754 in 2014 and 2013, respectively)	\$ 1,480,162	\$ 1,463,046
Equity securities available for sale, at fair value (cost of \$94,158 and \$95,346 in 2014 and 2013, respectively)	106,870	109,982
Cash and cash equivalents	106,084	94,776
Accrued investment income	14,759	14,266
Premiums and agent balances receivable (net allowance of \$5,410 and \$5,094 in 2014 and 2013 respectively)	188,995	214,144
Reinsurance recoverable on:		
Paid losses	8,358	14,453
Unpaid losses	537,879	505,431
Prepaid reinsurance premiums	34,620	63,908
Deferred policy acquisition costs	65,128	62,773
Deferred income taxes, net	28,520	41,435
Goodwill	6,857	5,644
Other intangible assets	22,911	24,509
Other assets	138,290	147,475
Total assets	\$2,739,433	\$2,761,842
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Losses and loss adjustment expenses	\$ 1,616,674	\$ 1,616,521
Unearned premiums	302,569	354,367
Debt	152,373	160,723
Debtures	80,930	80,930
Accounts payable and accrued expenses	42,246	29,712
Funds held and reinsurance balances payable	29,857	29,320
Payable to insurance companies	41,832	45,625
Other liabilities	24,848	31,231
Total liabilities	2,291,329	2,348,429
Shareholders' Equity		
Common stock, \$0.01 par value; authorized 75,000,000 shares; 50,093,690 and 49,887,200 shares issued and outstanding	501	499
Additional paid-in capital	277,007	276,410
Retained earnings	138,976	120,894
Note receivable from officer	(690)	(709)
Accumulated other comprehensive income	32,310	16,319
Total shareholders' equity	448,104	413,413

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Total liabilities and shareholders' equity	\$2,739,433	\$2,761,842
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MEADOWBROOK INSURANCE GROUP, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid- In Capital	Retained Earnings	Note Receivable from Officer	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	(Unaudited, In thousands)					
Balances December 31, 2013	\$499	\$276,410	\$120,894	\$ (709)	\$ 16,319	\$ 413,413
Net income	-	-	21,087	-	-	21,087
Dividends declared	-	-	(3,005)			