MEADOWBROOK INSURANCE GROUP INC
Form 10-Q
November 09, 2011

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 September 30, 2011
or
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 November 2, 2011, was 51,050,204.

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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,

	2011	2010
	(Unaudited) (In thousands, except share data)	
Revenues		
Premiums earned		
Gross	$225,219	$200,918
Ceded	(31,632)	(29,054)
Net earned premiums	193,587	171,864
Net commissions and fees	7,293	9,869
Net investment income	13,502	13,715
Realized gains (losses):		
Total other-than-temporary impairments on securities	-	(25)
Portion of loss recognized in other comprehensive income	-	-
Net other-than-temporary impairments on securities recognized in earnings	-	(25)
Net realized gains excluding other-than-temporary impairments on securities	363	308
Net realized gains	363	283
Total revenues	214,745	195,731
Expenses		
Losses and loss adjustment expenses	153,809	122,044
Reinsurance recoveries	(24,853)	(16,105)
Net losses and loss adjustment expenses	128,956	105,939
Policy acquisition and other underwriting expenses	64,665	59,013
General, selling and administrative expenses	5,876	5,881
General corporate expenses	273	1,163
Amortization expense	1,208	1,235
Interest expense	2,066	2,405
Total expenses	203,044	175,636
Income before taxes and equity earnings	11,701	20,095
Federal and state income tax expense	2,590	5,500
Equity earnings of affiliates, net of tax	649	425
Equity earnings of unconsolidated subsidiaries, net of tax	(8)	16
Net income	$9,752	$15,036
Earnings Per Share		
Basic	$0.19	$0.28
Diluted	$0.19	$0.28
Weighted average number of common shares		

Basic	52,240,813	53,418,314
Diluted	52,355,581	53,698,954
Dividends paid per common share	$0.04	$0.04

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

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MEADOWBROOK INSURANCE GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME
For the Nine Months Ended September 30,

	2011	2010
	(Unaudited) (In thousands, except share data)	
Revenues		
Premiums earned		
Gross	$635,581	$573,320
Ceded	(89,866)	(87,255)
Net earned premiums	545,715	486,065
Net commissions and fees	23,628	26,872
Net investment income	40,839	40,198
Realized gains (losses):		
Total other-than-temporary impairments on securities	(84)	(437)
Portion of loss recognized in other comprehensive income	-	-
Net other-than-temporary impairments on securities recognized in earnings	(84)	(437)
Net realized gains excluding other-than-temporary impairments on securities	2,353	878
Net realized gains	2,269	441
Total revenues	612,451	553,576
Expenses		
Losses and loss adjustment expenses	423,889	340,941
Reinsurance recoveries	(68,268)	(48,310)
Net losses and loss adjustment expenses	355,621	292,631
Policy acquisition and other underwriting expenses	184,553	168,262
General, selling and administrative expenses	17,751	17,108
General corporate expenses	909	4,409
Amortization expense	3,646	3,757
Interest expense	6,320	7,259
Total expenses	568,800	493,426
Income before taxes and equity earnings	43,651	60,150
Federal and state income tax expense	10,709	17,896
Equity earnings of affiliates, net of tax	1,895	1,591
Equity earnings of unconsolidated subsidiaries, net of tax	(30)	486
Net income	$34,807	$44,331
Earnings Per Share		
Basic	$0.66	$0.82
Diluted	$0.66	$0.81
Weighted average number of common shares		
Basic	52,860,729	54,229,706
Diluted	52,974,390	54,508,592
Dividends paid per common share	$0.12	$0.10

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

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MEADOWBROOK INSURANCE GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended September 30,

	2011	2010
	(Unaudited) (In thousands)	
Net income	$9,752	$15,036
Other comprehensive income, net of tax:		
Unrealized gains on securities	16,788	16,556
Unrealized gains in affiliates and unconsolidated subsidiaries	23	105
Increase on non-credit other-than-temporary impairments on securities	74	333
Net deferred derivative losses - hedging activity	(275)	(705)
Less reclassification adjustment for investment gains included in net income	(342)	(314)
Other comprehensive gains, net of tax	16,268	15,975
Comprehensive income	$26,020	$31,011

MEADOWBROOK INSURANCE GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Nine Months Ended September 30,

	2011	2010
	(Unaudited) (In thousands)	
Net income	$34,807	$44,331
Other comprehensive income, net of tax:		
Unrealized gains on securities	27,936	34,823
Unrealized gains in affiliates and unconsolidated subsidiaries	22	245
Increase on non-credit other-than-temporary impairments on securities	159	818
Net deferred derivative gains (losses) - hedging activity	10	(1,330)
Less reclassification adjustment for investment gains included in net income	(2,222)	(374)
Other comprehensive gains, net of tax	25,905	34,182
Comprehensive income	$60,712	$78,513

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

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MEADOWBROOK INSURANCE GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010
	(In thousands, except share data)	
ASSETS		
Investments		
Debt securities available for sale, at fair value (amortized cost of $1,242,614 and $1,170,795)	$1,339,544	$ 1,226,360
Equity securities available for sale, at fair value (cost of $25,176 and $25,632)	26,995	28,483
Cash and cash equivalents	76,348	90,414
Accrued investment income	13,821	13,021
Premiums and agent balances receivable, net	193,695	169,866
Reinsurance recoverable on:		
Paid losses	12,981	13,342
Unpaid losses	304,870	280,854
Prepaid reinsurance premiums	34,710	28,208
Deferred policy acquisition costs	88,221	78,755
Deferred income taxes, net	-	5,569
Goodwill	118,842	118,842
Other intangible assets	33,154	36,637
Other assets	98,818	87,290
Total assets	$2,341,999	$ 2,177,641
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Losses and loss adjustment expenses	$1,157,453	$ 1,065,056
Unearned premiums	397,913	352,585
Debt	27,562	37,750
Debentures	80,930	80,930
Accounts payable and accrued expenses	36,825	38,645
Funds held and reinsurance balances payable	34,233	28,824
Payable to insurance companies	2,809	2,754
Deferred income taxes, net	8,250	-
Other liabilities	15,706	23,996
Total liabilities	1,761,681	1,630,540
Shareholders' Equity		
Common stock, $0.01 stated value; authorized 75,000,000 shares; 51,050,204 and 53,236,542 shares issued and outstanding	520	520
Additional paid-in capital	279,727	292,705
Retained earnings	239,565	219,298
Note receivable from officer	(774)	(797)
Accumulated other comprehensive income	61,280	35,375

Total shareholders' equity	580,318	547,101
Total liabilities and shareholders' equity	$2,341,999	$ 2,177,641

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

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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, 2010	$520	$292,705	$219,298	$(797)	$ 35,375	$ 547,101
Net income	-	-	34,807	-	-	34,807
Dividends declared and paid	-	-	(6,336)	-	-	(6,336)
Change in unrealized on available for sale securities, net of tax	-	-	-	-	26,216	26,216
Change in valuation allowance on deferred tax assets	-	-	-	-	(343)	(343)
Net deferred derivative gain - hedging activity	-	-	-	-	10	10
Stock award	-	454	-	-	-	454
Long term incentive plan; stock award for 2009-2011 plan years	-	(1,195)	-	-	-	(1,195)
Change in investment of affiliates, net of tax	-	-	-	-	22	22
Repurchase of 2,225,000 shares of common stock	-	(12,237)	(8,204)	-	-	(20,441)
Note receivable from officer	-	-	-	23	-	23
Balances September 30, 2011	$520	$279,727	$239,565	$(774)	$ 61,280	$ 580,318

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

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MEADOWBROOK INSURANCE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30,

	2011	2010
	(Unaudited) (In thousands)	
Cash Flows From Operating Activities		
Net income	$34,807	$44,331
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of other intangible assets	3,646	3,757
Amortization of deferred debenture issuance costs	94	192
Depreciation of furniture, equipment, and building	3,916	4,194
Net amortization of discount and premiums on bonds	3,092	2,405
Gain on sale of investments, net	(2,222)	(374)
Gain on sale of fixed assets	(47)	(66)
Long-term incentive plan expense	(1,195)	753
Stock award	454	458
Equity earnings of affiliates, net of taxes	(1,895)	(1,591)
Equity loss (earnings) of unconsolidated subsidiaries, net of tax	30	(486)
Deferred income tax expense	(8,908)	(1,213)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Premiums and agent balances receivable	(23,829)	(21,866)
Reinsurance recoverable on paid and unpaid losses	(23,655)	(18,405)
Prepaid reinsurance premiums	(6,502)	5,483
Deferred policy acquisition costs	(9,466)	(9,917)
Other assets	(3,409)	(3,935)
Increase (decrease) in:		
Losses and loss adjustment expenses	92,397	94,586
Unearned premiums	45,328	27,865
Payable to insurance companies	55	(513)
Funds held and reinsurance balances payable	5,409	(2,126)
Other liabilities	(13,225)	4,515
Total adjustments	60,068	83,716
Net cash provided by operating activities	94,875	128,047
Cash Flows From Investing Activities		
Purchase of debt securities available for sale	(170,746)	(185,759)
Proceeds from sales and maturities of debt securities available for sale	104,272	84,207
Proceeds from sales of equity securities available for sale	700	1,020
Capital expenditures	(5,606)	(3,311)
Acquisition of rights renewals	(164)	(148)
Other investing activities	132	(231)
Net cash used in investing activities	(71,412)	(104,222)
Cash Flows From Financing Activities		
Payments on term loan	(10,188)	(8,875)
Book overdrafts	(593)	737
Dividends paid on common stock	(6,336)	(4,878)

Cash payment for payroll taxes associated with long-term incentive plan net stock issuance	-	(35)
Share repurchases	(20,441)	(20,719)
Other financing activities	29	21
Net cash used in financing activities	(37,529)	(33,749)
Net decrease in cash and cash equivalents	(14,066)	(9,924)
Cash and cash equivalents, beginning of period	90,414	86,319
Cash and cash equivalents, end of period	$76,348	$76,395
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$6,074	$6,490
Net income taxes paid	$18,279	$16,445
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Stock-based employee compensation	$454	$458

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

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MEADOWBROOK INSURANCE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation and Management Representation

The consolidated financial statements include accounts, after elimination of intercompany accounts and transactions, of Meadowbrook Insurance Group, Inc. (the “Company” or “Meadowbrook”), its 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”). The consolidated financial statements also include Meadowbrook, Inc., Crest Financial Corporation, and their respective subsidiaries. In addition, the consolidated financial statements also include 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 Company, Ltd., is a wholly owned subsidiary of ProCentury. Star, Savers, Williamsburg, Ameritrust, Century, and PIC are collectively referred to as the Insurance Company Subsidiaries.

In the opinion of management, the consolidated financial statements reflect all normal recurring adjustments necessary to present a fair statement of the results for the interim period. Preparation of financial statements under generally accepted accounting principles (“GAAP”) requires management to make estimates. Actual results could differ from those estimates. The results of operations for the three months and nine months ended September 30, 2011 are not necessarily indicative of the results expected for the full year.

These financial statements and the notes thereto should be read in conjunction with the Company’s audited financial statements and accompanying notes included in its Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission, for the year ended December 31, 2010.

Revenue Recognition

Premiums written, which include direct, assumed and ceded amounts are recognized as earned on a pro rata basis over the life of the policy term. Unearned premiums represent the portion of premiums written that are applicable to the unexpired terms of policies in force. Provisions for unearned premiums on reinsurance assumed from others are made on the basis of ceding reports when received and actuarial estimates.

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MEADOWBROOK INSURANCE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Assumed premium estimates are specifically related to an established book of workers compensation business on which the Company has established an equity ownership relationship and the mandatory assumed pool business from the National Council on Compensation Insurance (“NCCI”), or residual market business. The pool cedes workers’ compensation business to participating companies based upon the individual company’s market share by state. The activity is reported from the NCCI to participating companies on a two quarter lag. To accommodate this lag, the Company estimates premium and loss activity based on historical and market based results. Historically, the Company has not experienced any material difficulties or disputes in collecting balances from NCCI; therefore, no provision for doubtful accounts is recorded related to the assumed premium estimate.

Fee income, which includes risk management consulting, loss control, and claims services, is recognized during the period the services are provided. Depending on the terms of the contract, claims processing fees are recognized as revenue over the estimated life of the claims, or the estimated life of the contract. For those contracts that provide services beyond the expiration or termination of the contract, fees are deferred in an amount equal to management’s estimate of the Company’s obligation to continue to provide services in the future.

Commission income, which includes reinsurance placement, is recorded on the later of the effective date or the billing date of the policies on which they were earned. Commission income is reported net of any sub-producer commission expense. Any commission adjustments that occur subsequent to the earnings process are recognized upon notification from the insurance companies. Profit sharing commissions from insurance companies are recognized when determinable, which is when such commissions are received.

Income Taxes

As of September 30, 2011 and December 31, 2010, the Company did not have any unrecognized tax benefits.

Interest costs and penalties related to income taxes are classified as interest expense and other administrative expenses, respectively. As of September 30, 2011 and December 31, 2010, the Company had no accrued interest or penalties related to uncertain tax positions.

Recent Accounting Pronouncements

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the Financial Accounting Standards Board (“FASB”) issued guidance to assist in a consistent application of accounting for costs related to acquiring or renewing insurance contracts among industry practice. The new guidance restricts the capitalization of a contract’s acquisition costs to those that are directly related to the successful acquisition of a new or renewing insurance contract. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2011. The Company is still evaluating the impact of adoption on its financial condition and results of operations, but currently does not anticipate it having a material impact.

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MEADOWBROOK INSURANCE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued guidance to achieve common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRSs). The guidance explains how to measure fair value and does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2011. The Company is still evaluating the impact of adoption on its financial condition and results of operations.

Presentation of Comprehensive Income

In June 2011, the FASB issued guidance to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance is to be applied retrospectively and is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. The Company has not yet adopted this guidance and will not have a material impact on its financial condition and results of operations.

Testing Goodwill for Impairment

In September 2011, the FASB issued guidance on how to test goodwill for impairment through use of a qualitative approach. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles-Goodwill and Other. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company is still evaluating the impact of adoption on its financial condition and results of operations.

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MEADOWBROOK INSURANCE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 – Investments

The estimated fair value of investments in securities is determined primarily based upon published market quotations and broker/dealer quotations. The cost or amortized cost, gross unrealized gains, losses, non-credit other-than-temporary impairments ("OTTI") and estimated fair value of investments in securities classified as available for sale at September 30, 2011 and December 31, 2010 were as follows (in thousands):

	September 30, 2011				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-Credit OTTI	Estimated Fair Value
Debt Securities:					
U.S. Government and agencies	$23,301	$1,893	$-	$-	$25,194
Obligations of states and political subs	550,708	42,486	(26)	-	593,168
Corporate securities	450,436	37,531	(1,501)	-	486,466
Redeemable preferred stocks	1,924	301	-	-	2,225
Residential mortgage-backed securities	163,676	12,635	(27)	(152)	176,132
Commercial mortgage-backed securities	37,848	2,258	-	-	40,106
Other asset-backed securities	14,721	2,008	(30)	(446)	16,253
Total debt securities available for sale	1,242,614	99,112	(1,584)	(598)	1,339,544
Equity Securities:					
Perpetual preferred stock	10,413	1,817	(69)	-	12,161
Common stock	14,763	409	(338)	-	14,834
Total equity securities available for sale	25,176	2,226	(407)	-	26,995
Total securities available for sale	$1,267,790	$101,338	$(1,991)	$(598)	$1,366,539

	December 31, 2010				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-Credit OTTI	Estimated Fair Value
Debt Securities:					
U.S. Government and agencies	$25,375	$1,363	$(24)	$-	$26,714
Obligations of states and political subs	527,080	22,176	(2,125)	-	547,131
Corporate securities	379,974	21,555	(1,355)	(3)	400,171
Redeemable preferred stocks	3,368	1,044	-	-	4,412
Residential mortgage-backed securities	181,966	12,182	(694)	(151)	193,303
Commercial mortgage-backed securities	34,942	1,236	(478)	-	35,700
Other asset-backed securities	18,090	1,476	(33)	(604)	18,929
Total debt securities available for sale	1,170,795	61,032	(4,709)	(758)	1,226,360
Equity Securities:					
Perpetual preferred stock	10,869	2,006	(6)	-	12,869
Common stock	14,763	1,255	(404)	-	15,614
Total equity securities available for sale	25,632	3,261	(410)	-	28,483
Total securities available for sale	$1,196,427	$64,293	$(5,119)	$(758)	$1,254,843

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MEADOWBROOK INSURANCE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Gross unrealized gains, losses, and non-credit OTTI on available for sale securities as of September 30, 2011 and December 31, 2010 were as follows (in thousands):

	September 30, 2011	December 31, 2010
Unrealized gains	$ 101,338	$ 64,293
Unrealized losses	(1,991)	(5,119)
Non-credit OTTI	(598)	(758)
Net unrealized gains	98,749	58,416
Deferred federal income tax expense	(34,562)	(20,445)
Net unrealized gains on investments, net of deferred federal income taxes	$ 64,187	$ 37,971

Net realized gains (losses, including OTTI) on securities, for the three months and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Realized gains (losses):				
Debt securities:				
Gross realized gains	$ 274	$ 257	$ 2,141	$ 630
Gross realized losses	(22)	(22)	(163)	(390)
Total debt securities	252	235	1,978	240
Equity securities:				
Gross realized gains	90	90	244	206
Gross realized losses	-	(11)	-	(72)
Total equity securities	90	79	244	134
Net realized gains	$ 342	$ 314	$ 2,222	$ 374
OTTI included in realized losses on securities above	$ -	$ (25)	$ (84)	$ (437)

Proceeds from the sales of fixed maturity securities available for sale were $1.1 million and $0.1 million for the three months ended September 30, 2011 and 2010, respectively. Proceeds from the sales of fixed maturity securities available for sale were $28.5 million and $1.2 million for the nine months ended September 30, 2011 and 2010, respectively.

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MEADOWBROOK INSURANCE GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

At September 30, 2011, the amortized cost and estimated fair value of available for sale debt securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities, because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 30,264	$ 30,647
Due after one year through five years	270,327	282,478
Due after five years through ten years	599,735	658,912
Due after ten years	126,043	135,016
Mortgage-backed securities, collateralized obligations and asset-backed securities	216,245	232,491
	$ 1,242,614	$ 1,339,544

Net investment income for the three months and nine months ended September 30, 2011 and 2010 was as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Net Investment Income Earned From:				
Debt securities	$ 13,207	$ 13,232	$ 39,834	$ 38,783
Equity securities	452	565	1,431	1,626
Cash and cash equivalents	176	196	567	605
Total gross investment income	13,835	13,993	41,832	41,014
Less investment expenses	333	278	993	816
Net investment income	$ 13,502	$ 13,715	$ 40,839	$ 40,198

Other-Than-Temporary Impairments of Securities and Unrealized Losses on Investments

Available for sale securities are reviewed for declines in fair value that are determined to be other-than-temporary. For a debt security, if the Company intends to sell a security and it is more likely than not the Company will be required to sell a debt security before recovery of its amortized cost basis and the fair value of the debt security is below amortized cost, the Company concludes that an OTTI has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized loss in the Consolidated Statements of Income. If the Company does not intend to sell a debt security and it is not more likely than not the Company will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), the Company concludes that an OTTI has occurred. In this instance, accounting guidance requires the bifurcation of the total OTTI into the amount related to the credit loss, which is recognized in earnings and the non-credit OTTI, which is recorded in Other Comprehensive Income as an unrealized non-credit OTTI in the Consolidated Statements of Comprehensive Income.

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MEADOWBROOK INSURANCE GROUP, INC.

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(Unaudited)

When assessing the Company's intent to sell a debt security, if it is more likely than not the Company will be required to sell a debt security before recovery of its cost basis, facts and circumstances such as, but not limited to, decisions to reposition the security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing, are evaluated. In order to determine the amount of the credit loss for a debt security, the Company calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows expected to be recovered. The discount rate is the effective interest rate implicit in the underlying debt security upon issuance. The effective interest rate is the original yield or the coupon if the debt security was previously impaired. If an OTTI exists and there is not sufficient cash flows or other information to determine a recovery value of the security, the Company concludes that the entire OTTI is credit-related and the amortized cost for the security is written down to current fair value with a corresponding charge to realized loss in the Consolidated Statements of Income.

To determine the recovery period of a debt security, the Company considers the facts and circumstances surrounding the underlying issuer including, but not limited to the following:

- Historical and implied volatility of the security;
- Length of time and extent to which the fair value has been less than amortized cost;
- Conditions specifically related to the security such as default rates, loss severities, loan to value ratios, current levels of subordination, third party guarantees, and vintage;
- Specific conditions in an industry or geographic area;
- Any changes to the rating of the security by a rating agency;
- Failure, if any, of the issuer of the security to make scheduled payments; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

In periods subsequent to the recognition of an OTTI, the security is accounted for as if it had been purchased on the measurement date of the OTTI. Therefore, for a fixed maturity security, the discount or reduced premium is reflected in net investment income over the contractual term of the investment in a manner that produces a constant effective yield.

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For an equity security, if the Company does not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, the Company concludes that an OTTI has occurred, and the cost of the equity security is written down to the current fair value, with a corresponding charge to realized loss within the Consolidated Statements of Income. When assessing the Company's ability and intent to hold the equity security to recovery, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security, as well as the cause of decline, a fundamental analysis of the liquidity, business prospects and overall financial condition of the issuer.

After reviewing the Company's investment portfolio in relation to this policy, the Company did not record any credit related OTTI for the three months ended September 30, 2011. The Company recorded $84,000 of credit related OTTI for the nine months ended September 30, 2011. No non-credit related OTTI was recognized for the three months and nine months ended September 30, 2011 in other comprehensive income. For the three months and nine months ended September 30, 2010, the Company recorded an OTTI loss of $25,000 and $437,000, respectively, of which no non-credit related OTTI losses were recognized in other comprehensive income.

The fair value and amount of unrealized losses segregated by the time period the investment has been in an unrealized loss position were as follows (in thousands):

September 30, 2011
Less than 12 months &#1