

MEADOWBROOK INSURANCE GROUP INC

Form DEF 14A

April 06, 2010

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant   
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Meadowbrook Insurance Group, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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1) Amount Previously Paid:

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3) Filing Party:

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4) Date Filed:

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**MEADOWBROOK INSURANCE GROUP, INC.**

**26255 American Drive  
Southfield, Michigan 48034  
(248) 358-1100**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

Date: May 18, 2010  
Time: 2:00 p.m., EST  
Place: Meadowbrook Insurance Group

26255 American Drive  
Southfield, Michigan 48034

We invite you to attend the Meadowbrook Insurance Group, Inc. Annual Meeting of Shareholders to:

1. Elect three directors for a three-year term expiring in 2013, or until the election and qualification of their successors;
2. Ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm; and
3. Transact any other business that is properly submitted before the Annual Meeting or any adjournments of the Annual Meeting.

The record date for the Annual Meeting is March 19, 2010. Only shareholders of record at the close of business on that date are entitled to vote at the Annual Meeting. This notice was mailed only to those shareholders.

A proxy statement, a proxy card and the Company's 2009 Annual Report are enclosed. Whether you plan to attend the meeting or not, whether you own a few or many shares of stock, the Board of Directors urges you to vote promptly. You may vote by completing, signing, dating and returning the enclosed proxy card in the enclosed envelope.

By Order of the Board of Directors,

Michael G. Costello  
Secretary

Southfield, Michigan  
Dated: April 13, 2010

**IF YOU DO NOT EXPECT TO ATTEND THE MEETING  
PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD  
AND RETURN IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE.**

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**MEADOWBROOK INSURANCE GROUP, INC.**

**PROXY STATEMENT**

**GENERAL**

This Proxy Statement, Proxy Card and Annual Report for the year ended December 31, 2009 are being mailed to the shareholders of Meadowbrook Insurance Group, Inc. ( Meadowbrook or the Company ) on or about April 13, 2010 in connection with the solicitation of proxies by the Board of Directors of Meadowbrook. The proxies will be voted upon at the Annual Meeting of Shareholders of Meadowbrook to be held on Tuesday, May 18, 2010, at 2:00 p.m. E.S.T. at the Company's headquarters located at 26255 American Drive, Southfield, Michigan.

**Important Notice Regarding the Availability of Proxy Material for the  
Shareholder Meeting to Be Held on May 18, 2010:**

**This Notice and Proxy Statement and our 2009 Annual Report to Shareholders,  
which includes the Annual Report on Form 10-K, may be viewed and downloaded from the Company's  
website at [www.meadowbrook.com](http://www.meadowbrook.com),**

**QUESTIONS AND ANSWERS**

**1. What is a proxy?**

A proxy is a procedure which enables you, as a shareholder, to authorize someone else to cast your vote for you. The Board of Directors of the Company is soliciting your proxy, and asking you to authorize Robert S. Cubbin, President and Chief Executive Officer, Karen M. Spaun, Senior Vice President and Chief Financial Officer, or Michael G. Costello, Senior Vice President, General Counsel and Secretary of the Company, to cast your vote at the 2010 Annual Meeting. You may, of course, cast your vote in person or abstain from voting, if you so choose. The term proxy is also used to refer to the person who is authorized by you to vote for you.

**2. What is a proxy statement and a proxy card?**

A proxy statement is the document the United States Securities and Exchange Commission (the SEC) requires to explain the matters on which you are asked to vote. A proxy card is the form by which you may authorize someone else, and in this case, Mr. Cubbin, Ms. Spaun or Mr. Costello to cast your vote for you. This proxy statement and proxy card with respect to the Company's 2010 Annual Meeting were mailed on or about April 13, 2010 to all shareholders entitled to vote at the Annual Meeting.

**3. Who is entitled to vote?**

Only holders of shares of the Company's common stock at the close of business on March 19, 2010 (the Record Date) are entitled to vote at the Annual Meeting. Each shareholder of record has one vote for each share of common stock for each matter presented for a vote.

**4. What will I vote on at the Annual Meeting?**

At the Annual Meeting, shareholders will vote upon:

- (i) Election of three directors for a three-year term expiring in 2013, or until the election and qualification of their successors;
- (ii) Ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm; and
- (iii) Transaction of any other business that is properly submitted before the Annual Meeting or any adjournments of the Annual Meeting.

**5. How does the Board of Directors recommend I vote on the proposals?**

The Board of Directors recommends a vote FOR each proposal.

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### **6. How can I vote?**

You can vote in person or by proxy. To vote by proxy, complete, sign, date and return the enclosed proxy card in the enclosed envelope. If you returned your signed proxy card to the Company before the Annual Meeting, the persons named as proxies on the card will vote your shares as you direct. Shares represented by proxies that are marked **WITHHELD** to vote for all three nominees for director, or for any individual nominee(s) for election as director(s) and which are not otherwise marked **FOR** the other nominees will not be counted in determining whether a plurality vote has been received for the election of directors. Similarly, shares represented by proxies, which are marked **ABSTAIN** on the proposals to ratify the appointment of Ernst & Young LLP as independent registered public accounting firm for the Company in 2010 will not be counted in determining whether the requisite vote has been received for such proposal. **IF YOU WISH TO VOTE IN THE MANNER THE BOARD OF DIRECTORS RECOMMENDS, IT IS NOT NECESSARY TO SPECIFY YOUR CHOICE ON THE PROXY CARD. SIMPLY SIGN, DATE AND RETURN THE PROXY CARD IN THE ENCLOSED ENVELOPE.** You may revoke a proxy at any time before the proxy is voted by:

- (i) Providing written notice of revocation to the Secretary of the Company at the address shown on the Notice of Annual Meeting of Shareholders on the first page of this statement;
- (ii) Submitting another proxy that is properly signed and dated later; or
- (iii) Voting in person at the meeting (but only if the shares are registered in the Company's records in your name and not in the name of a broker, dealer, bank or other third party).

### **7. Is my vote confidential?**

Yes, your vote is confidential. Only the inspectors of election and certain employees associated with processing proxy cards and counting the votes have access to your proxy card. All comments received will be forwarded to management on an anonymous basis unless you request that your name be disclosed.

### **8. What is a quorum?**

There were 54,901,542 shares of the Company's common stock outstanding on the Record Date. A majority of the outstanding shares, or 27,450,772 shares, present or represented by proxy, constitutes a quorum. A quorum must exist to conduct business at the Annual Meeting. Abstentions and broker non-votes are counted as votes present for purposes of determining whether there is a quorum. A broker non-vote is a proxy a broker submits that does not indicate a vote for the proposal, because the broker does not have discretionary voting authority and the broker did not receive instructions as to how to vote on the proposal.

### **9. How does voting work?**

If a quorum exists at the Annual Meeting, a plurality vote, being the greatest number, of the shares voted, although not a majority is required to elect the three nominees for director. The three nominees receiving the highest number of votes will be elected. If a quorum is present, the affirmative vote by the holders of a majority of the votes cast in person or by proxy is required to ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for 2010. Abstentions and broker non-votes are not votes cast. Therefore, an abstention and a broker non-vote will have no effect on the proposals to elect the three nominees for director and ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm for the Company in 2010.



The Company will vote properly executed proxies it receives prior to the Annual Meeting in the way you direct. If you do not specify instructions, the shares represented by proxies will be voted FOR the nominees for director and FOR the ratification of Ernst & Young LLP as the Company's independent registered public accounting firm for the Company in 2010. No other proposals are currently scheduled to be presented at the meeting.

**10. Who pays for the costs of the Annual Meeting?**

The Company pays the cost of preparing and printing the proxy statement, proxy card and soliciting proxies. The Company will solicit proxies primarily by mail, but also may solicit proxies personally and by telephone,

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facsimile or other means. Officers and regular employees of the Company and its subsidiaries also may solicit proxies, but will receive no additional compensation for doing so, nor will their efforts result in more than a minimal cost to the Company. The Company also will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their out-of-pocket expenses for forwarding solicitation material to beneficial owners of the Company's common stock.

**11. What other information is available about Meadowbrook Insurance Group, Inc.?**

The Company maintains a corporate website, [www.meadowbrook.com](http://www.meadowbrook.com), where the Company makes available, free of charge, copies of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after they are filed. In addition, the Company maintains the charters of its Governance and Nominating Committee, the Compensation Committee, the Audit Committee, the Risk Management and Finance Committee and the Investment Committee of the Board of Directors on its website, as well as the Company's Corporate Governance Guidelines, Code of Conduct, and Business Conduct Policy. Printed copies of the above are available, free of charge, to any shareholder who requests this information.

**12. When are stockholder proposals for the 2011 Annual Meeting due?**

All shareholder proposals to be considered for inclusion in next year's proxy statement under SEC Rule 14a-8 must be submitted in writing to the Secretary of the Company at the address shown on the Notice of Annual Meeting of Shareholders on the first page of this booklet by December 14, 2010.

For any proposal that is not submitted for inclusion in next year's proxy statement but instead is sought to be presented directly at next year's annual meeting, SEC rules permit management to vote proxies in its discretion if (a) the Company receives notice of the proposal before the close of business on February 25, 2011 and advises shareholders in next year's proxy statement about the nature of the matter and how management intends to vote on such matter, or (b) does not receive notice of the proposal prior to the close of business on February 25, 2011.

The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

**THE FIRST PROPOSAL ON WHICH YOU ARE VOTING  
THE ELECTION OF THREE DIRECTORS**

The Company's Board of Directors is divided into three classes with each class of directors elected to a three-year term of office. At each annual meeting of shareholders, the shareholders elect one class of directors for a three-year term to succeed the class of directors whose term of office expires at that meeting.

This year you are voting on three candidates for director. The Company's Board of Directors, acting upon the recommendation of its Governance and Nominating Committee, has nominated: Merton J. Segal, David K. Page and Herbert Tyner as directors with terms expiring in 2013. Each nominee currently serves as a director, has consented to their nomination and has agreed to serve as a director, if elected. Mr. Joseph S. Dresner has decided to retire from the Board of Directors; and therefore, will not be seeking re-election.

If any of the nominees are unable to stand for election, the Company may vote the shares to elect a substitute nominee, who is nominated by the Board, or the number of directors to be elected at the Annual Meeting may be reduced.

**The Company's Board recommends a vote FOR each of the nominees.**



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**INFORMATION ABOUT THE NOMINEES, THE INCUMBENT DIRECTORS AND  
OTHER EXECUTIVE OFFICERS**

The following is information about the nominees for election as a director, each of the directors whose term of office will continue after the meeting, and the other executive officers of the Company. The information is as of the record date of March 19, 2010.

**Nominee Directors-Terms Expiring in 2013**

*Merton J. Segal*, age 81, graduated from the University of Michigan in 1950 with a Bachelor of Arts degree. After a short career as a realtor and mortgage broker, he founded Meadowbrook Insurance Group as an insurance agency in 1955. Mr. Segal transformed the Company from a small privately held insurance agency into a full service, publicly traded risk management organization, which now operates 7 insurance companies in all 50 states. Mr. Segal served as Chairman and Chief Executive Officer of the Company from 1955 to 2002. Currently, he serves as a non-executive Chairman of the Board. Mr. Segal obtained his Charter Property Casualty Underwriter Certification in 1967 and has maintained a variety of insurance licenses over the last 50 years. Mr. Segal has received a number of awards over the years, including Michigan Entrepreneur of the Year in 1996 and the Jeffrey W. Barry of Walsh College Education and Service Award in 2006. In addition to these awards, Mr. Segal has served over the years on a number of Michigan foundations, commissions and board of directors.

Mr. Segal has extensive insurance, marketing, management, accounting, investment, underwriting, reinsurance and claims experience. The Board of Directors believes this experience makes him an excellent director of the Company.

*David K. Page*, age 76, graduated with honors from both Dartmouth College in 1955 and Harvard Law School in 1958. He was an editor of the Harvard law Review. In 1958-59, Mr. Page was a Fulbright Scholar studying companies law at the London School of Economics. Mr. Page began his legal career at the Detroit, Michigan, law firm of Honigman Miller Schwartz and Cohn, LLP ( Honigman ). He was named partner in 1966 and has focused his practice on corporate transactions, including corporate governance, financing, mergers and acquisitions, sales, public offerings, private placements and estate planning. Mr. Page has served on Honigman's Board of Directors and Executive Committee and as past chairman of its Corporate Department and Management Committee. He is a member of the State Bar of Michigan and the American Bar Association. In addition to his legal experience, Mr. Page has served as a director, and sometimes, officer of several publicly held companies. He currently serves on the Board of Directors of Keyco Bond Fund, Inc. Mr. Page is active in civic affairs and is, or has been, a director of many non-profit organizations, several of which he served as chairman or vice chairman. Mr. Page has been a director of the Company since 2000, is Chairman of the Risk Management and Finance Committee and is a member of the Investment Committee and Compensation Committee.

Mr. Page has significant legal, accounting, management, business, insurance, corporate governance and financing experience. The Board of Directors believes Mr. Page's experience makes him an excellent director of the Company.

*Herbert Tyner*, age 79, obtained his undergraduate degree in business administration in 1951 and his Masters in Business Administration in 1952 from Ohio State University. From 1953 to 1954, Mr. Tyner worked for Detroit Bank and Trust Company. From 1955 to the present, Mr. Tyner has owned and served as the Chief Executive Officer of Hartman & Tyner, which is a Detroit-based real estate developer of land, apartment developments and other real estate developments in Michigan and Florida. Mr. Tyner has been a member of the Apartment Association of Michigan and Building Industry Association since 1954. Mr. Tyner has been a director of the Company since 1985 and is member of the Compensation Committee and the Governance & Nominating Committee of the Company's Board of Directors. Aside from his professional memberships, Mr. Tyner also serves on the Board of Trustees of Beaumont Hospital and

has formerly served on other boards of directors of other privately owned companies.

Mr. Tyner has significant business, management, accounting and investment experience. The Board of Directors believes Mr. Tyner's experience makes him an excellent director of the Company.

*Joseph S. Dresner*, age 84, has been a director of the Company since 1985 and is the Chairman of the Investment Committee of the Company's Board of Directors. Mr. Dresner founded, owned and operated Highland

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Companies, where he currently serves as Chairman. Highland Companies is a Detroit-area based developer and manager of commercial, industrial and residential properties. Mr. Dresner will retire on April 30, 2010 from the Board of Directors and not seek re-election in 2010.

### **Incumbent Directors-Terms Expiring in 2012**

*Robert S. Cubbin*, age 52, obtained his undergraduate degree in psychology from Wayne State University in 1980 and obtained his law degree from the Detroit College of Law in 1983. Mr. Cubbin began his legal career in 1983 as an associate at the Detroit, Michigan law firm of Plunkett Cooney, where he specialized in insurance defense and coverage litigation, as well as insurance regulatory and captive formation matters. In 1987, Mr. Cubbin joined the Company as Vice President and General Counsel, where he was primarily responsible for all legal and regulatory affairs relating to the Company. He was promoted to Executive Vice President in 1996 where he was responsible for legal, regulatory and claims, and was appointed to President and Chief Operating Officer in 1999, where he was primarily responsible for all operational functions within the Company. Mr. Cubbin has been a director of the Company since 1995 and in May 2002, he was appointed as the Company's President and Chief Executive Officer. Mr. Cubbin is a member of the Risk Management and Finance Committee and the Investment Committee of the Company's Board of Directors and serves as Chairman of the Board of Directors of the following subsidiaries of the Company: Star Insurance Company; Savers Property & Casualty Insurance Company; Williamsburg National Insurance Company; Ameritrust Insurance Corporation; Century Surety Company and ProCentury Insurance Company. Mr. Cubbin is also the President of Meadowbrook, Inc. (Meadowbrook). Outside the Company, Mr. Cubbin serves on the Board of Directors and Audit and Compensation Committees of the Board of Directors for Citizens Republic Bancorp, Inc., a Michigan bank holding company. In addition, he is a member of the Board of Directors of Business Leaders for Michigan, a private, non-profit executive leadership organization dedicated to enhancing economic growth in Michigan.

Mr. Cubbin has extensive legal, insurance, management, accounting, actuarial, investment, underwriting, reinsurance and claims experience. The Board of Directors believes his experience makes him an excellent director of the Company.

*Robert F. Fix*, age 63, obtained his undergraduate degree in economics in 1969 from Michigan State University and his PhD in economics from Iowa State University in 1973. From 1972 to 1976, Mr. Fix taught finance and economics at Iowa State University. From 1979 to 1981, Mr. Fix was an Assistant Vice President Portfolio Manager for the Federal Home Loan Bank of Indianapolis. From 1981 to 1983, Mr. Fix served as President and Chief Operating Officer of the First Indianapolis Corporation and later served as Vice President Investment Officer for American Fletcher National Bank from 1984 to 1987. From 1987 to 2001, Mr. Fix served as President and Chief Executive Officer of First Bank Richmond, N.A. From 1988 to 2006, Mr. Fix was President of Richmond Mutual Bancorporation, Inc. where he currently serves as Vice Chairman. Mr. Fix has served as Vice Chairman of Richmond Mutual Bancorporation, Inc.'s primary subsidiary, First Bank Richmond, N.A since 2002. Mr. Fix served as Chairman of the Board of American Trust F.S.B., also a subsidiary of First Mutual Bancorporation, Inc. Before the merger with the Company, Mr. Fix served as a director of ProCentury Corporation (ProCentury) since October 2000. He was elected to the Company's Board of Directors on October 31, 2008 and is a member of the Audit Committee and Governance & Nominating Committee of the Company's Board of Directors. Mr. Fix served on the Indiana Bankers Association Board of Directors and was Chairman from 2002 to 2003. He was formerly Chairman of the Audit Committee for the Federal Home Loan Bank Board of Directors of Indianapolis and is currently a member of the Board of Directors of ProAlliance Corporation and Chairman of its Audit Committee.

Mr. Fix has significant banking, financing, accounting, investment and insurance experience. He formerly served upon the Board of Directors of ProCentury, so he is familiar with the excess and surplus lines business. The Board of Directors believes Mr. Fix's experience makes him an excellent director of the Company.

*Hugh W. Greenberg*, age 79, obtained his undergraduate degree in economics from the University of Michigan in 1951. After working in the automotive supply business, Mr. Greenberg formed Detroit Gage & Tool Company, where he served as President and Chief Executive Officer from 1961 to 2002. From 2002 to the present, Mr. Greenberg has served as Chairman of Data Net Quality Systems, an automotive software company specializing in logistics. Mr. Greenberg has been a director of the Company since 1985 and is Chairman of the Governance &

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Nominating Committee, as well as a member of the Risk Management and Finance Committee and the Compensation Committee, of the Company's Board of Directors. In addition, Mr. Greenberg has served on several boards of directors for several Michigan foundations and other non-profit organizations.

Mr. Greenberg possesses significant business, management, accounting and investment experience. Having served on the Company's Board of Directors since 1985, Mr. Greenberg also possesses a significant amount of institutional knowledge about the Company and its business operations. The Board of Directors believes Mr. Greenberg's experience makes him an excellent director of the Company.

*Florine Mark*, age 77, is the President and Chief Executive Officer of The WW Group, Inc., which is the leading United States franchise holder of Weight Watchers International. Ms. Mark has significant experience in owning, managing and operating her own business and developing it into one of the largest franchises in the United States. Ms. Mark has been a director of the Company since 1996 and is a member of the Governance & Nominating Committee and the Investment Committee of the Company's Board of Directors. Over the years, Ms. Mark has been a member of several boards of directors. Currently, she serves on the Citizens Bank, Advisory Board-Southeastern Michigan, Business Leaders for Michigan, English Gardens, The Governors Council on Physical Fitness, Health and Sports, Harvard University's Kennedy School of Government, Women's Leadership Board, and the Wayne State University College of Education/School of Business Administration Advisory Board. Ms. Mark has been inducted into the National Management Association Hall of Fame and received the Entrepreneur Visionary Award from the Women's Business Center in Washington, D.C. Ms. Mark has received several awards and recognitions based upon her contributions to business and for supporting a variety of charitable causes.

Ms. Mark possesses significant marketing, business, management and investment experience. The Board of Directors believes Ms. Mark's experience makes her an excellent director of the Company.

## **Incumbent Directors Terms Expiring in 2011**

*Robert H. Naftaly*, age 72, obtained his undergraduate degree in accounting from Walsh College in 1959. Mr. Naftaly obtained his Certified Public Accountant Certification in 1961. Mr. Naftaly began his employment with Geller, Naftaly, Herbach and Shapiro from 1961 to 1983. He served as Director of the State of Michigan Department of Management and Budget from 1983 to 1987 and was a Vice President with Detroit Edison from 1987 to 1988. Mr. Naftaly served as Chief Operating Officer for Blue Cross Blue Shield of Michigan from 1988 to 2002. Mr. Naftaly is currently a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. He has been a director of the Company since 2002, is the Chairman of the Compensation Committee, and is a member of the Risk Management and Finance Committee and the Governance & Nominating Committee of the Company's Board of Directors. Mr. Naftaly serves on the Board of Directors and on the Audit and Compensation Committees of the Board of Directors for Sun Communities, Inc., a publicly traded company that operates manufactured home communities. Mr. Naftaly serves on the Board of Directors of Walsh Business College and several other Michigan charitable entities or foundations.

Mr. Naftaly has significant accounting, audit, insurance and management experience. The Board of Directors believes Mr. Naftaly's experience makes him an excellent director of the Company.

*Robert W. Sturgis*, age 68, obtained an undergraduate degree in mathematics from the University of Maine in 1964. In 1968, Mr. Sturgis became a fellow in the Casualty Actuarial Society. In 1970, he became a member of the American Academy of Actuaries. From 1964 to 1979, Mr. Sturgis was an actuary with Aetna Insurance Company. From 1979 to 1986, Mr. Sturgis served as a principal and director of Tillinghast and from 1986 to 1995 he was a principal and director of Tillinghast-Towers Perrin, a global management and actuarial consulting firm. Mr. Sturgis retired as a director and principal of Tillinghast-Towers Perrin in 1995. Aside from his membership in the Casualty Actuarial



Society and the American Academy of Actuaries, Mr. Sturgis also served on the Actuarial Board for Counseling and Discipline from 1965 to 2002. Mr. Sturgis has been a director of the Company since 2000 and is a member of the Audit and Risk Management and Finance Committee of the Company's Board of Directors. He has served on the board of directors of several non-profit and charitable organizations.

Mr. Sturgis possesses significant actuarial, insurance and management experience. The Board of Directors believes that Mr. Sturgis' experience makes him an excellent director of the Company.

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*Bruce E. Thal*, age 78, graduated from the University of Michigan in 1952 with an undergraduate degree in business administration. Mr. Thal obtained a Certified Public Accountant Certification in 1955. He began his accounting career in 1954 and was a partner with Sillman, Kleiman & Thal from 1957 to 1968. He later joined J.K. Lasser & Company from 1968 to 1972. Thereafter, he joined Touche Ross & Company (now know as Deloitte & Touche LLP) where he was a partner until he retired in 1995. Mr. Thal has been a member of the American Association of Certified Public Accountants since 1956, as well as the American Institute of Certified Public Accountants. Mr. Thal has been a director of the Company since 1995, is Chairman of the Audit Committee and a member of the Investment Committee and the Risk Management and Finance Committee of the Company's Board of Directors.

Mr. Thal possesses significant accounting, audit, insurance and investment experience and has 15 years of service on the Company's Board of Directors. The Board of Directors believes Mr. Thal's experience makes him an excellent director for the Company.

*Jeffrey A. Maffett*, age 61, graduated in 1971 from Defiance College with an undergraduate degree in Business Administration. Shortly after graduation Mr. Maffett joined the management training program with Fifth Third Bank in Cincinnati, OH. Later he was employed at Eaton National Bank and Trust Co. as President and Chief Executive Officer from 1987 to 2003. Currently, Mr. Maffett serves as President and Chairman of Colonial Banc Corp. as well as Founder, Chairman and Chief Executive Officer of Oculina Banc Corp.

As an organizing director, Mr. Maffett ultimately served as President of the Community Bankers Association of Ohio and served a term on the Community Bank Board of the Federal Reserve Bank of Cleveland. Before the merger, Mr. Maffett had been a director at ProCentury since October 2000, and was appointed to the Company's Board on October 31, 2008, where he serves on the Audit Committee and Investment Committee. Mr. Maffett has served on various civic and charitable foundation boards. Mr. Maffett is a director of ProAlliance Corporation, an Ohio based insurance holding company.

Mr. Maffett has significant banking, insurance, investment and accounting experience. He previously served on ProCentury's Board of Directors, so he is familiar with the excess and surplus lines business. The Board of Directors believes Mr. Maffett's experience makes him an excellent director of the Company.

## **Other Executive Officers**

*Karen M. Spaun*, age 45, was appointed Chief Financial Officer in 2003 and has served as Senior Vice President of the Company since 2002. She also serves as Director and Vice President of the Insurance Company Subsidiaries, as well as Meadowbrook. In addition, she serves as Treasurer of Meadowbrook. Ms. Spaun joined the Company in 1998 as Director of Investor Relations. In 1997, Ms. Spaun served as Controller of CoverX, an excess and surplus lines company. From 1993 to 1997, she served as Director of Financial Accounting at Citizens Insurance Company, a member of the former Allmerica Financial Corporation. Ms. Spaun previously held financial and accounting positions in public companies and the former Coopers & Lybrand public accounting firm.

*Michael G. Costello*, age 49, was appointed Senior Vice President, General Counsel and Secretary of the Company in 1999. Mr. Costello also serves as Senior Vice President, General Counsel, and Secretary of the Insurance Company Subsidiaries, as well as Meadowbrook. Mr. Costello joined the Company in 1993 as Vice President and Assistant General Counsel. Mr. Costello was formerly a shareholder with Plunkett & Cooney, P.C., a Michigan law firm specializing in insurance law. Mr. Costello obtained undergraduate degree from Marquette University in 1982 and his law degree in 1985 from University of Detroit Mercy School of Law ( UDM ). He is a member of the Federation of Defense & Corporate Counsel, Association of Corporate Counsel and the Society of Corporate Secretaries & Governance Professionals. He serves as President and Director of the ACC Michigan Chapter Foundation and is a Director of the UDM Alumni Board of Directors, where he formerly served as President. Mr. Costello is a former

Director of the Oakland County Bar Foundation and is a member of the State Bar of Michigan and Oakland County Bar Association.

*Stephen A. Belden*, age 54, is Senior Vice President and Chief Actuary for the Company. Mr. Belden joined the Company in 2003. He previously served as Chief Actuary for Zurich North American Construction from 1995 to 2003. From 1990 to 1995, Mr. Belden worked with Orion Capital Companies as Assistant Vice President and

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Actuary. In addition, Mr. Belden's experience includes serving as a consultant with Tillinghast and with Touche, Ross and Company and as an Actuarial Officer for the St. Paul Companies. He started his career in 1977 with Aetna Life and Casualty Insurance Company, where he served in various positions in the Actuarial Department. Mr. Belden holds the designations of both Fellow Casualty Actuarial Society and CPCU.

*Christopher J. Timm*, age 53, previously served as a senior officer of ProCentury, prior to the Company's merger. Mr. Timm is an Executive Vice President of the Company. In addition, Mr. Timm serves as a Director and President of Century and PIC. Previously, Mr. Timm was an owner and President of Environmental & Commercial Insurance Agency, Inc., a managing underwriting agency, prior to its sale in 1998.

*Robert Christopher Spring*, age 56, is Senior Vice President of Business Operations and Chief Informational Officer. He was formerly the President of the Company's TPA Associates Division, which was acquired by the Company in 1999. Mr. Spring co-founded TPA Associates in 1993. He served as Executive Vice President of TPA from 1993 through 2000. He previously served as Assistant Vice President with American Mutual Insurance Companies from 1987 through 1989. From 1989 through 1993, Mr. Spring worked with Towers Perrin as a risk management consultant. He began his career in 1977 with Signature Group, an Illinois insurance company.

*Archie S. McIntyre*, age 44, is Senior Vice President of Business Development for the Company. In addition, Mr. McIntyre serves as a Director for the Insurance Company Subsidiaries. Mr. McIntyre joined the Company in 1986. From 1986 to 1988, Mr. McIntyre held various positions in the agency, marketing and finance divisions of the Company. From 1988 to 1996, Mr. McIntyre was a manager for the Company's public entity division. In 1996, Mr. McIntyre was named Vice President managing the Company's Alabama Branch office. In 1999, Mr. McIntyre was appointed to manage the Company's Business Development Department, which includes strategic planning, marketing, acquisitions, new business due diligence and implementation, and corporate communications. Mr. McIntyre graduated from the University of Michigan-Dearborn and holds an Associate in Risk Management designation.

*Kenn R. Allen*, age 61, is Senior Vice President of the Company and President of the Meadowbrook Insurance Agency and also serves as a Director and Vice President for Star, Savers, Williamsburg and Ameritrust. Mr. Allen has served as President of the Meadowbrook Insurance Agency since 1986. Prior to joining the Company, Mr. Allen held many positions at Republic Hogg Robinson, which was later acquired by Wells Fargo, where he was a Regional Senior Vice President for its self-funded groups/associations, self-insureds and property/casualty business. Mr. Allen is a graduate of the University of Cincinnati and Henry Ford College. His credentials include Certified Insurance Counselor and Certified Hazard Control Manager.

*Joseph E. Mattingly*, age 50, became Senior Vice President-Insurance Operations of the Company in 2007. Mr. Mattingly also serves as a Director of the Insurance Company Subsidiaries and is President of Star, Savers, Ameritrust, and Williamsburg. In addition, he also serves as Director of Meadowbrook. He is responsible for corporate underwriting, claims, loss control, premium audit, reinsurance, business development, and information services. Mr. Mattingly joined the Company in 2003. He served as branch manager for the Company's office in Overland Park, Kansas from 2004 until November 2006. From 1997 to 2003, he held the position of Vice President with One Beacon Insurance. Prior to 1997, Mr. Mattingly held various positions at Great American Insurance and The Hartford Insurance Group. Mr. Mattingly is a graduate of the University of Missouri.

*James M. Mahoney*, age 59, became Senior Vice President - Field Operations of the Company in 2007. In addition, Mr. Mahoney also serves as a Director of the Insurance Company Subsidiaries. He is responsible for management of the Company's branch operations. Mr. Mahoney joined the Company in 2000. He served as branch manager for the Company's office in Andover, Massachusetts from 2000 through 2006. From 1978 to 1995, he held various positions, including New England Regional Executive, Northeast Zone Executive, and Corporate Vice President - Field Operations, at The Hanover Insurance Company. In 1995, Mr. Mahoney joined the Lumber Insurance Group as Senior

Vice President. Mr. Mahoney is a graduate of Merrimack College and holds a CPCU designation.

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**CORPORATE GOVERNANCE**

**Board Matters**

In 2009, the Board of Directors met five times and the Committees of the Board held sixteen additional meetings. During 2009, each of the directors, with the exception of Joseph S. Dresner, attended (in the aggregate) at least 75% of the total number of meetings of the Board of Directors and the total number of meetings held by all the Committees of the Board upon which he/she served.

It is the policy of the Board of Directors to encourage attendance by its members at all meetings of the Board and Committees of the Board. Eight of the twelve members of the Board of Directors attended the 2009 Annual Meeting.

**Board Leadership Structure and Risk Management Oversight**

The Board of Directors has adopted governance guidelines to assist with fulfilling its duties and responsibilities to the Company and its shareholders. These guidelines are intended to ensure the Board of Directors has the necessary authority and procedures in place to review and evaluate the Company's business operations, make decisions that are independent of the Company's management, and align the Company's directors and management interests with those of the Company's shareholders. While the Company's bylaws do not require a separation of the Chairman of the Board and Chief Executive Officer positions, these positions are currently held by different people. The Company believes that separation of these two positions provides for appropriate oversight and review of management performance. In addition, it allows for an independent and objective assessment of agenda items to be considered at board or committee meetings. The Company has not selected a lead director; however, the Chairman of the Risk Management and Finance Committee has been appointed to chair all executive sessions of the Board of Directors. The Board of Directors has a practice of conducting executive sessions at each of the regularly scheduled Board and Committee meeting. The Board of Directors conducts executive sessions with the Chief Executive Officer. Also, the Board of Directors, along with the Audit Committee, conducts executive sessions with the Company's Chief Financial Officer, Chief Actuary, Director of Internal Audit and General Counsel.

The Board of Directors is responsible for oversight of the Company's risk management process. The Board of Directors has delegated to the Risk Management and Finance Committee the primary function of managing the risk management process and under the oversight of the Board of Directors. While the Risk Management and Finance Committee has the primary responsibility, several of the other committees of the Board of Directors also have the role in the process as outlined by each of their respective charters. The Risk Management and Finance Committee, with assistance from the Audit Committee, is responsible for reviewing, assessing and monitoring the significant risks or exposures to the Company and assuring that management has implemented the appropriate monitors to control such risks, as well as minimize the Company's exposure to such risks. The Risk Management and Finance Committee is authorized to retain, if necessary, risk management consultants to assist the Board of Directors in this process. The Investment Committee is responsible for developing an investment policy that ensures the Company's investment portfolio is aligned with the risk profile of the Company. The Compensation Committee is responsible for adopting compensation policies that increase shareholder value, avoid undue risk taking by the Company, appropriately rewards executives and employees for performance and assures that the Company's compensation policies and practices are adequately disclosed to the public. The Governance and Nominating Committee is responsible for overseeing matters relating to the nomination, selection and evaluation of its directors, reviewing and approving any related-party transactions, as well as assuring that the Company has an effective corporate governance policy, which complies with the current rules of the New York Stock Exchange and SEC.

**Independence Determination**

The Board of Directors has determined that Messrs. Dresner, Greenberg, Naftaly, Page, Sturgis, Thal, Tyner, Fix, Maffett and Ms. Mark are independent, in accordance with the New York Stock Exchange's independence standards, as modified or supplemented, and these directors have no other relationship that would impair such independence.

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### **Executive Sessions**

Executive sessions of non-management directors were held at each regularly scheduled meeting of the Board of Directors, as well as at each meeting of the Audit Committee, Governance and Nominating Committee, Risk Management and Finance Committee, Audit Committee and Compensation Committee. Executive sessions are presided over by the Chairman of each Committee with the Chairman of the Risk Management and Finance Committee presiding over the executive sessions of the Board of Directors.

### **Committees of the Board of Directors**

The Board of Directors has established Corporate Governance Guidelines. Also, the Board of Directors has established an Audit Committee, Compensation Committee, Risk Management and Finance Committee, Investment Committee and Governance and Nominating Committee. Each Committee of the Board of Directors has adopted a Committee Charter. A current copy of each Committee's Charter is available on the Company's website at [www.meadowbrook.com](http://www.meadowbrook.com).

### **Audit Committee**

The Audit Committee is responsible for reviewing the services of the Company's independent registered public accounting firm and actuaries, consults with the accountants and actuaries, reviews the financial statements and loss reserves of the Company and internal controls of the Company and monitors the Internal Audit Department of the Company. The Audit Committee also assists the Risk Management and Finance Committee with developing and implementing policies that govern how the Company identifies, evaluates, monitors and minimizes risk. The Audit Committee members are: Bruce E. Thal (Chairman), Robert F. Fix, Robert H. Naftaly, Jeffrey A. Maffett, and Robert W. Sturgis. The members of the Audit Committee satisfy the independence and experience requirements established by the New York Stock Exchange. In addition, the Board of Directors has determined that Bruce E. Thal qualifies as a financial expert, as defined by the SEC. The Audit Committee met four times in 2009. Refer to the **Audit Committee Report** below for details of the Committee's proceedings during 2009.

### **Compensation Committee**

The Compensation Committee is responsible for assuring that our named executives are appropriately compensated in relation to their duties, responsibilities and performance and that executive compensation plans are aligned with long-term shareholder value and are designed so as to avoid undue risk to the Company. The Compensation Committee's Charter authorizes the Compensation Committee to review and approve the goals and objectives for the Chief Executive Officer, evaluate his performance and approve his compensation. The Compensation Committee recommends to the Board of Directors the base salary levels, bonuses and equity compensation for the Chief Executive Officer. In addition, the Compensation Committee approves the guidelines to determine salary levels, bonuses and equity compensation for other executive officers and managers of the Company. The Compensation Committee reviews and makes recommendations with respect to the Company's compensation plans and is responsible for administering any equity awards under the Company's 2002 Amended and Restated Stock Option Plan, the 2009 Equity Compensation Plan and the Long Term Incentive Plan. The members of the Compensation Committee satisfy the independence requirements established by the New York Stock Exchange. The Compensation Committee has authority to directly retain outside consultants of its selection to assist with the development of the Company's compensation and benefits programs. In 2009, the Compensation Committee did not retain any outside consultant to review the Company's compensation plans.

The Compensation Committee members are Robert H. Naftaly (Chairman), Hugh W. Greenberg, David K. Page, and Herbert Tyner. The Compensation Committee met two times in 2009. The **Compensation Committee Report** is set



forth later in this proxy statement.

**Risk Management and Finance Committee**

The Risk Management and Finance Committee is responsible for assisting the Board of Directors with its oversight of risk management, financial, capital, lending, litigation, acquisitions, loss reserves and other strategic matters relating to the business of the Company. The Risk Management and Finance Committee monitors the

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significant risks and exposures of the Company and assures that management adopts appropriate mitigating controls to avoid or reduce the Company's exposures to such risks. Members of the Risk and Finance Committee are David K. Page (Chairman), Hugh W. Greenberg, Robert W. Sturgis, Robert H. Naftaly, Bruce E. Thal, Merton J. Segal and Robert S. Cubbin. The Risk Management and Finance Committee met four times in 2009.

## **Investment Committee**

The Investment Committee reviews and approves the Company's Investment Policy Guidelines, investment transactions of the Company, oversees the Company's outside investment manager, and monitors investment performance and adherence to the Company's Investment Policy Guidelines so as to ensure the investment portfolio is aligned with the Company's risk profile. The Investment Committee members are Joseph S. Dresner (Chairman), Robert S. Cubbin, Jeffrey A. Maffett, Florine Mark, David K. Page, Merton J. Segal and Bruce E. Thal. The Investment Committee met four times in 2009.

## **Governance and Nominating Committee**

The Governance and Nominating Committee reviews the criteria for the selection of senior executives and directors of the Company. The Governance and Nominating Committee reviews the performance of the directors and recommends directors for election to the Board. The Governance and Nominating Committee monitors compliance with the Company's Code of Conduct and other corporate governance policies. The Governance and Nominating Committee also reviews and approves any related-party transactions involving the Company and its directors and officers. The Governance and Nominating Committee members are Hugh W. Greenberg (Chairman), Robert F. Fix, Florine Mark, and Herbert Tyner. The Governance and Nominating Committee met two times in 2009.

The Charter for the Governance and Nominating Committee is available to shareholders on the Company's website, at [www.meadowbrook.com](http://www.meadowbrook.com). Each member of the Governance and Nominating Committee is independent as defined in the New York Stock Exchange's independence standards, as those standards have been modified or supplemented, and these Directors have no other relationship that would impair their independence.

The Governance and Nominating Committee will consider director candidates recommended by shareholders. Such recommendations must be made pursuant to timely notice in writing to:

Meadowbrook Insurance Group, Inc.  
26255 American Drive  
Southfield, Michigan 48034-2438  
Attention: Governance and Nominating Committee

The Governance and Nominating Committee has not established specific minimum qualifications or skills for directors to possess. The Governance and Nominating Committee uses a subjective process for identifying and evaluating nominees for director, based upon the information available to members of the Governance and Nominating Committee and the current needs of the Company. While the Governance and Nominating Committee does consider diversity as one of several criteria for eligibility, the Company has not adopted a formal diversity policy. The Governance and Nominating Committee does not believe there would be any difference in the manner in which it evaluates nominees based on whether the nominee is recommended by a shareholder or director. Historically, nominees have been the existing directors or persons with significant management, insurance, accounting, actuarial, legal, banking, investment or business experience.

## **Code of Conduct**

The Company has adopted a Code of Conduct that applies to all of its employees, officers and directors, including its principal executive officer, principal financial officer, chief accounting officer or persons performing similar functions. Annually, the Company reviews the Code of Conduct for any amendments, which thereafter would be reviewed and approved by the Governance and Nominating Committee and the Board of Directors. No changes were made in 2009.

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The Company's Code of Conduct contains written standards that are intended to deter wrongdoing and promote:

Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

Full, fair, accurate, timely, and understandable disclosures in reports and documents that we file with, or submit to, the SEC and in other public communications we make;

Compliance with applicable governmental laws, rules and regulations;

Prompt internal reporting of violations of the Code of Conduct to an appropriate person; and

Accountability for adherence to the Code of Conduct.

In addition, the Company has a Whistleblower Policy, which allows employees to anonymously report unethical or illegal conduct on the part of employees. All reports are investigated by the Compliance Officer and reported to the Audit Committee of the Board of Directors for further action.

The Company has also posted the Code of Conduct on its website at [www.meadowbrook.com](http://www.meadowbrook.com). The Company will provide a copy of the Code of Conduct to any person, without charge and upon request. Requests for a copy of the Code of Conduct, Corporate Governance Guidelines or Committee Charters should be made to the Secretary of the Company at 26255 American Drive, Southfield, Michigan 48034. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of our Code of Conduct that applies to our principal executive officer, principal financial officer, controller or persons performing similar functions and that relates to any element of the code definition enumerated in SEC, Regulation S-K, Item 406(b) by posting such information on our website at [www.meadowbrook.com](http://www.meadowbrook.com) within four business days following the date of the amendment or waiver. To date, no such waivers have been made.

## **Compensation Committee Interlocks and Insider Participation**

No member of the Compensation Committee is a current or former employee of the Company or any of its subsidiaries. No member of the Compensation Committee had any relationship with the Company, which would have required disclosure in this Proxy Statement under the caption **Certain Relationships and Related Party Transactions**. No executive officer of the Company served on the Compensation Committee or as a director of any other entity whose executive officer(s) served on the Company's Compensation Committee or Board of Directors.

## **Shareholder Communications with Directors**

Any shareholder may communicate directly with the Board of Directors, or with any one or more individual members of the Board. A shareholder wishing to do so, should address the communication to Board of Directors or to one or more individual members of the Board and submit the communication to the Company at the address of the Company noted on the first page of this Notice of Meeting and Proxy Statement. All such communications received by the Company and addressed to the Board of Directors will be forwarded to the Chairman of the Board, or to the individual member or members of the Board, if addressed to them.

All of these communications will be reviewed by our Secretary to filter out communications that are not appropriate, specifically, spam or communications offering to buy or sell products or services. The Secretary will forward all remaining communications to the appropriate directors.

Any interested party may communicate with our non-management directors by writing to:

Meadowbrook Insurance Group, Inc.  
26255 American Drive  
Southfield, Michigan 48034  
Attention: Independent Directors

Table of Contents**COMPENSATION OF DIRECTORS****Director Compensation**

The following table provides information regarding compensation paid to the individuals who served as non-employee directors of the Company during the year ended December 31, 2009:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non Equity Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
					(\$)		
Merton J. Segal	59,500					253,500(1)	313,000
David K. Page	72,500						72,500
Bruce E. Thal	75,500						75,500
Joseph S. Dresner	49,500						49,500
Hugh W. Greenberg	64,500						64,500
Robert W. Sturgis	59,500						59,500
Florine Mark	56,500						56,500
Robert H. Naftaly	72,500						72,500
Herbert Tyner	53,500						53,500
Jeffrey A. Maffett	58,000						58,000
Robert F. Fix	56,500						56,500

(1) Compensation includes fees paid to Mr. Segal under his Consulting Agreement, as described in **Certain Relationships and Related Party Transactions**.

The Compensation Committee retained Towers Perrin in 2008 to review the competitiveness of the Company's non-employee director compensation program. Towers Perrin compared the Company's non-employee director compensation program to a group of fifteen comparably-sized insurance companies, which was supplemented with general industry data gathered by Towers Perrin. The median annual revenue of the comparable companies listed below in the **Compensation Discussion & Analysis - Compensation Assessment** was approximately \$677 million, which approximated the Company's estimated annual premium following the merger with ProCentury. Non-employee director pay levels were gathered from proxy statement filings and other information developed by and available to Towers Perrin. The data gathered by Towers Perrin indicated that the comparable companies used both cash and some form of equity awards to compensate their directors. Towers Perrin noted that the Company did not include any form of equity compensation when paying its directors. As a result, Towers Perrin determined the Company was below the market median for board compensation. Therefore, Towers Perrin recommended either the use of equity awards or an

increase in cash compensation to bring the Company's overall board compensation closer to the market median.

As a result, the Compensation Committee increased the Board of Director retainer to bring the overall board compensation in line with the market median, as well as to fairly compensate directors for their time commitment to the Company. During 2009, directors who were not officers of the Company, received an increase of their annual retainer fee from \$30,000 to \$40,000, plus \$1,500 for each board or committee meeting attended in 2009. Directors, who served as chairman of the Investment and Governance and Nominating Committees of the Board of Directors, received an annual retainer of \$5,000. Directors, who served as chairman of the Audit, Compensation and Risk Management and Finance Committees of the Board of Directors, received an increase of their annual retainer from \$5,000 to \$10,000 in recognition of the additional workload performed by the chairmen of these committees.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth as of the Record Date the beneficial ownership of the Company's common stock by: (i) each person known by the Company to beneficially own five percent or more of such shares, (ii) each nominee and incumbent director, (iii) each person named in the Summary Compensation Table, and (iv) all nominees and incumbent directors and Executive Officers as a group, together with their respective percentage ownership of the outstanding shares. Unless otherwise indicated, each individual has sole investment and voting power with respect to such shares.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
<b><u>Directors and Executive Officers</u></b>		
Kenn R. Allen (Executive Officer)	59,772	*
Stephen A. Belden (Executive Officer)	38,907	*
Michael G. Costello (Executive Officer)	57,772	*
Robert S. Cubbin (Executive Officer and Director)	439,217	*
James M. Mahoney (Executive Officer)	64,550	*
Joseph E. Mattingly (Executive Officer)	37,370	*
Archie S. McIntyre (Executive Officer)	84,735	*
Karen M. Spaun (Executive Officer)	85,353	*
Robert C. Spring (Executive Officer)	16,520	*
Christopher J. Timm (Executive Officer)	367,620	*
Joseph S. Dresner (Director)	110,000	*
Robert F. Fix (Director)	50,000(2)	*
Hugh W. Greenberg (Director)	109,012(3)	*
Jeffrey A. Maffett (Director)	422,190(4)	*
Florine Mark (Director)	20,000(5)	*
Robert H. Naftaly (Director)	50,000	*
David K. Page (Director)	174,000(6)	*
Merton J. Segal (Chairman of the Board)	1,496,879(7)	2.7%
Robert W. Sturgis (Director)	29,000	*
Bruce E. Thal (Director)	157,000(8)	*
Herbert Tyner (Director)	186,377(9)	*
All Directors and Executive Officers as a group	4,056,274	7.4%
<b><u>5% Beneficial Owners</u></b>		
<b><u>(excluding Directors and Executive Officers)</u></b>		
BlackRock, Inc.	3,181,505(10)	5.8%
Dimensional Fund Advisors, Inc.	4,848,140(11)	8.8%
Goldman Sachs Asset Management	3,461,116(12)	6.3%
Royce & Associates	3,428,192(13)	6.2%
All Directors, Executive Officers and 5% Beneficial Owners	18,975,227	34.5%



\* Less than 1%.

- (1) Address is 26255 American Drive, Southfield, Michigan 48034.
- (2) Includes 12,500 shares held by Mr. Fix's spouse.
- (3) Includes 109,012 shares held by a family Trust established by Mr. Greenberg.

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- (4) Includes 271,065 shares held by Colonial Banc Corp. Mr. Maffett is Chairman of the Board and may be deemed to share beneficial ownership of these shares. Also, includes 700 shares owned by the Colonial Banc Corp. Profit Sharing Plan and 1,187 shares owned by Mr. Maffett's spouse.
- (5) These shares are held in trust by Ms. Mark.
- (6) Includes 24,000 shares held by Mr. Page's spouse, who holds them as custodian for Mr. Page's grandchildren.
- (7) Includes 1,483,331 shares held in a trust by Mr. Segal's spouse. Also, includes 1,757 shares held by Mr. Segal's spouse.
- (8) Includes 16,000 shares held in trust by Mr. Thal's spouse and 54,000 shares held in trust by Mr. Thal. Also includes 45,000 shares in a partnership and 2,000 shares held in trust by Mr. Thal's grandnephews. Mr. Thal may be deemed to share beneficial ownership in these shares held by his grandnephews, because he has voting power over these shares.
- (9) Includes 136,377 shares held by Hartman & Tyner, Inc. Mr. Tyner is President and is greater than 10% stockholder of Hartman & Tyner, Inc. Mr. Tyner may be deemed to share beneficial ownership of these shares.
- (10) Address is 40 East 52<sup>nd</sup> Street, New York, NY 10022. Based on the Schedule 13G filed with the SEC dated January 29, 2010, BlackRock, Inc. held sole voting power and sole dispositive power of 3,181,505 shares.
- (11) Address is Palisades West, Building One, 6300 Bee Cave Road, Austin, TX 78746. Based on a Schedule 13G filed with the SEC dated February 8, 2010, Dimensional Fund Advisors, Inc. held sole voting power of 4,752,483 and sole dispositive power of 4,848,140 shares.
- (12) Address is 32 Old Slip, New York, NY 10005. Based on Schedule 13G filed with the SEC dated February 12, 2010, Goldman Sachs Asset Management held shared voting power of 3,043,888 and shared dispositive power of 3,461,116 shares.
- (13) Address is 745 Fifth Avenue, New York, NY 10151. Based on the Schedule 13G filed with the SEC dated January 26, 2010, Royce & Associates held sole voting power and sole dispositive power of 3,428,192 shares.

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**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Company's directors, executive officers and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and any subsequent changes in ownership with the SEC within prescribed time limits. The Company believes that, for the reporting period January 1, 2009 to December 31, 2009, all executive officers, directors, and ten percent or more shareholders complied with the reporting requirements under Section 16(a), except Merton J. Segal and Joseph S. Dresner, whose Form 4 end of period holdings include an additional 709 and 1,812 shares, respectively, which were inadvertently omitted from previous filings.

**COMPENSATION OF EXECUTIVE OFFICERS**

**Compensation Discussion & Analysis**

**Overview**

The Compensation Committee (the Committee) of the Board is, among other things, authorized by its Committee Charter (the Charter) to assure that our management is appropriately compensated in relation to their duties, responsibilities, performance and that executive compensation plans are aligned with long-term shareholder value and do not expose the Company to undue risk. The Charter authorizes the Committee to review the annual goals and objectives for the Company, Chief Executive Officer and its executive officers, evaluate the Chief Executive Officer's performance and approve his compensation (base salary, annualized bonus, long term incentive or other equity awards). The Committee is responsible for reviewing recommendations made by the Chief Executive Officer relating to the compensation of the principal executive officers who report to the Chief Executive Officer. In addition, the Committee is responsible for the administration of our annualized bonus plan, long term incentive plan, as described below, as well as other equity-based compensation. Finally, the Committee is authorized to periodically review our compensation philosophy relating to salaries, bonuses, long term incentives and other equity-based compensation paid to our senior management so as to assure the Company remains competitive with similar companies in the insurance industry. The Committee is authorized by its Charter to retain a compensation consultant to assist the Committee with the performance of its duties.

It is our policy to offer a compensation package including a competitive salary, annual incentive bonus and equity-based compensation based upon individual and Company performance. In addition, it is our policy to offer competitive benefits. Our compensation policy for our named executive officers is similar to that of other employers and is intended to promote, attract and retain a talented pool of management, encourage continued performance and attainment of corporate and personal goals, as well as, further promote our success by aligning the executive officers financial interests with long term shareholder value. Generally, it is our policy to pay within a competitive range (plus or minus ten percent of the market median) to fairly compensate our executive officers. The Company has deviated from this guideline in limited circumstances, which have included when an employee was hired at a higher level because of market conditions, the employee has assumed greater responsibilities than originally anticipated or the employee was hired as a part of an acquisition and an employment agreement had previously established the compensation.

The primary elements of our executive compensation consist of: (1) base salary, (2) annual incentive bonus, and (3) long term incentive or equity-based awards. The criteria for determining the Chief Executive Officer and other executive officers' base salary includes level of responsibility, personal contribution to the Company's success, experience, expertise and market data for our competitors in the insurance industry as supplemented by general industry data. Criteria for determining the Chief Executive Officer and other executive officers' annual incentive bonus

targets and actual awards, includes corporate performance, personal contribution to the Company, achievement of individually established goals, market data for our competitors in the insurance industry and the attainment of other corporate objectives. Criteria for determining the Chief Executive Officer and the other executive officers long term incentive targets and awards, includes level of responsibility, expected future contributions, corporate performance, achievement of individually established goals and market data for our competitors in the insurance industry.

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Other benefits and perquisites consist of a qualified 401(k) savings plan, a non-qualified excess compensation plan, automobile allowance, club membership and other miscellaneous perquisites summarized within the Summary Compensation Table of the named executive officers.

## **Compensation Assessment**

In 2008, the Committee engaged Towers Perrin to provide it with updated information and recommendations regarding the Company's compensation plans, as well as the compensation for our Chief Executive Officer and other principal executive officers, who report to the Chief Executive Officer. This engagement was prompted by the amount of time (two years) that had passed since the last analysis of Towers Perrin, as well as, the recent merger with ProCentury. In 2008, Towers Perrin met with the Committee and management to discuss the Company's current compensation philosophy, the key objectives for the Company's compensation program and conducted a market review of the Company's compensation program. The market review considered general industry data of the companies similar in size and revenue of the Company as developed by Towers Perrin, which was supplemented with similar insurance industry data. In addition to the general industry data which Towers Perrin assembled, Towers Perrin reviewed the 2007 pay levels (salary, annual bonus and equity plans) of fifteen insurance companies, specifically, One Beacon Insurance Group, Ltd., Selective Insurance Group, Inc., Philadelphia Consolidated Holding Corporation, State Auto Financial Corporation, Argo Group International Holdings, Ltd., Harleysville Group, Inc., ProAssurance Corporation, Navigators Group, Inc., RLI Corporation, Inc., AmTrust Financial Services, Inc., Tower Group, Inc., Darwin Professional Underwriters, Inc., First Mercury Financial Corporation, American Physicians Capital, Inc. and Northpointe Holdings Corporation, currently operating as a subsidiary of QBE.

Based on its analysis and discussions with the Committee, Towers Perrin recommended that certain positions receive market based salary increases in order to place the executive in line with the market median for his or her current position, as well as appropriately compensate them for additional duties assumed as a result of the merger with ProCentury. The Committee approved that the salary of Robert S. Cubbin be increased from \$620,000 to \$650,000; the salary of Karen M. Spaun be increased from \$267,000 to \$315,000; the salary of Michael G. Costello be increased from \$276,000 to \$315,000 and the salary of Stephen A. Belden be increased from \$265,000 to \$275,000. In terms of annual bonus compensation, Towers Perrin recommended market-based increases to the targets for certain executives to align them closer to the market median for their positions. The Committee approved an increase in the annual bonus target as a percent of salary for Robert S. Cubbin from 50% to 70%; the annual bonus target of Karen M. Spaun be increased from 40% to 50%; the annual bonus target of Michael G. Costello be increased from 40% to 50% and the annual bonus target of Stephen A. Belden be increased from 40% to 50%. Towers Perrin noted that equity compensation for the named executives was well below the market median. To bring the equity compensation closer to the market median, Towers Perrin recommended and the Committee approved the long term incentive plan target as a percent of salary for Robert S. Cubbin be increased from 60% to 70%; the long term incentive plan target of Karen M. Spaun be increased from 40% to 50%; the long term incentive plan target of Michael G. Costello be increased from 40% to 50% and the long term incentive plan target of Stephen A. Belden be increased from 25% to 35%. Also, the Committee approved the use of restricted stock awards for the named executives as a way to bring them in line with the market median for their positions. If awarded, restricted stock awards would be issued annually and require as a minimum the achievement by the Company of the target so as to qualify employees for an annual bonus award and would be based upon the individual's performance. The award of restricted stock awards would be within the sole discretion of the Committee. If granted, the awards would vest over a four year period and would be subject to forfeiture in the event the executive was terminated for cause, as defined within his or her employment agreements, or voluntarily resigns his or her position.

The Committee approved the above recommendations, and on February 13, 2009, the Board of Directors approved the Committee's recommendations.

**Base Salary**

Base salary is established based on various criteria consisting of level of responsibility, corporate performance, personal contribution to our success, experience, expertise and market data for our competitors in the insurance industry. We provide the opportunity for our executive officers to earn a competitive annual base salary. Generally, we believe executive base salaries should be set within the competitive range of salaries for executives in similar

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positions at comparable companies. The Committee has established as a guideline plus or minus ten percent of the market median for the position. Base salaries are reviewed annually and merit increases are awarded based on corporate and individual performance. Merit increases are effective April 1 of a calendar year.

For 2009, aside from the market adjustments to the salary increases listed above, there were no merit increases awarded to the named executive officers.

## **Annual Bonus**

In addition to base salaries, we have established an annual bonus plan (the Bonus Plan ), which is an incentive based plan for our executive officers. We believe performance based cash bonuses are an important factor in providing incentives to executive officers to achieve corporate performance objectives. Criteria for determining the named executive officers annual incentive bonus includes achievement of corporate performance objectives, corporate performance, personal contribution to our success, achievement of individually established goals and market data for our competitors in the insurance industry.

The Bonus Plan is a discretionary cash bonus plan premised upon a targeted growth in net after-tax earnings on a year over year basis. Each year, the Committee and our Board of Directors establish a new target based upon prior year performance and the forecasted performance levels anticipated for the following year. If the minimum threshold is met, the Bonus Plan is funded from 0% up to a maximum cap of 120% of the targeted bonus pool. The amount of the bonus pool is established by aggregating the individual targets for each participant, which is a percentage of the employee s salary. An employee s actual award may be above or below his or her target based upon achievement of corporate performance objectives and their individual performance for the year.

At the end of the year, the Committee and the Board of Directors review our performance in relation to the pre-determined performance targets and then finalize the total bonus pool available to pay cash bonuses to the executive officers and the management team based upon achievement of our corporate and individual goals. Ultimately, all targets and actual awards are reviewed and approved by the Committee and the Board of Directors.

For 2009, the Committee established fifteen performance objectives for the Company. The performance goals included financial, operational and entity-wide control objectives. The financial objectives included targets for return on equity, earnings per share, combined ratio, net operating income, gross written and net earned premium, rate and underwriting changes, leverage ratios, investment income and fee and commission revenue. The operational goals included implementation of a limited number of new programs, development and implementation of certain information technology initiatives, consideration of strategic acquisitions and continued integration of ProCentury. Further, the entity-wide control objectives included implementation of a risk assessment policy, maintenance of the internal controls over financial reporting and continued compliance with Section 404. In February 2009, the Board of Directors, upon recommendation of the Committee, established target bonus awards, based on a percentage of salary for each named executive officer. In February 2010, the Committee determined that the Company achieved substantially all of the performance objectives established for the year and recommended the following annual bonuses: Robert S. Cubbin-\$455,000; Christopher J. Timm-\$173,000; Karen S. Spaun-\$158,000; Michael G. Costello-\$158,000; and Stephen A. Belden-\$138,000. The Committee s recommendations were reviewed and approved by the Board of Directors on February 12, 2010.

## **Long Term Incentive Plan Compensation**

We provide the opportunity for our named executive officers and other executives to earn a long-term incentive award under our Long Term Incentive Plan (the LTIP ). The LTIP is intended to provide an incentive to management to improve performance over a three-year period, thereby increasing shareholder value. The LTIP is not discretionary

and is based upon a target for an average three-year return on beginning equity. One-half of any LTIP award is paid in cash and one-half is paid in common stock. The cash portion of the award is paid in three annual installments, with the first payment being paid as of the end of the performance period. The remaining two payments would be paid in the subsequent two years. Any unpaid portion of a cash award is subject to forfeiture if the participant voluntarily leaves, or is discharged for cause. The stock portion of the award is issued as a stock



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award under the terms and conditions of our 2002 Amended and Restated Stock Option Plan or 2009 Equity Compensation Plan as of the end of the performance period. The number of shares of common stock awarded is based upon the closing stock price at the beginning of the performance period. A participant's percentage is established by the Committee and the Board in advance of any new LTIP award.

A participant's targeted award is established at the beginning of the three-year performance period. The participant's target is a percentage of his or her salary. The Chief Executive Officer and the executive officers awards are capped at 160% of their respective salaries. Ultimately, all targets and actual awards under the LTIP are reviewed and approved by the Board of Directors both at inception and distribution.

On February 9, 2007, the Committee and the Board of Directors approved the targets for the 2007-2009 performance period ( 2007 LTIP Grant ). However, with the ProCentury merger, the Committee and Board of Directors determined that the Company's opportunity for successfully integrating the ProCentury merger would be heightened and shareholder value increased, if all participants were in the same equity-based plan beginning in 2009. As a result, the Committee approved the termination of Company's 2007-2009 LTIP Grant effective December 31, 2008. The 2007-2009 participants received their award based on a two-year performance period, rather than a three-year period. Therefore, the total award was approximately two-thirds of the original three-year award. On February 13, 2009, the Committee and the Board of Directors approved a 100% distribution of the LTIP award for the 2007-2008 plan years, as described above, based upon the Company's performance over the amended two-year performance period. Participants received the stock portion of the award, along with one-third of the cash portion of the award. Participants received the second one-third cash payment in February 2010 and will receive their last cash payment in February 2011, subject to applicable forfeiture provisions.

Thereafter, the Company established a new 2009-2011 LTIP Grant ( 2009 LTIP Grant ) based upon a newly established target for an average three-year return on beginning equity and growth in net operating income. Participants are not eligible for any awards under the 2009-2011 LTIP Grant until December 31, 2011, which is the end of the performance period.

## **Stock Options and Restricted Stock**

In addition to the above variable compensation plans, we also provide for the granting of stock options or awards under our 2002 Amended and Restated Stock Options Plan and the 2009 Equity Compensation Plan, which are intended to further our interests and the interest of our shareholders by attracting, retaining, and motivating key management. The plans provide for the grant of stock options (which may be nonqualified options or incentive stock options for tax purposes) and restricted stock awards, as described above.

The Committee is authorized to determine the terms and conditions of all restricted stock awards and option grants, subject to the limitations that the option price per share may not be less than the fair market value of a share of common stock on the date of grant and the term of an option may not be longer than ten years. Payment of the option price may be made in any manner specified by the Committee (which may include payment in cash or common stock or by cashless exercise ).

We did not grant any stock options or restricted stock awards in 2009 to any of the named executive officers.

## **Executive Perquisites**

We provide the opportunity for our named executive officers to receive certain perquisites, such as automobile allowances and reimbursement for club membership dues. We also offer participation in our defined contribution 401(k) plan, as well as a non-qualified excess compensation plan. In addition, our named executive officers, as well as

other employees, may occasionally receive tickets to sporting events or entertainment for personal use if the tickets are not needed for business use, for which we do not incur incremental costs. These benefits are provided as an additional incentive for our executives and to remain competitive within the marketplace for such talent. These perquisites are summarized within the *Other Compensation Table* below.

**Table of Contents****Summary Compensation Table**

The following table sets forth information concerning the compensation of our Chief Executive Officer, Chief Financial Officer and the three most highly compensated Executive Officers, other than the Chief Executive Officer and Chief Financial Officer, whose total annual salary and bonus exceeded \$100,000 and includes all compensation paid to such officers during 2009:

Name and Principal Position	Year	Salary (\$)	Bonus (\$) (1)	Stock Awards (\$) (2)	Options Awards (\$) (3)	Non-Equity Incentive Plan Compensation (\$) (4)	Change in Pension Value and Deferred Compensation (\$) (5)	Other Compensation (\$) (6)	Total (\$)
<b>Robert S. Cubbin</b>	2009	650,000	455,000	580,125		580,125		42,650	2,307,900
President, Chief Executive Officer and Director	2008	620,000	144,000					34,927	798,927
	2007	565,000	450,000	321,000		321,000		34,358	1,691,358
<b>Karen M. Spaun</b>	2009	315,000	158,000	200,813		200,813		17,631	892,257
Senior Vice President and Chief Financial Officer	2008	267,000	51,400					15,606	334,006
	2007	254,750	170,000	99,200		99,200		14,579	637,729
<b>Christopher J. Timm(4)</b>	2009	388,000	173,000	247,350		247,350		13,217	1,068,917
Executive Vice President									
<b>Michael G. Costello</b>	2009	315,000	158,000	200,813		200,813		25,832	900,458
Senior Vice President General Counsel and Secretary	2008	276,000	53,000					23,660	352,660
	2007	262,500	170,000	102,000		102,000		21,915	658,415
<b>Stephen A. Belden(4)</b>	2009	275,000	138,000	122,719		122,719		17,937	676,375
Senior Vice President Chief Actuary	2008	265,000	51,400	62,000		62,000		15,715	456,115

(1) Annual Incentive Bonuses, as described above, are included in this column.

(2) The dollar amounts shown in this column represent the grant date fair value of shares awarded under the 2009 & 2007 LTIP Grant. With respect to the performance shares, the estimate of the grant date fair value assumes the vesting of 85% and 100% of the shares awarded under the 2009 & 2007 LTIP Grant, respectively. While the 2007 LTIP Grant was fully earned as of December 31, 2008; for the 2009 LTIP Grant assuming the highest level of performance is achieved (which would result in the vesting of 160% of shares awarded), the aggregate grant date fair value of the awards set forth in the table above would be:

<b>Name</b>	<b>2009</b> <b>(\$)</b>
-------------	----------------------------

Robert S. Cubbin	1,092,000
Karen M. Spaun	378,000
Christopher J. Timm	465,600
Michael G. Costello	378,000
Stephen A. Belden	231,000

- (3) For 2009, the amounts shown represent the cash portion of the LTIP award for the 2009 LTIP Grant, which would be fully earned at the end of the performance period in 2011 upon achievement of the associated targets. For 2007, the amounts shown represent the cash portion of the award for the 2007 LTIP Grant, which were fully earned as of December 31, 2008. These awards are paid out in three annual installments, with the first payment being paid as of the end of the performance period. The remaining two payments will be paid in the subsequent two years. Any unpaid portion of a cash award is subject to forfeiture if the participant voluntarily leaves, or is discharged for cause.
- (4) Mr. Timm was not a named executive officer for fiscal years 2008 and 2007. Mr. Belden was not a named executive officer for fiscal year 2007.

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All Other Compensation included in the Summary Compensation Table above includes the following components:

Name	Club	Auto	401(k)	Life	Interest	Total
	Memberships	Allowance	Matching	Insurance	Payments	
	(\$)	(\$)	(\$)	(\$)(1)	(\$)(2)	(\$)
Robert S. Cubbin	14,640	9,000	7,350	630	11,030	42,650
Karen M. Spaun		7,200	7,350	630	2,451	17,631
Christopher J. Timm	5,237		7,350	630		13,217
Michael G. Costello	7,944	7,200	7,350	630	2,708	25,832
Stephen A. Belden		7,200	7,350	630	2,757	17,937

- (1) Represents the dollar value of any insurance premiums we paid with respect to life insurance for the benefit of the named executive officer.
- (2) Represents interest payments, pursuant to the LTIP, paid in connection with the named executive officer's LTIP payment for the prior plan year payment, which is paid over a three-year period, as described above.

The above table excludes any event tickets of the Company's that may have been utilized by the named executive officer for which the Company did not incur any additional incremental costs.

**2009 Grants of Plan-Based Awards**

The following table shows the grant of an award, as described above within the **Compensation Discussion & Analysis**, for each named executive officer in the *Summary Compensation Table* and the estimated future payouts with respect to the 2009 LTIP Grant award, which would be fully earned at the end of 2011 upon achievement of the associated targets.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			Grant Date Fair Value of Stock Awards (\$)(2)
		Threshold (\$)	Target (\$)(1)	Maximum (\$)(1)	Threshold (#)	Target (#)(1)	Maximum (#)(1)	
Robert S. Cubbin	01/01/2009		580,125	1,092,000		90,082	169,565	580,125
Karen M. Spaun	01/01/2009		200,813	378,000		31,182	58,696	200,813
Christopher J. Timm	01/01/2009		247,350	465,600		38,408	72,298	247,350
Michael G. Costello	01/01/2009		200,813	378,000		31,182	58,696	200,813
Stephen A. Belden	01/01/2009		122,719	231,000		19,056	35,870	122,719

- (1) Represents award under the 2009 LTIP Grant, the value and attainment of which is dependent upon Company performance over a three-year period beginning January 1, 2009 and ending December 31, 2011. The amounts in the target columns reflect the target award at 85% for both the cash and stock award. The amounts in the maximum columns reflect the maximum award at 160% for both the cash and stock award.
- (2) Represents the full grant date fair value of the stock portion of the LTIP award valued at the closing price of the Company's common stock on December 31, 2008, of \$6.44 at a 85% target award.

### **Long Term Incentive Plan Award**

As described above within the **Compensation Discussion and Analysis - Long Term Incentive Plan Compensation** of this proxy statement, we grant a long term performance based incentive award to each of our executive officers and other employees pursuant to the LTIP. These incentive awards are based on performance over a three-year period, which is paid one half in cash and one half in common stock.

**Table of Contents****Stock Options**

There were no stock options granted to the named executive officers in 2009.

**Outstanding Equity Awards at December 31, 2009**

The following table sets forth information regarding Outstanding Equity Awards for each of our named executive officers as of December 31, 2009.

Name	Stock Awards	
	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(1)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(2)
Robert S. Cubbin	90,082	666,603
Karen M. Spaun	31,182	230,747
Christopher J. Timm	38,408	284,222
Michael G. Costello	31,182	230,747
Stephen A. Belden	19,056	141,012

(1) Represents the stock portion award under the 2009 LTIP Grant, the value and attainment of which is dependent upon Company performance over a three-year period beginning January 1, 2009 and ending December 31, 2011. The stock awards are based on an 85% target award.

(2) Represents the market value of the stock portion of the LTIP award valued at the closing price of the Company's common stock on December 31, 2009, of \$7.40.

**2009 Option Exercises and Stock Vested**

There were no stock option exercises or stock vesting to the named executive officers as of December 31, 2009.

**Nonqualified Deferred Compensation**

The following table sets forth information regarding Nonqualified Deferred Compensation for each of our named executive officers as of December 31, 2009.

Executive Contributions in	Registrant Contributions in	Aggregate Earnings in	Aggregate Withdrawals/	Aggregate Balance at
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<b>Name</b>	<b>Last Fiscal Year (\$)</b>	<b>Last Fiscal Year (\$)</b>	<b>Last Fiscal Year (\$)</b>	<b>Distributions (\$)</b>	<b>Last Fiscal Year End (\$)</b>
Robert S. Cubbin	57,600		63,951		259,918
Karen M. Spaun					
Christopher J. Timm					
Michael G. Costello	22,350		14,808	(6,808)	66,391
Stephen A. Belden	32,640		40,107		135,377



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Our Executive Nonqualified Excess Plan (the Excess Plan ) is intended to be a nonqualified deferred compensation plan. The Excess Plan allows certain employees, including the named executive officers, to defer receipt of current compensation in order to provide retirement and other benefits, as provided for in the Excess Plan. Deferred amounts are credited with earnings or losses based on the rate of return of funds selected by the participants in the plan. The Excess Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for eligible employees. We do not make contributions to participants' accounts under the Excess Plan. Participants may defer up to 100% of salary and bonus payments. Distributions are made in either a lump sum or installments over a period not to exceed five years as chosen by the executive at the time of the deferral.

**Pension Benefits**

We do not sponsor any qualified or non-qualified defined benefit plans and therefore our named executive officers do not participate in these types of plans.

**Potential Payments upon Termination or Changes in Control**

We have entered into employment agreements with certain of our named executive officers. The employment agreements provide for payments of certain benefits, as outlined in the table below, upon termination. The named executive officer's rights upon termination are dependent upon certain circumstances. The employment agreements are described in further detail after the table.

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The following table illustrates the potential maximum payouts to each named executive officer under each circumstance. The table assumes the termination occurred as of December 31, 2009.

Named Executive Officer:	Involuntary Termination without Cause or Resignation for Good Reason (\$)	Involuntary Termination Following Change in Control without Cause or Resignation for Good Reason (\$)	Involuntary Termination for Good Cause (\$)	Involuntary Termination Following Change in Control for Good Cause (\$)
<b>Robert S. Cubbin</b>				
Severance Measured as a Multiple of Base Salary, or Base Salary and Discretionary Bonus Target	1,300,000	2,210,000		
Pro rata Share of the Discretionary Bonus Target	zero to 455,000	zero to 455,000		
Target Award Payment for Long Term Incentive Plan in Accordance with Employment Agreement		1,365,000		
Range of Pro rata Long Term Incentive Plan Award Payment in Accordance with the Company's Long Term Incentive Plan	zero to 1,365,000	zero to 1,365,000		
Remaining Cash Payments for the Long Term Incentive Plan Award from Prior Performance Period	107,000	107,000		
Health care premiums	17,223	17,223		
Demand Note	825,000	825,000	346,087	346,087
<b>Karen M. Spaun</b>				
Severance Measured as a Multiple of Base Salary, or Base Salary and Discretionary Bonus Target	315,000	472,500		
Pro rata Share of the Discretionary Bonus Target	zero to 157,500	zero to 157,500		
Target Award Payment for Long Term Incentive Plan in Accordance with Employment Agreement		472,500		
Range of Pro rata Long Term Incentive Plan Award Payment in Accordance with the Company's Long Term Incentive Plan	zero to 472,500	zero to 472,500		
Remaining Cash Payments for the Long Term Incentive Plan Award from Prior Performance Period	33,066	33,066		

Health care premiums

**Christopher J. Timm**

Severance Measured as a Multiple of

Base Salary, or Base Salary and

Discretionary Bonus Target

582,000

1,164,000

Range of Pro rata Long Term Incentive

Plan Award Payment in Accordance

with the Company's Long Term

Incentive Plan

zero to 194,000

zero to 194,000

Remaining Cash Payments for the Long

Term Incentive Plan Award from Prior

Performance Period

Health care premiums

17,950

35,752

Payment Representing Value of Life

Insurance Premiums

14,043

28,086

Payment Representing Value of 401(k)

Match

7,350

14,700

**Michael G. Costello**

Severance Measured as a Multiple of

Base Salary, or Base Salary and

Discretionary Bonus Target

630,000

945,000

Pro rata Share of the Discretionary

Bonus Target

zero to 157,500

zero to 157,500

Target Award Payment for Long Term

Incentive Plan in Accordance with

Employment Agreement

472,500

Range of Pro rata Long Term Incentive

Plan Award Payment in Accordance

with the Company's Long Term

Incentive Plan

zero to 472,500

zero to 472,500

Remaining Cash Payments for the Long

Term Incentive Plan Award from Prior

Performance Period

34,000

34,000

Health care premiums

17,223

17,223

**Stephen A. Belden**

Severance Measured as a Multiple of

Base Salary, or Base Salary and

Discretionary Bonus Target

275,000

412,500

Pro rata Share of the Discretionary

Bonus Target

zero to 137,500

zero to 137,500

Target Award Payment for Long Term

Incentive Plan in Accordance with

Employment Agreement

288,750

Range of Pro rata Long Term Incentive

Plan Award Payment in Accordance

with the Company's Long Term

Incentive Plan

zero to 288,750

zero to 288,750

Remaining Cash Payments for the Long

Term Incentive Plan Award from Prior

Performance Period

20,666

20,666

Health care premiums

17,223

17,223

Severance Calculations: The computation for severance is based on the named executive officer's base salary or combination of base salary and discretionary bonus target as of January 1, 2010 and is calculated in accordance with the current employment agreement.

Pro rata Share of the Discretionary Bonus Target: Represents a range for potential payment of a pro rata portion of the named executive officer's discretionary bonus target award. The low end of the range is based on a

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termination date as of the first day of the year and the high end of the range is based on a termination date as of the last day of the year.

Target Award Payment for Long Term Incentive Plan in Accordance with Employment Agreement: Represents payment equal to the named executive officer's target award for the then current three-year performance period under the Company's Long Term Incentive Plan.

Range of Pro rata Long Term Incentive Plan Award Payment in Accordance with the Company's Long Term Incentive Plan: Represents a range for the potential payment of a pro rata portion of the named executive officer's award under the Company's Long Term Incentive Plan. The low end of the range is based on a termination date as of the beginning of the performance period and the high end of the range is based on a termination date as of the end of the performance period.

Remaining Cash Payments for the Long Term Incentive Plan Award from Prior Performance Period: Represents the remaining cash payments under the Long Term Incentive Plan for any previously completed performance period to which the named executive officer would still be entitled to.

Health Care Premiums: Represents the health care premiums the Company would pay on the named executive officer's behalf over an eighteen month period, or in Mr. Timm's case a one or two year period. Ms. Spaun does not currently participate in any of the Company's health care plans.

Payment Representing Value of Life Insurance Premiums: Represents the value of life insurance premiums the Company would pay to Mr. Timm pursuant to his employment agreement.

Payment Representing Value of 401(k) Matching Contribution: Represents the value of matching contributions under the Company's 401(k) Plan that the Company would pay to Mr. Timm pursuant to his employment agreement.

## **EMPLOYMENT AGREEMENTS**

### ***Robert S. Cubbin and Michael G. Costello Employment Agreements***

The Company entered into employment agreements with Mr. Cubbin and Mr. Costello effective January 1, 2004 through December 31, 2006. The employment agreements were amended, effective January 1, 2009. Unless either the Company or they give notice to the other party of an election not to renew their employment agreement on or before December 31, 2004, and annually thereafter, the employment agreement will automatically be extended one additional year.

Mr. Cubbin's and Mr. Costello's employment agreements provide for a base salary, along with customary increases, at the sole discretion of the Company. Upon the attainment of certain growth and profitability goals, profit center goals and personal goals and objectives, each agreement provides for a discretionary bonus. Mr. Cubbin's agreement provides for a discretionary bonus targeted at seventy percent of his base salary. Mr. Costello's agreement provides for a discretionary bonus targeted at fifty percent of his base salary. Furthermore, each agreement provides for; (1) participation in the Company's 2009 Equity Compensation Plan, (2) participation in the Company's Long Term Incentive Plan ( LTIP ) with target LTIP awards equaling seventy percent of base salary for Mr. Cubbin and fifty percent for Mr. Costello, and (3) severance benefits upon termination of employment under the circumstances described below.

In the event Mr. Cubbin's employment is terminated by the Company without cause, or by Mr. Cubbin for good reason, the Company shall pay to Mr. Cubbin (a) his base salary for twenty-four months over the Company's regularly

scheduled payroll, (b) a pro rata share of the portion of Mr. Cubbin's discretionary bonus that is based on Company performance criteria, and (c) Mr. Cubbin's COBRA premiums for health care coverage for eighteen months, or, if earlier, the cessation of Mr. Cubbin's and his family members' eligibility for COBRA continuation coverage.

In the event Mr. Cubbin's employment is terminated by the Company following a change in control and without cause, or by Mr. Cubbin for good reason, the Company shall pay to Mr. Cubbin (a) an amount equal to the

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target LTIP award for the current performance period, plus two times the sum of (i) Mr. Cubbin's annual base salary, plus (ii) Mr. Cubbin's target discretionary bonus, to be paid in a lump sum payment within ten days following the date Mr. Cubbin's employment terminates, (b) a pro rata share of the portion of Mr. Cubbin's discretionary bonus that is based on Company performance criteria no later than the February 28th following the year Mr. Cubbin's employment terminates, and (c) Mr. Cubbin's COBRA premiums for health care coverage for eighteen months, or, if earlier, the cessation of Mr. Cubbin's and his family members' eligibility for COBRA continuation coverage. In addition, any outstanding stock options, if any, shall vest and become exercisable by Mr. Cubbin. In the event his employment terminates following a change in control and Mr. Cubbin becomes entitled to the aforementioned payments, Mr. Cubbin has agreed to be subject to restrictive covenants against competing with the Company for a period of two years following such termination of employment. These restrictions are in addition to those already in effect for all Company employees.

In the event Mr. Cubbin's employment is terminated for cause, he is not entitled to any severance payment under the employment agreement, he forfeits all of the shares of Company stock subject to a pledge agreement with the Company, but the Demand Note he has with the Company is cancelled and deemed paid in full. (See **Certain Relationships and Related Party Transactions**). The Demand Note was amended effective June 1, 2001 and deemed a non-recourse loan with the Company's sole remedy in the event of a default being the reclamation of the shares of the Company that were pledged as collateral. The employment agreement also provides that in the event Mr. Cubbin's employment is terminated by the Company without Cause or as a result of any purchaser acquiring fifty percent or more of the outstanding shares of the Company, then (a) the Demand Note shall be cancelled and deemed paid in full, and (b) Mr. Cubbin shall be entitled to retain his shares of Company stock subject to the pledge agreement or, in his discretion, sell the shares back to the Company at the then current market price or book value, whichever is greater. This provision continues in effect the identical provision contained in the amendment to Mr. Cubbin's prior employment agreement with the Company that was adopted on June 15, 2002.

In the event Mr. Costello's employment is terminated by the Company without cause, or by Mr. Costello for good reason, the Company shall pay to Mr. Costello (a) his base salary for twenty-four months over the Company's regularly scheduled payroll, (b) a pro rata share of the portion of Mr. Costello's discretionary bonus that is based on Company performance criteria, and (c) Mr. Costello's COBRA premiums for health care coverage for eighteen months, or, if earlier, the cessation of Mr. Costello's and his family members' eligibility for COBRA continuation coverage.

In the event Mr. Costello's employment is terminated by the Company following a change in control and without cause, or by Mr. Costello for good reason, the Company shall pay to Mr. Costello (a) an amount equal to the target LTIP award for the current performance period, plus two times the sum of (i) Mr. Costello's annual base salary, plus (ii) Mr. Costello's target discretionary bonus, to be paid in a lump sum payment within ten days following the date Mr. Costello's employment terminates, (b) a pro rata share of the portion of Mr. Costello's discretionary bonus that is based on Company performance criteria no later than the February 28th following the year Mr. Costello's employment terminates, and (c) Mr. Costello's COBRA premiums for health care coverage for eighteen months, or, if earlier, the cessation of Mr. Costello's and his family members' eligibility for COBRA continuation coverage. In addition, any outstanding stock options, if any, shall vest and become exercisable by Mr. Costello. In the event his employment terminates following a change in control and Mr. Costello becomes entitled to the aforementioned payments, Mr. Costello has agreed to be subject to restrictive covenants against competing with the Company for a period of two years following such termination of employment. These restrictions are in addition to those already in effect for all Company employees.

In addition to the aforementioned payments, pursuant to the LTIP, immediately following a termination by the Company and without cause, for good reason, or following change in control of the Company, Mr. Cubbin and Mr. Costello shall receive payment of any cash award previously approved by the Committee under the LTIP for

performance periods that have previously ended, but which have not yet been paid. Mr. Cubbin or Mr. Costello would also be entitled to any pro rata share of any LTIP award for the current performance period.

In the event Mr. Costello's employment is terminated for cause, he is not entitled to any severance payment under the employment agreement.



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***Terms Applicable to the Employment Agreements***

Cause is generally defined to include (i) a failure by the executive to obey the reasonable and lawful orders of the Board of Directors; (ii) misconduct by the executive that is materially injurious to the Company; or (iii) dishonest activities injurious to the Company. If the executive's employment is terminated for Cause, he is not entitled to any severance payment.

Change in Control is generally defined as

- (a) the acquisition by any individual, entity or group of beneficial ownership of 35% or more of either (i) the then outstanding shares of Company stock or (ii) the combined voting power of the then outstanding Company securities. Covered acquisitions do not include (i) acquisitions directly from the Company, (ii) acquisitions by the Company, (iii) acquisitions by any employee benefit plan (or related trust) sponsored or maintained by the Company, or (iv) an acquisition that meets the requirements of clauses (i), (ii) and (iii) of subparagraph (c) of this paragraph,
- (b) the date on which incumbent members of the Board of Directors cease to constitute a majority of the Board of Directors. For this purpose, an individual is considered an incumbent member of the Board of Directors if the individual serves on the Board of Directors as of the effective date of the employment agreements or if the individual becomes a director subsequent to that date, provided that the individual's election or nomination for election by the Company's shareholders is approved by a majority of the directors then making up the Company's incumbent board. Any individual who becomes a director as a result of an actual or threatened solicitation of proxies or contests on behalf of an individual, entity or group described in subparagraph (a) of this paragraph, other than the Board of Directors of the Company, shall not be considered an incumbent board member,
- (c) consummation of a reorganization, merger, share exchange or consolidation or other disposition of substantially all of the assets of the Company, unless (i) all or substantially all beneficial owners of the Company's common stock and voting stock immediately prior to any of the listed business combinations, own at least 65% common stock and 65% of the voting stock of the entity resulting from the business combination, in substantially the same proportions as their ownership immediately prior to the business combination, (ii) no individual, entity or group described in subparagraph (a) of this paragraph, excluding a corporation which results from the business combination or an employee benefit plan of that corporation, owns 35% or more of that corporation's common stock or 35% or more of that corporation's voting stock, and (iii) at least a majority of the members of the Board of Directors of the corporation resulting from the business combination were incumbent board members, as described in subparagraph (b) at the time the Board of Directors acted to enter into the business combination, and
- (d) the approval by the Company's shareholders of a complete liquidation or dissolution of the Company.

Good Reason is generally defined as the executive tendering his resignation within 6 months following the date on which (a) the executive is not reelected to or is removed from the title and office he currently holds with the Company, (b) the Company fails to vest in the executive the responsibilities, authority or resources he reasonably needs to competently perform his duties in his current title and office for the Company, (c) the Company materially reduces the executive's base salary or total compensation, (d) the Company changes the executive's primary location of employment to a place more than 50 miles from Southfield, Michigan, (e) the Company commits a material breach of its obligations under the employment agreement and fails to cure the breach within 30 days following the executive giving notice of the breach, or (f) the Company gives notice that it will not renew the employment agreement. Also, within ninety days following the occurrence of any event referenced in the definition of good reason, the executive

shall provide written notice of the condition and the Company shall have thirty days to remedy the situation. If not remediated, the executive shall have six months from the date of the initial existence of the condition to terminate his employment for good reason.

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***Christopher J. Timm Employment Agreement***

Effective July 31, 2008, ProCentury Corporation entered into an employment agreement with Christopher J. Timm. The Company has assumed ProCentury's obligations under the agreement. The employment agreement is effective until terminated by either party with 30 days advance notice or upon Mr. Timm's death.

Mr. Timm's employment agreement provides for a base salary, along with customary increases, at the sole discretion of the Company. Upon the attainment of certain performance goals, the agreement provides for a bonus targeted at fifty percent of his base salary. The agreement also provides for; (1) participation in the Company's retirement plans, (2) participation in the Company's health, disability and other welfare benefit plans, (3) at Mr. Timm's option, whole life insurance on Mr. Timm's life in an amount equal to his base salary, (4) sick leave in accordance with the policies of the Company, (5) reasonable vacation time consistent with past practice or as otherwise approved by the Company's President or the Board of Directors, (6) such other benefits as may be approved by the Company's Board of Directors, and (7) severance benefits upon termination of employment under the circumstances described below.

In the event Mr. Timm's employment is terminated by the Company without cause, or by Mr. Timm for good reason, the Company shall pay to Mr. Timm (a) an amount equal to his annual base salary, (b) a pro rata share of the Mr. Timm's target bonus, (c) an amount equal to the Company matching contributions that would have been made to Mr. Timm's account in the Company's 401(k) Plan for the twelve months following termination of employment and based on Mr. Timm's deferral rate on the Company matching contribution formula in effect as of the date of employment termination, (d) an amount equal to the annual premium that is paid by the Company for the whole life insurance policy provided for under the agreement, and (e) for a period of 12 months, the portion of the cost of continued coverage in the Company's health insurance plan that exceeds the amount that Mr. Timm paid for coverage of himself and his beneficiaries immediately prior to his termination. Except with respect to the payment for continued health insurance benefits, the Company shall pay the amounts to Mr. Timm in a single sum cash payment within 30 days following his discharge or resignation.

In the event Mr. Timm's employment is terminated by the Company within twelve months following a change in control and without cause, or by Mr. Timm for good reason, the Company shall pay to Mr. Timm (a) an amount equal to two times his annual base salary, (b) an amount equal to two times Mr. Timm's target bonus, (c) an amount equal to the Company matching contributions that would have been made to Mr. Timm's account in the Company's 401(k) Plan for the twenty-four months following termination of employment and based on Mr. Timm's deferral rate on the Company matching contribution formula in effect as of the date of employment termination, (d) an amount equal to two times the annual premium that is paid by the Company for the whole life insurance policy provided for under the agreement, and (e) for a period of 24 months, the portion of the cost of continued coverage in the Company's health insurance plan that exceeds the amount that Mr. Timm paid for coverage of himself and his beneficiaries immediately prior to his termination. Except with respect to the payment for continued health insurance benefits, the Company shall pay the amounts to Mr. Timm in a single sum cash payment within 30 days following his discharge or resignation. If, as a result of a change in control, Mr. Timm is subject to certain excise taxes imposed by federal tax laws on excess parachute payments, the Company shall reimburse Mr. Timm for such tax and shall such additional amount as is necessary to place him in the same financial position after consideration of all potential related state, federal and other taxes, including applicable interest and penalties, that he would have been in if he had not occurred such excise tax liability. The Company shall reimburse Mr. Timm for the amount of any required withholding with respect to the excise tax and the taxes thereon at the time of such withholding, and shall pay the remainder of any additional amount due to Mr. Timm no later than the fifteenth day of March of the calendar year following the calendar year in which the excise tax is imposed.

Mr. Timm has agreed to be subject to restrictive covenants against competing with the Company for a period of twelve months following termination of employment or, if longer the entire period for which Mr. Timm is entitled to

payments of base salary or Target or other incentive awards. These restrictions are in addition to those already in effect for all Company employees.

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In the event Mr. Timm's employment is terminated for cause or Mr. Timm resigns without good reason, he is not entitled to any severance payment under the employment agreement and within 30 days following termination of employment, the Company shall pay him accrued salary and any annual bonus earned for a period which ended prior to the effective date of termination and which has not been paid to Mr. Timm.

### ***Terms Applicable to Mr. Timm's Employment Agreement***

Cause for termination shall exist if Mr. Timm is (i) convicted of or pleads guilty or nolo contendere to a felony amounting to embezzlement, fraud, theft or other act of dishonesty harming the Company, any employee, supplier, customer or other person doing business with the Company; (ii) convicted of or pleads guilty or nolo contendere to a felony resulting in death or substantial bodily or psychological harm to, or other act of moral turpitude harming, any person; (iii) barred or suspended for more than 60 days by a court or regulatory agency from performing employment duties for the Company; (iv) found liable for conduct deliberately undertaken to cause harm or injury or with reckless disregard to harm or injury that would be caused, to the Company, any employee, supplier, customer or other person doing business with the Company, other than conduct taken pursuant to advice of legal counsel to the Company; (v) found by the Company to have failed to exercise reasonable efforts to perform any of his obligations under the employment agreement or directions of the Board within 10 business days after receipt of written notice specifying each obligation or direction to be so performed, provided that the refusal to perform an obligation or direction shall not constitute cause if Mr. Timm in good faith reasonably believes that such obligation or direction is not legal, ethical or moral and he so notifies the Board of his belief.

Change in Control is generally defined as

- (a) the acquisition by any individual, entity or group of beneficial ownership of 50% or more total voting power of the then outstanding Company securities,
- (b) a majority of members of the Company's Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of such appointment or election,
- (c) any one person, or more than one person acting as a group, acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the outstanding stock of the Company, and
- (d) any one person, or more than one person acting as a group, acquires assets from the Company that have a total gross fair market value equal to or more than 80% of the total gross fair market value of all of the assets of the Company.

Good Reason is generally defined as the executive tendering his resignation following any of the following: (a) Mr. Timm ceases to hold the positions and titles of Executive Vice President and office he currently holds with the Company, (b) without his consent, Mr. Timm is assigned authority or responsibility materially inconsistent with the authority or responsibility contemplated by his employment agreement, including any material diminution of his authority and responsibility or change in reporting requirements; (c) the Company reduces the executive's base salary, there is a material delay in the payment of base salary, or there is any material reduction in the nature or amount of Mr. Timm's benefits, (d) any requirement is imposed on Mr. Timm to reside or travel outside of the Columbus, Ohio area, other than travel that is reasonably required, (e) Mr. Timm becomes disabled to the extent that he cannot, with reasonable accommodation, perform the requirements of a position for a period of three consecutive months, or (f) the Company commits a material breach of Mr. Timm's employment agreement which is not cured within 30 days following Mr. Timm's written notice.



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**OTHER SENIOR EXECUTIVE EMPLOYMENT AGREEMENTS**

It is the Company's philosophy to attract and retain high-quality people, which is crucial to the short-term and long-term success of the Company. The Company has entered Employment Agreements ( Agreements ) with certain of its senior executives, which include Karen M. Spaun and Stephen A. Belden effective January 1, 2009. Unless either the Company or they give notice to the other party of an election not to renew their Agreement on or before December 31, 2009, and annually thereafter, the Agreement will automatically be extended one additional year.

These Agreements provide for a base salary with customary increases based upon performance. In addition, at the sole discretion of the Company, upon the attainment of certain growth and profitability goals, profit center goals and personal goals and objectives, each Agreement provides for an annual discretionary bonus. These Agreements provide for a discretionary bonus target of fifty percent of their base salary. Furthermore, each Agreement makes the employee eligible for restricted stock awards and the Company's LTIP, assuming certain performance targets are achieved by the Company. Under the LTIP, the aggregate annual value of the target incentive award for Ms. Spaun is equal to fifty percent of her base salary, thirty-five percent of Mr. Belden's base salary and thirty-five percent of Mr. Mahoney's base salary.

In the event the executive's employment is terminated by the Company without cause, or by the executive for good reason, the Company shall pay to the executive (a) his or her base salary for twelve months over the Company's regularly scheduled payroll, (b) a pro rata share of the portion of the executive's discretionary bonus that is based on Company performance criteria, and (c) the executive's COBRA premiums for health care coverage for eighteen months, or, if earlier, the cessation of the executive's and his family members' eligibility for COBRA continuation coverage.

In the event the executive's employment is terminated by the Company following a change in control and without cause, or by the executive for good reason, the Company shall pay to the executive (a) an amount equal to one times the sum of (i) the executive's annual base salary, and the executive's target discretionary bonus, plus (ii) the executive's target LTIP award for the current year performance period under the Company's LTIP, to be paid in a lump sum payment within ten days following the date executive's employment terminates, (b) a pro rata share of the portion of executive's discretionary bonus that is based on Company performance criteria no later than the February 28th following the year executive's employment terminates, and (c) executive's COBRA premiums for health care coverage for eighteen months, or, if earlier, the cessation of executive's and executive's family members' eligibility for COBRA continuation coverage. In addition, any outstanding stock options, if any, shall vest and become exercisable by executive. In the event his or her employment terminates following a change in control and the executive becomes entitled to the aforementioned payments, the executive has agreed to be subject to restrictive covenants against competing with the Company for a period of one year following such termination of employment. These restrictions are in addition to those already in effect for all Company employees.

In addition to the aforementioned payments, pursuant to the LTIP, immediately following a termination by the Company and without cause, for good reason, or following a change in control of the Company, executives shall receive payment of any cash award previously approved by the Committee under the LTIP for performance periods that have previously ended, but which have not yet been paid. The executive would also be entitled to any pro rata share of any LTIP award for the current performance period.

Under the Agreements, the terms Cause, Change of Control, and Good Reason have substantially the same meanings as those terms described above in section entitled **Terms Applicable to the Employment Agreements**.

**Meadowbrook Insurance Group, Inc. Equity Compensation Plans**

The Company maintains the 2002 Amended and Restated Stock Option Plan (the 2002 Plan ) and the 2009 Equity Compensation Plan (the 2009 Plan ) for which shares of common stock may be issued. The total number of shares which may be issued under the 2002 Plan and the 2009 Plan is 2,000,000, respectively. Options issued under the 2002 Plan or the 2009 Plan, which are unexercised and expired, will again become available for grant under both plans. Cash exercises of stock appreciation rights and cash supplemental payments will not count against these



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limits. Lapsed, forfeited or canceled awards will also not count against these limits. The maximum number of shares of Common Stock which may be issued under the 2002 Plan or the 2009 Plan to any single individual is 800,000.

As of the Record Date, the number of shares of common stock remaining available for future issuance under the 2002 Plan was 617,915 shares and 2,000,000 shares under the 2009 Plan. As of the Record Date, there were no options outstanding.

**Performance-Based Compensation Section 162(m) Requirement**

The Plan is intended to preserve the Company's tax deduction for certain awards made under the Plan by complying with the terms of Section 162(m) of the Code and regulations relating thereto.

**REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD ON  
EXECUTIVE COMPENSATION**

The Compensation Committee of the Company's Board of Directors has submitted the following report for inclusion in the Proxy Statement:

The Compensation Committee has reviewed and discussed the **Compensation Discussion and Analysis** contained in this Proxy Statement with management. Based on this review and the discussions with management with respect to the Compensation Discussion and Analysis, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement and in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for filing with the SEC.

The foregoing report is provided by the following directors, who constitute the Compensation Committee:

**The Compensation Committee**

Robert H. Naftaly, Chairman  
Hugh W. Greenberg  
David K. Page  
Herbert Tyner

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**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee (the Committee) has adopted a Charter outlining its duties and responsibilities on matters relating to financial reporting, internal audit, accounting practices, internal controls, loss reserving and selection of the Company's independent registered public accounting firm. This Charter is available to shareholders on the Company's website, at [www.meadowbrook.com](http://www.meadowbrook.com).

The Committee consists of all independent directors. The members are: Bruce E. Thal, Chairman, Robert F. Fix, Robert H. Naftaly, Robert Sturgis and Jeffrey A. Maffett. The Committee recommended and the Board of Directors appointed Bruce E. Thal as the Committee's financial expert, in accordance with the Sarbanes-Oxley Act of 2002.

During 2009, the Committee met with members of the Company's financial management team at each of its four meetings. The Company's independent auditors attended all of the Committee meetings. The Committee also met with the Company's independent actuarial consultants. During these meetings, the Committee held discussions with the independent auditors and the actuaries relating to financial management, accounting practices, loss reserves, internal audit and other internal control related issues. The Committee met in executive sessions with the Company's independent auditors. In addition, the Committee met in executive sessions with the Company's Chief Financial Officer, Chief Actuary, Director of Internal Audit and General Counsel.

In 2009, the Committee appointed (subject to ratification by the shareholders) Ernst & Young LLP as the Company's independent registered public accounting firm, which was approved by the Board of Directors of the Company.

During 2009, the Committee reviewed the Company's financial management with the independent registered public accounting firm. The Committee reviewed the results of the Ernst & Young LLP audit for 2009. The Committee reviewed the audited financial statements, which are included in the Company's Annual Report on Form 10-K. The Committee received a report from the Company's independent actuarial firm relating to the Company's loss reserves. In addition, the Committee received reports from Ernst & Young LLP and the Company's Internal Audit Department relating to the Company's compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The Committee is responsible for overseeing the Company's project plan and compliance with Section 404.

The Committee also discussed with the independent registered public accounting firm other matters required to be discussed by Statement of Auditing Standards No. 61, *Communications with Audit Committees*, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380) and as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In compliance with the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, the Committee received and discussed with the independent registered public accounting firm their annual written report on their independence from the Company and its management.

In reliance upon these reviews and discussions, and the report of the independent registered public accounting firm, the Committee recommended to the Board of Directors, and the Board of Directors approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

**The Audit Committee**

Bruce E. Thal, Chairman  
Robert F. Fix  
Robert H. Naftaly  
Robert W. Sturgis

Jeffrey A. Maffett

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**THE SECOND PROPOSAL ON WHICH YOU ARE VOTING  
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**

Subject to ratification by the shareholders, the Board has appointed Ernst & Young LLP as the independent registered public accounting firm of the Company for the current year. The affirmative vote of a majority of votes cast in person or proxy at the Annual Meeting is required to ratify the appointment of Ernst & Young LLP. Unless you otherwise indicate on your proxy card, your returned proxy will be voted FOR ratification of the reappointment of Ernst & Young LLP.

A representative from Ernst & Young LLP will be available at the Annual Meeting to respond to any appropriate questions from shareholders.

**The Company's Board recommends you vote FOR the ratification of the appointment  
of the independent registered public accounting firm.**

**AUDIT AND RELATED FEES**

Set forth below is the information relating to fees billed to the Company by Ernst & Young LLP in respect to the services provided for fiscal years 2009 and 2008. The Audit Committee and the Board reviewed and approved such fees and determined the services provided were compatible with maintaining the independence of Ernst & Young LLP.

<b>Fees</b>	<b>2009 (\$)</b>	<b>2008 (\$)</b>
Audit Fees	1,512,284	2,087,054
Audit Related Fees	32,000	161,317
Tax Fees	17,500	49,500
All Other Fees		
<b>TOTAL</b>	<b>1,561,784</b>	<b>2,297,871</b>

**Audit Fees**

Annual audit fees relate to services rendered in connection with the audit of the annual financial statements and internal control over financial reporting, as of December 31, 2009, as well as the interim quarterly reviews of financial statements included in the Company's Form 10-Q filings. The 2009 audit fees also include the S-8 registration statement filing related to the 2,000,000 shares offered through its 2009 Equity Compensation Plan. In addition, a portion of the fees paid to Ernst & Young LLP in 2008 included audit fees associated with the Company's merger with ProCentury in 2008.

**Audit Related Fees**

Audit related fees included professional services rendered by the independent registered public accounting firm in connection with the Company's employee benefit plan audit and other fees related to the performance of the audit. In

2008, the fees paid also included its Form S-4 registration statement filing related to the Company's merger with ProCentury, its Form S-3 filing for its prospectus filing related to its shareholder investment plan, and other fees specifically related to professional services rendered in connection with the Company's merger with ProCentury.

**Tax Fees**

These fees relate to tax services including fees for tax compliance, tax advice and tax planning.

**All Other Fees**

No professional services were rendered by Ernst & Young LLP for other services.

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### **Audit Committee Policy on Pre-Approval of Services Rendered by Independent Registered Public Accounting Firm**

In accordance with the SEC rules issued pursuant to the Sarbanes Oxley Act of 2002, which require, among other things, the Audit Committee pre-approve all audit and non-audit services provided by the Company's independent registered public accounting firm. The Audit Committee has adopted a formal policy on auditor independence. This policy requires the approval by the audit committee for all professional services rendered by the Company's independent registered public accounting firm prior to the commencement of the specified services. The Audit Committee pre-approved all professional services rendered by the Company's independent registered public accounting firm. Likewise, the Board pre-approved all professional services rendered by the Company's independent registered public accounting firm prior to the commencement of the services.

### **Audit Committee Financial Expert**

The Board of Directors has determined that the Company have an Audit Committee financial expert, as defined by the SEC, serving on its Audit Committee. Mr. Bruce E. Thal is the Audit Committee financial expert. He is independent as such term for audit committee members is defined in the New York Stock Exchange's independence standards, as those standards have been modified or supplemented, and he has no other relationship that would impair his independence.

### **Auditor Independence**

The Audit Committee had considered whether the providing of services described under the subheading **Tax Fees** above were compatible with maintaining Ernst & Young LLP's independence. After such consideration, the Audit Committee determined the services were compatible with maintaining the auditor's independence.

### **Certain Relationships and Related Party Transactions**

The Company's Governance and Nominating Committee Charter states the Governance and Nominating Committee is responsible for reviewing and approving all related party transactions between the Company and any related party. Annually, the Company requires all management employees, including the named executive officers, and Board members to complete a questionnaire disclosing potential conflicts of interest transactions and/or relationships. The Governance and Nominating Committee annually reviews transactions with the Company and other companies with which the Company's Board members and executive officers are affiliated to the extent reported in response to the questionnaires. In addition, the Governance and Nominating Committee is responsible for establishing, reviewing, and monitoring compliance with the Company's Code of Conduct. For purposes of the Governance and Nominating Committee approval, a related party transaction is defined as any transaction that is required to be reported under Item 404 of SEC Regulation S-K.

All transactions disclosed below have been reviewed and approved or ratified by the Governance and Nominating Committee and the Board of Directors.

### **Demand Note**

At December 31, 2009, the Company held an \$825,000 Demand Note receivable, including \$164,000 of accrued interest, from Robert S. Cubbin and Kathleen D. Cubbin. In 2009, Mr. Cubbin paid \$43,800 to the Company in interest relating to the Demand Note. This Demand Note arose from a transaction in late 1998 whereby the Company loaned Robert S. Cubbin and Kathleen D. Cubbin funds to exercise 64,718 common stock options to cover the exercise price and associated tax withholdings. The Demand Note bears a rate of interest equal to the rate charged the

Company pursuant to its current revolving credit agreement, which as of December 31, 2009, was 2.25%. The Demand Note is due on demand. The loan is partially collateralized by 64,718 shares of the Company's common stock, pursuant to a Stock Pledge Agreement. The Demand Note between the Company and Mr. and Mrs. Cubbin is a non-recourse loan with the Company's sole remedy in the event of a default being the reclamation of the shares of the Company that were pledged as collateral. Refer to the **EMPLOYMENT AGREEMENTS** section above.

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### **Employees**

*Sue Cubbin*, Vice President of Human Resources, is the sister of Robert S. Cubbin, President and Chief Executive Officer of the Company. In her capacity as Vice President of Human Resources, Ms. Cubbin is responsible for all human resource matters relating to compensation, fringe benefits, payroll, education and training, hiring and performance reviews of the Company's employees. In addition, she is responsible for facilities management of the Company's Southfield, Michigan headquarters.

*Laura Segal*, a Vice President in the Southfield branch, is the daughter of the Chairman of the Board, Merton J. Segal. Ms. Segal is responsible for management of the Company's largest public entity program, which is located in Michigan.

*Carol Ziecik*, Vice President of Corporate Communications, is the daughter of the Chairman of the Board, Merton J. Segal. Ms. Ziecik is responsible for the corporate communications of the Company, marketing materials, the annual report and other similar matters.

In 2009 the total compensation for Ms. Cubbin, Ms. Segal, and Ms. Ziecik was \$343,660, which included a total of \$80,400 in annual incentive bonuses earned in 2009, but paid in 2010. In 2009, Ms. Cubbin and Ms. Segal were awarded cash and stock awards under the Company's LTIP based upon the achievement of the performance targets for the two-year performance period ending December 31, 2008. Total LTIP awards distributed to Ms. Cubbin and Ms. Segal were \$90,650, which were distributed 50% in cash and 50% in stock. The cash portion is to be paid out over a three-year period. Ms. Cubbin and Ms. Segal received the second payment of their respective cash awards in 2010, which totaled \$15,168.77.

On February 11, 2010, the Governance and Nominating Committee reviewed the compensation of Ms. Cubbin, Ms. Segal and Ms. Ziecik. The Governance and Nominating Committee determined there had been no material change in either the compensation or duties of these employees and concluded the compensation paid these employees was fair and reasonable in relation to the comparable information and their experience, duties and responsibilities. On February 12, 2010, the Board of Directors approved the continued employment of Ms. Cubbin, Ms. Segal and Ms. Ziecik.

### **Consulting Agreement**

On September 30, 2008, the Company entered into a Consulting Agreement ( Agreement ) with its founder and Chairman of the Board of Directors of the Company, Merton J. Segal. Mr. Segal retired as an executive officer of the Company on September 30, 2008. Under the Agreement, Mr. Segal will provide consulting services to the Company for up to three years. The fee arrangement under the Agreement provides for fees of \$266,000 for the period October 1, 2008 to September 30, 2009, \$216,000 for the period of October 1, 2009 to September 30, 2010; \$166,000 for the period October 1, 2010 to September 30, 2011. The Agreement expires on September 30, 2011.

## **OTHER MATTERS**

The Company is not aware of any matter that may be brought before the Annual Meeting other than as described above. In the event any other matter properly comes before the Annual Meeting, the persons named in the accompanying form of proxy have discretionary authority to vote on such matters.

Dated: April 13, 2010





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**YOUR VOTE IS IMPORTANT  
PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY  
IN THE ENCLOSED ENVELOPE PROMPTLY.  
MEADOWBROOK  
INSURANCE GROUP, INC.**

WO#  
69892

**FOLD AND DETACH HERE**

Please mark  
your votes as  
indicated in  
this example x

	<b>FOR ALL</b>	<b>WITHHOLD FOR ALL</b>	<b>*EXCEPTIONS</b>
<b>1. Election of Directors</b>			
Nominees:	c	c	c
01 Merton J. Segal			
02 David K. Page			
03 Herbert Tyner			

**(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box above and write that nominee's name in the space provided below.)**

\*Exceptions

	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
<b>2. Ratification of the Appointment of Independent Registered Public Accounting Firm.</b>	c	c	c

Mark Here for Address  
Change or Comments      c  
**SEE REVERSE**

Signature

Signature

Date

**NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.**

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*You can now access your Meadowbrook Insurance Group, Inc. account online.*

Access your Meadowbrook Insurance Group, Inc. account online via Investor ServiceDirect® (ISD). BNY Mellon Shareowner Services, the transfer agent for Meadowbrook Insurance Group, Inc. now makes it easy and convenient to get current information on your shareholder account.

View account status	View payment history for dividends
View certificate history	Make address changes
View book-entry information	Obtain a duplicate 1099 tax form

*Visit us on the web at <http://www.bnymellon.com/shareowner/isd>  
For Technical Assistance Call 1-877-978-7778 between 9am-7pm*

*Monday-Friday Eastern Time*

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Choose **MLink<sup>SM</sup>** for fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect®** at [www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd) where step-by-step instructions will prompt you through enrollment.

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on May 18, 2010.**

The Annual Report to Shareholders and the Proxy Statement are available on-line at: <http://www.meadowbrook.com>

**FOLD AND DETACH HERE**

**PROXY**

**PROXY**

**MEADOWBROOK INSURANCE GROUP, INC.**

**Proxy for 2010 Annual Meeting of Stockholders to be held May 18, 2010**

**THE PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF**

**MEADOWBROOK INSURANCE GROUP, INC.**

The undersigned stockholder of MEADOWBROOK INSURANCE GROUP, INC. (the Company) hereby appoints ROBERT S. CUBBIN, KAREN M. SPAUN or MICHAEL G. COSTELLO, jointly and severally, the attorney and proxies of the undersigned stockholder, with the full power of substitution, to vote all of the shares of common stock of the Company standing in the name of the undersigned stockholder at the close of business on March 19, 2010 at the 2010 Annual Meeting (the Annual Meeting) of the stockholders of the Company to be held on Tuesday, May 18, 2010 and at any adjournments thereof, with all the powers the undersigned stockholder would possess if then, and there present.

The undersigned stockholder acknowledges receipt of the Notice of the 2010 Annual Meeting and Proxy Statement, both dated April 13, 2010.

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY IN THE ENCLOSED ENVELOPE PROMPTLY.**

**(Continued and to be marked, dated and signed, on the other side)**

**Address Change/Comments  
(Mark the corresponding box on the reverse side)**

BNY MELLON SHAREOWNER SERVICES  
P.O. BOX 3550  
SOUTH HACKENSACK, NJ 07606-9250

WO#  
69892