MEADOWBROOK INSURANCE GROUP INC
Form 424B2
July 09, 2007

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SUBJECT TO COMPLETION, DATED JULY 9, 2007

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-143244

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus Dated June 12, 2007)

7,250,000 Shares

Common Stock

We are offering 5,500,000 shares of common stock and our chairman, Merton J. Segal, his spouse Beverly Segal and a trust established for her benefit (collectively, Mr. Segal) are collectively offering 1,750,000 shares of common stock. We will not receive any proceeds from sales of our common stock by Mr. Segal.

Our common stock is traded on the New York Stock Exchange under the symbol MIG. On July 6, 2007, the closing price of our common stock as reported on the New York Stock Exchange was $10.96 per share of common stock.

Investing in our common stock involves a high degree of risk. You should carefully consider the information under the heading Risk Factors beginning on page S-9 of this prospectus supplement and page 3 of the accompanying prospectus before buying shares of our common stock.

	Per Share	**Total**
Public offering price		
Underwriting discounts and commissions*		
Proceeds, before expenses, to us		
Proceeds, before expenses, to the selling shareholder		

* See Underwriting on page S-74 for a description of the underwriters compensation.

To the extent that the underwriters sell more than 7,250,000 shares of common stock, we have granted the underwriters an option for a period of 30 days to purchase up to 1,087,500 additional shares of our common stock at the public offering price, less the underwriting discount.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We expect the shares of our common stock will be ready for delivery to purchasers on or about .

KeyBanc Capital Markets

Friedman Billings Ramsey

Ferris, Baker Watts Incorporated

The date of this prospectus supplement is .

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Prospectus Supplement

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. This prospectus supplement and the accompanying prospectus are part of a Registration Statement on Form S-3 that we filed with the Securities and Exchange Commission, or the SEC, on May 24, 2007 using a shelf registration process (the Shelf Registration Statement). In this prospectus supplement, we provide you with specific information about the terms of this offering and certain other information. Both this prospectus supplement and the accompanying prospectus include important information about us, our common stock and other information you should know before investing in our common stock. This prospectus supplement and the accompanying prospectus also incorporate by reference important business and financial information about us that is not included in or delivered with these documents. You should read both this prospectus supplement and the accompanying prospectus, as well as the additional information described under the heading Where You Can Find More Information below and on page 3 of the accompanying prospectus before investing in our common stock. This prospectus supplement adds, updates and changes information contained in the accompanying prospectus and the information incorporated by reference. To the extent that any statement that we make or incorporate by reference in this prospectus supplement is inconsistent with the statements made in the accompanying prospectus or the information incorporated by reference herein or therein, the statements made or incorporated by reference in the accompanying prospectus are deemed modified or superseded by the statements made or incorporated by reference in this prospectus supplement.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not authorized any other person to provide you with information that is different from that contained in this prospectus supplement and the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell and seeking offers to buy these securities only in jurisdictions where offers and sales are permitted. You should assume the information contained in this prospectus and any prospectus supplement is accurate only as of the date of this prospectus or such prospectus supplement relating to the offering, respectively, regardless of the time of delivery of this prospectus supplement or the accompanying prospectus or any sale of common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

WHERE YOU CAN FIND MORE INFORMATION

We have filed the Shelf Registration Statement with the SEC with respect to the common stock offered for sale by us pursuant to this prospectus supplement and accompanying prospectus. This prospectus supplement and the accompanying prospectus, filed as part of the Shelf Registration Statement, do not contain all of the information set forth in the Shelf Registration Statement and its exhibits and schedules, portions of which have been omitted as permitted by the rules and regulations of the SEC. For further information about us and the common stock, we refer you to the Shelf Registration Statement and to its exhibits and schedules. Statements in this prospectus supplement and the accompanying prospectus about the contents of any contract, agreement or other document are not necessarily complete and, in each instance, we refer you to the copy of such contract, agreement or document filed or incorporated by reference as an exhibit to the Shelf Registration Statement, with each such statement being qualified in all respects by reference to the document to which it refers. Anyone may inspect the Shelf Registration Statement and its exhibits and schedules without charge at the public reference facilities maintained by the SEC in Washington, D.C. (100 F Street NE, Room 1580, Washington, D.C. 20549). Copies of such materials can be obtained from the SEC s public reference section at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at (800) SEC-0330 or on the SEC website located at http://www.sec.gov.

Information about us is also available at our website at http://www.meadowbrook.com. However, the information on our website is not a part of this prospectus supplement or the accompanying prospectus.

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INCORPORATION OF INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them. This means that we may disclose information to you by referring you to other documents we have filed with the SEC. The information that we incorporate by reference is an important part of this prospectus supplement and information that we later file with the SEC will automatically update and, where applicable, supersede the information in this prospectus supplement or incorporated by reference in this prospectus supplement.

We incorporate by reference in this prospectus supplement all the documents listed below and any filings Meadowbrook Insurance Group, Inc. makes with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement and before all the shares of common stock offered by this prospectus supplement have been sold or de-registered:

- the annual report on Form 10-K for the fiscal year ended December 31, 2006;
- the proxy statement in connection with the 2007 Annual Meeting of Shareholders;
- the quarterly report on Form 10-Q for the period ended March 31, 2007;
- the current reports on Form 8-K filed on April 4, 2007, April 12, 2007, April 18, 2007, May 7, 2007 and May 11, 2007 and the current report on Form 8-K filed on July 9, 2007 (other than the portions furnished pursuant to Item 7.01 of Form 8-K);
- the description of our common stock contained in a registration statement on Form 8-A dated September 14, 1995 filed under the Exchange Act and any amendments or reports filed with the SEC for the purpose of updating such description; and
- the description of our preferred share purchase rights contained in a registration statement on Form 8-A dated October 12, 1999 filed under the Exchange Act and any amendments or reports filed with the SEC for the purpose of updating such description.

You may send a written request or call us to obtain without charge a copy of the documents incorporated by reference in this prospectus supplement. We will not send exhibits to these documents unless we specifically incorporated the exhibits by reference in this prospectus supplement. Make your request by calling or writing to:

Holly Moltane
Director of External Financial Reporting
Meadowbrook Insurance Group, Inc.
26255 American Drive
Southfield, Michigan 48034-5178
(248) 204-8590
hmoltane@meadowbrook.com

PROSPECTUS SUPPLEMENT SUMMARY

This summary may not contain all of the information that may be important to you. You should read the entire prospectus supplement, including the financial statements and related notes and other financial data included or incorporated by reference in this prospectus supplement, before making an investment decision. Investors should carefully consider the information set forth under Risk Factors beginning on page S-9 of this prospectus supplement and page 3 of the accompanying prospectus. In addition, some statements include forward-looking statements that involve risk and uncertainties. See Special Note on Forward-Looking Statements on page S-16.

As used in this prospectus supplement, we,   us,   our and Meadowbrook Insurance Group, Inc. mean Meadowbrook Insurance Group, Inc. and our subsidiaries, unless the context indicates otherwise.

MEADOWBROOK INSURANCE GROUP, INC.

Overview

We are a specialty risk management organization offering a full range of insurance products and services, focused on niche and specialty program business, which we believe is under served by the standard insurance market. Program business refers to an aggregation of individually underwritten risks that have some unique characteristic and are distributed through a select group of focused general agencies, retail agencies and program administrators. We perform the majority of underwriting and claims services associated with these programs. We also provide property and casualty insurance coverage and services through programs and alternative risk management solutions for agents, professional and trade associations, public entities and small to medium-sized insureds.

We operate in the specialty insurance market, which differs significantly from the standard market. In the standard market, insurance rates and forms are highly regulated, with largely uniform products and coverages, and companies tend to compete for customers on the basis of price and distribute their products through a large number of independent agents. In contrast, our specialty market provides coverage for unique, homogenous or hard-to-place risks that may not easily fit the underwriting criteria of standard carriers. Our products and services are generally distributed through a select group of focused general agencies, retail agencies and program administrators. Policies or risks written in the specialty insurance market usually cover insureds engaged in similar, but highly specialized activities that are not often recognized as a program by standard insurers or involve insurance products or classes of insureds that are often overlooked by large admitted carriers.

We pursue niche-focused underwriting in areas that tend to exhibit a reduced level of competition. This focus has allowed us to improve underwriting results through controlled and disciplined growth with long-term program partners. Furthermore, our fee-based and commission income operations generate a stream of consistent revenue, which helps to offset the potential volatility generally associated with underwriting operations.

We have a disciplined management team and culture of accountability, which we believe has helped us to effectively manage our capital. Since our last public offering in 2002, we have established a strong track record of success in deploying capital. Since 2002, we have increased our revenues from $197.8 million to $318.2 million in 2006, representing a compound annual growth rate of 12.6%; earnings per share have grown from $0.08 in 2002 to $0.75 in 2006; and book value per share increased from $4.98 at December 31, 2002 to $6.93 at December 31, 2006. This financial performance was achieved, in part, by reducing our combined ratio from 108.6% in 2002 to 96.8% in 2006.

Recent Developments

In April 2007, A.M. Best Company (A.M. Best) upgraded the financial strength rating of our insurance subsidiaries to A− (Excellent) from B++ (Very Good). A.M. Best maintains a letter scale rating system ranging from A++ (Superior) to F (In Liquidation), and an A− rating is the fourth highest rating on a scale of sixteen used by A.M. Best. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities. However, ratings have become an increasingly important factor in establishing the competitive position of insurance

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companies. The rating reflects Meadowbrook s strong operating profitability generated through continued underwriting and operating improvements, solid capitalization, and Meadowbrook s recognized expertise in the specialty program business market and alternative risk market. With the upgrade, we believe we are well positioned to attract additional high quality underwriting prospects from new and existing insurance programs which we would not have been able to access with our previous B++ rating. With the addition of these new insurance clients, we should be able to further leverage fixed costs. In addition, we will be able to eliminate the use of a non-affiliated A rated insurance carrier to issue policies that require an A.M. Best rating of A. In 2006, the premium associated with these policies was $72.6 million and the associated policy issuance fee (front fee) was $4.0 million. We expect that elimination of these fees will produce approximately a 1.5 percentage point improvement in the combined ratio, which will be realized over a 12-24 month period as policies renew. As these policies renew, we will be able to issue the policies directly from one of our insurance company subsidiaries and eliminate the front fee as the premium is earned.

On April 16, 2007, we acquired the business of U.S. Specialty Underwriters, Inc. (USSU). Based in Cleveland, Ohio, USSU is a specialty program manager that produces fee-based income by underwriting excess workers compensation coverage for a select group of insurance companies. In 2006, USSU produced $54.0 million of premiums and $8.5 million in net commissions through a nationwide network of agents who provide services to self-insured entities. USSU focuses on self-insureds within the healthcare industry, as well as universities and public schools in twenty-nine states. This acquisition provides growth to our fee-based operations and complements our existing public entity excess workers compensation program.

Operations

For the year ending December 31, 2006, our revenue was derived from over $700 million in annual gross premiums under management. For this period, nearly fifty percent of these premiums were underwritten within our insurance company operations; the remainder represents premiums under management within our fee-for-service and agency operations. Our specialty risk management operations and agency operations are supported by our full-service back office processing capabilities, which provide every function necessary to a risk management organization.

(1) Figures are for the year ending December 31, 2006

(2) Under GAAP, intercompany fees are fees paid by our insurance company subsidiaries for risk management services and are eliminated upon consolidation

Specialty Risk Management Operations

Our specialty risk management operations, which include insurance company specialty programs and fee-for-service specialty programs, focus on specialty or niche insurance business. We provide services and coverages tailored to meet specific requirements of defined client groups and their members. We generate business through independent program administrators, general agencies and wholesale and retail agents, collectively referred to as producers. We generate revenue from the services and coverages from our specialty risk management operations within seven categories: net earned premiums, management fees, claims fees, loss control fees, reinsurance placement fees, investment income and net realized gains (losses). Our specialty risk management operations generated total revenues of $306.5 million, $294.5 million and $261.8 million for the years ending December 31, 2006, 2005 and 2004, respectively.

For over thirty years, we have specialized in providing risk management solutions for our clients. By forming risk-sharing partnerships, we align our financial objectives with our clients. Our products and services provide small to medium-sized client groups with access to more sophisticated risk management techniques previously available only to larger corporations. This enables our clients to control insurance costs and potentially turn risk management into a profit center. When our clients place their capital at risk, they are motivated to reduce exposure and share in the underwriting profits and investment income derived from their risk management plan. This commitment fosters a longer-term relationship.

Insurance Company Specialty Programs

Our insurance company specialty programs concentrate on underwriting specialty property and casualty insurance programs designed for niche classes of business such as trade/professional groups and associations. We provide various types of property and casualty insurance coverage, including workers compensation, commercial multiple peril, general liability, professional liability, commercial auto liability and inland marine. While we have a focus on workers compensation and commercial package policies, we seek to achieve a balance among our lines of business. Our program insureds are generally small to medium-sized businesses and professionals. Representative industries include public entities, retail, professional services, trucking, contractors, agricultural, manufacturing and high-tech. Typically, our insurance programs operate on a regional or state-specific basis, and our producers are local or regional insurance agents who possess expertise in their specialty areas of concentration. While these producers sell policies for us as well as for other insurance companies, we seek to be the producer s preferred source of coverage on the specific programs we have established, and in some cases we have an exclusive relationship or right of first refusal on the program. We seek to avoid geographic concentration of risks through our underwriting process that might unexpectedly create exposure to natural or man-made catastrophic events, and to mitigate such losses through the purchase of reinsurance.

Fee-For-Service Specialty Programs

Our fee-for-service specialty programs generate significant revenues. We provide risk management services for these programs in return for fees or commissions. These services include risk management consulting and administration, claims administration and handling, loss control and prevention, and reinsurance placement. The fees we receive are either a fixed amount or based on a percentage of premium or claim count. Representative fee-for-service specialty programs include self-insured workers compensation funds and public entity pools and trusts. We also provide complete back office services for other insurance companies. We assume no underwriting risk from these programs and therefore do not need to allocate substantial capital to generate ongoing revenue. Our fee-for-service specialty programs generated net fee revenue of $30.4 million, $26.8 million and $32.1 million for the years ending December 31, 2006, 2005 and 2004, respectively.

Agency Operations

Our agency operations specialize in commercial, group life/accident & health, as well as personal insurance product solutions and produce policies for more than fifty major regional, national and international unaffiliated insurance carriers. Our agency operations have grown to be one of the largest agencies in Michigan and, through acquisitions, have expanded into California and Florida. Our Michigan-based retail insurance agency operations are consistently ranked as a leading business insurance agency in Michigan and the United States. Our agency operations generated net commissions of $12.3 million, $11.3 million and $9.8 million for the years ending December 31, 2006, 2005 and 2004, respectively.

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Summary Historical Data

As previously indicated, earnings per share have grown from $0.08 per share in 2002 to $0.75 per share in 2006 and book value per share has increased from $4.98 at December 31, 2002 to $6.93 at December 31, 2006. This financial performance was achieved, in part, by reducing our combined ratio from 108.6% in 2002 to 96.8% in 2006. Our return on beginning equity improved by ten percentage points over the same period.

	As of and for the Years Ending December 31,					As of and for the Quarters Ending March 31,	
	2002	2003	2004	2005	2006	2006	2007
	(In thousands, except per share and ratio data)						
ncome Statement Data:							
Gross Written Premiums	$ 183,637	$ 253,280	$ 313,493	$ 332,209	$ 330,872	$ 89,010	$ 89,504
Gross Commissions nd Fees	63,180(1)	81,101(1)	88,585(1)(2)	86,670	91,167	23,564	23,998
Revenues							
Net Earned Premiums	145,383	151,205	214,493	249,959	254,920	63,124	65,204
Net Commissions nd Fees	37,581(1)	45,291(1)	40,535(1)(2)	35,916	41,172	11,289	11,551
Net Investment ncome	13,958	13,484	14,911	17,975	22,075	5,239	6,156
Total Revenues	197,787	210,803	270,278	304,017	318,236	79,645	82,905
Total Expenses	195,240	194,525	249,904	278,351	286,731	71,182	72,846
Net Income	1,650	10,099	14,061	17,910	22,034	5,625	6,923
Earnings per Share Diluted)	$ 0.08	$ 0.35	$ 0.48	$ 0.60	$ 0.75	$ 0.19	$ 0.23
Balance Sheet Data:							
Total Assets	674,839	692,266	801,696	901,344	969,000	925,518	1,009,352
Shareholders Equity	147,395	155,113	167,510	177,365	201,693	180,947	207,379
Book Value per Share	$ 4.98	$ 5.34	$ 5.76	$ 6.19	$ 6.93	$ 6.28	$ 7.02
Other Data:							
Combined Ratio	108.6%	104.4%	101.4%	98.7%	96.8%	96.2%	96.3%
Return on Beginning Equity	2.1%	6.9%	9.1%	10.7%	12.4%	12.7%	13.7%

(1) Both gross and net commissions and fees include fee revenue associated with two limited duration contracts with the state of Missouri. For the years 2002, 2003, and 2004, gross and net commissions and fees included $748,000, $14.5 million, and $8.3 million, respectively, in fee revenue related to these contracts.

(2) In the third quarter of 2004, we accelerated the recognition of $3.5 million in revenue from the two limited duration contracts with the state of Missouri.

Competitive Advantages

Flexible Business Model

We have the ability to selectively increase or decrease the underwriting exposure or amount of risk we retain based upon insurance market conditions and our own underwriting and capital management criteria. We offer a full spectrum of products and services to our clients for a fee. These services include risk management services, policy issuance, reinsurance placement and traditional insurance underwriting. This flexible model allows us to better manage underwriting cycles by offsetting lower premium volume with higher fee income when appropriate, or by reducing our reinsurance attachment point.

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Balanced Revenue Sources

Our diverse sources of revenue reduce earnings volatility and provide more flexibility to manage through the property and casualty insurance market cycles. Our revenues are derived from three principal sources:

- Our targeted specialty programs generate insurance premiums and investment income. We focus on specific underwriting niches in smaller average premium accounts, which tend to be less subject to price competition.

- Revenue generated from managed service fees allows us to provide our back office insurance service expertise to self-insured groups, public entity pools, trusts and other insurance companies, thus leveraging our resources over a larger customer base.

- Agency commissions received from non-affiliated insurance carriers provide revenues which are not tied to the same geographic markets or class of business as those in our risk taking programs and create greater diversification.

These various revenue sources allow us to remain disciplined through the more competitive underwriting market cycles with the ability to leverage our infrastructure to generate fee and commission revenue, as well as target specific local or regional markets that are less competitive.

Specialty Niche Focus

We have expertise in insuring and providing risk management services to agents, professional and trade associations and small to medium-sized commercial businesses. We focus on specialty program business with unique characteristics in under served markets. These programs require specialized underwriting expertise and industry knowledge that we have accumulated since our inception over fifty years ago. We believe our range of products, specialized market knowledge and successful history serving these programs leads to enhanced client loyalty, program retention and increased shareholder value.

Comprehensive Program Controls

Unlike many other specialty insurers that work with program administrators, our organizational controls over our business enable us to monitor and identify further opportunities and quickly and efficiently react to any changes. To maintain these controls, we:

- *Perform the vast majority of our own underwriting* which produces more consistent data and a better understanding of the risks we insure

- *Manage substantially all of our own claims* which keeps us in tune with how losses develop and produces greater reliability and predictability in the reserving process, and an overall better result

- *Perform regular audits of our branch offices and program partners* which allows us to ensure consistency in the application of our underwriting and claims handling standards

- *Maintain all data on our information systems* which gives us more timely access to information in order to identify strengths and weaknesses in our programs and recognize and respond quickly to changes in the market

- *Perform monthly reviews of premium and losses on all programs* which enables us to regularly evaluate pricing adequacy, reserve position and adherence to our underwriting guidelines

Execute a multi-disciplinary due diligence process which allows representatives from all significant disciplines within our company (*e.g.,* actuarial, underwriting, claims, legal, finance and systems) to ensure that new programs are designed to meet our return on equity goals and are adequately structured to promote success

Utilize a web-based processing system which makes it easier for producers to do business with us and helps reduce costs and improve control over underwriting

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Our focus on underwriting controls as well as improved risk selection, adequate pricing, and expense initiatives have resulted in an improvement in our combined ratio from 108.6% in 2002 to 96.8% in 2006.

Successful Integration of Acquisitions

Part of our strategy is to pursue acquisitions that generate value significantly faster than we can create organically. Over the last ten years, we acquired six businesses which have contributed approximately $12.2 million to our net income in 2006. Through these acquisitions, we have added a number of talented insurance professionals to our team and have realized synergies such as revenue growth, improved claims and loss control services and expansion of our geographic presence.

Long-Term Relationships

We serve our small and medium-sized agencies and insureds by providing specialized market knowledge, a diverse product offering and superior customer service. We believe our dedicated focus on these specialty products and markets has made us a preferred choice as risk manager or insurer among our potential client base. Our full range of products and services allow us to adapt to our clients changing needs. Our customized solutions and risk sharing opportunities align the financial interests of our partners with ours and create partner loyalty as well as barriers to entry.

Experienced Management Team

Our senior management team has an average of 28 years of experience and broad industry expertise. Our management team has fostered a working environment that focuses on communicating current information and strategies with a strong commitment to integrity, training, innovation and respect. Since our 2002 offering, the senior management team has effectively deployed and managed the Company s capital, and achieved an A.M. Best rating increase from B+ to A− . The ratings upgrade was obtained while significantly growing revenues and increasing return on beginning equity from 2.1% in 2002 to 12.4% in 2006.

Strategy

We plan to pursue profitable growth and favorable returns on equity through the following strategies:

Focus on Profitability

We intend to continue to focus on underwriting discipline and profitability. Specifically, we target a 95% combined ratio and annual growth in net income of 15-20%. We endeavor to select risks prudently, capitalize upon our A.M. Best rating upgrade to eliminate the majority of our policy issuance fees that we pay to unaffiliated carriers, use our flexible business model to manage through underwriting cycles, expand margins on fee based business, realize economies of scale and continue to seek opportunities to decrease expenses.

Grow Our Revenue Sources Organically

We plan to grow our revenues organically through the addition of new members to our existing programs, through implementing new insurance and managed programs and by adding new agency clients. Additionally, we act as underwriting managers for non-affiliated insurance companies on small workers compensation and other lines of business. Where and when it is appropriate, we may have the opportunity to convert some premiums from managed programs to risk-bearing programs.

Leverage Our Diverse Distribution Channels

We generate business through a select number of independent program administrators, general agencies and wholesale and retail agents. These producers sell policies for us as well as for other insurance companies. However, we seek to be the preferred source of coverage on the specific programs we have established with the producer and in some cases we have an exclusive relationship or right of first refusal on the program. We intend to continue seeking producers with specialized knowledge of the programs they control and a history of profitable business. We also intend to continue distributing our products and services through a diversified array of producers to find the most attractive program opportunities and insulate our business from disruptions in any particular channel.

Continue Risk Sharing and Alignment with Our Partners

We plan on continuing to align our interests with those of our agents and customers through customized risk sharing arrangements including captives, rent-a-captives, profit-based commissions and dividend plans, among other things. We believe these arrangements enhance partner loyalty and create a stable, long term program.

Maintain Our Regional Program Focus

We plan to maintain our local and regional focus, as we believe it is a platform that allows us to grow our business and expand our margins. Our regional offices throughout the country perform underwriting, claims handling and loss control services, subject to comprehensive program controls. Our regional presence produces a higher level of service for the agents and customers with whom we do business and provides us with local market knowledge, which we believe provides an important advantage when developing market strategies, tailoring products to the needs of different regions and capitalizing on opportunities in each region.

Pursue Acquisitions on a Selective Basis

We plan to continue to pursue opportunities to acquire program managers, agencies and specialty books of business with a demonstrated history of profitable underwriting. We expect to continue targeting local and regional agencies or administrators that control profitable programs, with proven management teams that will continue to grow their business as part of our team. We expect acquisitions to be an important part of our strategy in the future.

Continue to Develop Scalable Technology

Our technology department has developed effective, customized analytical tools that we believe significantly enhance our ability to write profitable business and cost-effectively administer claims. In addition, these tools allow all internal systems to be connected. We intend to continue making investments in advanced and reliable technology infrastructure.

Challenges

Our business is subject to a number of risks discussed in the Risk Factors section and elsewhere in this prospectus supplement and the accompanying prospectus. In particular, the following considerations may offset our competitive advantages or have a negative effect on our business strategy and could cause a decrease in the price of our common stock and result in a loss of a portion or all of your investment:

- If our estimates of reserves for losses and loss adjustment expenses are not adequate, we will have to increase our reserves, which would result in reductions in net income, retained earnings, statutory surplus and liquidity.

- If our financial strength ratings are reduced, we may be adversely impacted.

- Market conditions may cause our reinsurance to be more costly or unavailable, we may be required to bear increased risks or reduce the level of our underwriting commitments.

- We are subject to credit risk with respect to the obligations of our reinsurers and risk-sharing partners. The inability of our reinsurers or risk-sharing partners to meet their obligations could adversely affect our profitability.

We may face competitive pressures in our business that could adversely affect our profitability.

Our results may fluctuate due to many factors, including cyclical periods of price competition and excess capacity (known as a soft market) followed by periods of high premium rates and reduced underwriting capacity (known as a hard market).

For a further discussion of these and other risks, see Risk Factors.

Our principal executive offices are located at 26255 American Drive, Southfield, Michigan 48034-5178 and our telephone number is (248) 358-1100.

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