NEWS LETTER

Invest

Vol. 13 Issue 1, 2013

Meadowbrook Insurance Group, Inc.

(Ticker Symbol: MIG)

Greetings from LFS

Dear Clients and Friends:

Invest is a quarterly newsletter created and distributed by LFS. The purposes are to offer:

- An investment idea that will perform regardless of market conditions.
- Insight into an industry including trends, opportunity and challenges.

I welcome any questions, comments or suggestions.

Sincerely,

Doug Ruth

Douglas Ruth

Invest
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MEADOWBROOK INSURANCE GROUP

Meadowbrook Insurance Group, Inc. (MIG), was founded in 1955 and is located in Southfield, Michigan. MIG was formerly known as Star Holding Company. Star acquired Meadowbrook in 1995. At that time, its name was changed and an initial public offering (IPO) was completed.

The company's business model was built with three core values in mind:

- Strength;
- Flexibility; and
- Stability.

Its long-term president, Robert S. Cubbin, age 54, is a lawyer who specializes in insurance law. Mr. Cubbin joined the company in 1987, at the age of 28. It is somewhat unusual to find an executive with a tenure this long.

Summary:

MIG's management has a history of profitably selling insurance and risk management solutions. However, the company generated substantially lower net income in 2012 versus 2011. The company, which had a track record of honestly and fairly reporting its results, disclosed that its claims for prior years were higher than originally presented.

As a result, the company recognized a pretax charge of $42.6 million through the first nine months of 2012. This charge, as well as higher than normal storm expenses, caused the decrease in net income.

Earnings per Share (EPS)

2007	2008	2009	2010	2011	2012
$0.85	$0.61	$0.92	$1.10	0.83	$0.23

The expectation is that 2013 will be a better year for MIG.

LFS believes that the present stock price creates an attractive entry point for value investors to buy shares. Three principal reasons for investing include:

1. Necessity-of-Life Product:

The company offers a product – insurance – that virtually everyone needs to own.

2. Inexpensive Stock:

The stock is statistically inexpensive and is trading at a discount to its book value.

3. Improving Projections:

The company is projecting that its business will improve. Additionally, MIG has been historically profitable.

Niche Expertise:

MIG has:

- Developed specialty niche expertise in a wide-range of underwriting risks.
- A diverse revenue stream, which allows it to leverage its fixed costs without sacrificing pricing or simply reducing prices to gain market share.

Currently, the majority of company:

- Revenue is generated from selling workers' compensation insurance; and

Gross Written Premiums by Type of Insurance
(In Percentages of Total Premiums Written)

Type of Insurance	2007	2008	2009	2010	2011
Workers' compensation	33.7%	30.0%	33.9%	40.0%	38.2%
All other	66.3%	70.0%	66.1%	60.0%	61.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

- Business is conducted in the state of California.

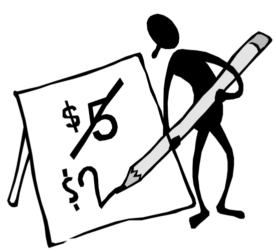
Gross Written Premiums by State
(In Percentages of Total Premiums Written)

State	2008	2009	2010	2011
California	►**18.5%**	►**30.4%**	35.6%	33.2%
All other	81.5%	69.6%	64.4%	66.8%
Total	100.0%	100.0%	100.0%	100.0%

Please note the large increase between 2008 and 2009. The company entered the California workers' compensation market in 2009.

Conclusion:

MIG is an example of a classic value stock. By nature, property and casualty insurance stocks are cyclical. The industry fluctuates between two extremes, known as soft and hard markets, which explain the volatility of publicly traded insurance stocks.



- Many people purchase insurance based on price. The price of insurance is a factor when a customer chooses a company with which to do business.
- The supply of insurance affects the price.

Some of the characteristics of soft and hard markets include the following:

Soft

- More suppliers of insurance.
- In general, customers pay less to purchase insurance.
- In general, insurance companies' profits may be lower.

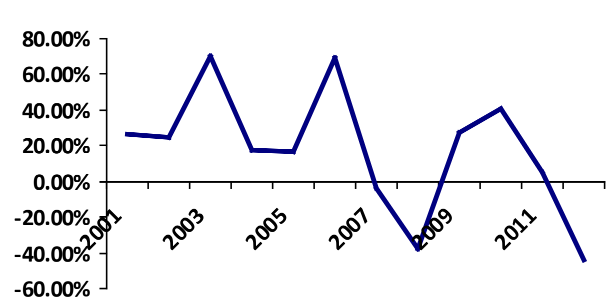
Hard

- Fewer suppliers of insurance.
- In general, customers pay more to purchase insurance.
- In general, insurance companies' profits may be higher.

MIG has a history of both under- and over-performance. The following table shows the organization's stock performance.

MIG's Stock Performance

Year	%
2001	26.6%
2002	24.6%
2003	70.6%
2004	18.0%
2005	17.0%
2006	69.6%
2007	(3.5%)
2008	(38.1%)
2009	27.0%
2010	40.6%
2011	4.7%
2012	(44.3%)



Growth of a $100 Investment

Index	Period Ending December 31 Each Year 2006	2007	2008	2009	2010	2011
MIG[1]	***$100.00***	***$95.15***	***$65.96***	***$76.86***	***$108.07***	***$114.52***
Russell 2000	$100.00	$98.43	$65.18	$82.89	$105.14	$100.75
SNL Insurance $1B-$2.5B	**$100.00**	**$96.96**	**$79.84**	**$87.19**	**$112.26**	**$142.59**

1. Please note: MIG stock **underperformed** in comparison to the insurance index

Growth of a $100 Investment

Index	2005	2006	2007	2008	2009	2010
	Period Ending December 31 Each Year					
MIG[1]	***$100.00***	***$169.35***	***$161.13***	***$111.71***	***$130.16***	***$183.01***
Russell 2000	**$100.00**	**$118.37**	**$116.51**	**$77.15**	**$98.11**	**$124.46**
SNL Insurance $1B-$2.5B	**$100.00**	**$125.53**	**$121.72**	**$100.22**	**$109.45**	**$140.93**

1. Please note: MIG stock **performed better** than both the Russell 2000 and the insurance index.

What Happened?

During the fourth quarter of 2011 and through the first three periods of 2012, the company was forced to recognize additional costs for adverse developments from previous years' claims.

This can happen to any insurance company and is not necessarily an extraordinary event. The recognition of these claims caused the stock to tumble from a multi-year high of $11.91 on January 20, 2012, to a low of $5.21 in mid-December.

Reserves by Product Line
(In $Millions)

Product Line	2007	2008	2009	2010	2011	9/30/12
	As of December 31, Each Year					
Worker's compensation	$141.4	147.8	$185.7	$285.1	$358.1	**$431.6**
Residual markets	25.4	24.0	21.9	19.0	17.7	17.4
Commercial multiple peril/general liability	87.8	317.2	333.7	330.8	353.3	**410.8**
Commercial automobile	69.4	92.8	105.5	112.4	117.6	138.7
Other	17.5	43.5	35.6	36.9	32.4	43.9
Net reserves	$341.5	$625.3	$682.4	$784.2	$879.1	$1,042.4
Reinsurance recoverable	198.5	260.4	266.8	280.9	315.9	367.0
Consolidated	$540.0	$885.7	$949.2	$1,065.1	$1,195.0	$1,409.4

Please notice the large increase in reserves for the workers' compensation and commercial automobile product lines.

Company president Robert Cubbin stated in a November 1, 2012, press release:

> *"We believe we have put this challenging period of reserve development behind us."*

LFS believes that a floor has been established for MIG stock. The stock is currently statistically inexpensive.

Book Value and Share Price

Tangible book value	On 09/30/12	$8.13
Share price	On 02/07/13	$6.18

The stock is currently trading at a discount of 24 percent to its book value.

LFS believes that the fair value of MIG stock is $8.78. This suggests that the potential for appreciation of approximately 40 percent over a period of time may be possible. Prior to the recent adverse development with claims, MIG's revenue and profits were tracking favorably.

Combined Ratio:

Aligning Financial Objectives:

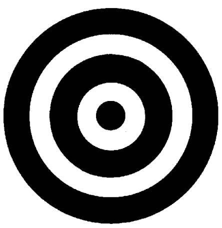
MIG's number one competitive advantage is its ability to align its financial objectives with its customers (clients). This allows MIG and its customers to work together more effectively.

The organization is able to offer small- to medium-sized client groups access to more sophisticated risk management techniques pre-viously only avail-able to larger corpo-rations. This strategy enables MIG's clients to solve their insurance needs using either traditional or nontraditional solutions.

This strategy also brings some unique benefits to MIG. It allows the organization to accommodate a diverse distribution network, ranging from specialized program agents to retail agents. MIG can focus on offering one-of-a-kind products and services that meet its customers' needs rather than providing solutions that simply emphasize price alone.

Financial Objectives and Combined Ratio:

MIG's unique competitive advantage enables the company to profitably sell insurance. The profits of an insurance company are measured by looking at the combined ratio. Under-writing profit is produced when the combined ratio is below 100 percent.



The lower the combined ratio, the higher the profit.

When a person has a claim, there are two different costs to the insurance company:

- **Administrative costs:** The insurance company spends time and money processing claims. A large portion of the administrative costs can be spent verifying that the claim is legitimate.
- **Paying the claim:** Money is spent to repair or replace the damaged property. However, insurance companies should be able to generate underwriting profits.

The following table shows MIG's combined ratio for the last several years.

Combined Loss Ratio
(In Percentages)

Type of Insurance	2007	2008	2009	2010	2011	2012
Loss ratio						
Expense ratio						
Combined ratio	96.1%	93.6%	93.2%	95.0%	99.8%	111.4%

Insurance companies that can generate a combined ratio of less than 100 percent are high desirable. The reason is that insurance companies set aside money to pay their future claims. When the ratio is below 100 percent, they do not have to access those reserves, so they can grow. The income that is generated from the reserves belongs to the stockholders.

The previous table shows how MIG has been able to increase its investment in the bond market over the last several years because of its disciplined approach to profitably selling insurance.

Investment Securities
(In $Millions)

2007	2008	2009	2010	2011	2012
$610.8	$986.5	$1,086.6	$1,226.4	$1,358.7	

Impressive Results:

Company results achieved between 2007 and 2011 were impressive because of increases in:

- Gross written premiums (revenue);
- Investment income;
- Net realized gains (losses); and
- Book value.

Increases in Gross Written Premiums, Investment Income, Net Realized Gains and Book Value
(In $Millions except Book Value)

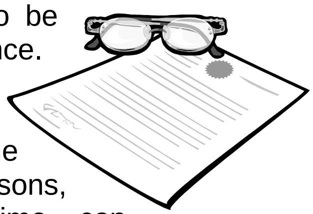
	2007	2008	2009	2010	2011
Gross written premiums (revenue)	$346.5	$457.7	$688.7	$801.9	$904.0
Investment income	$26.4	$36.6	$50.4	$54.2	$54.5
Net realized gains (losses)	$0.2	($11.4)	($0.2)	$1.8	$2.9
Tangible book value per share	$6.52	$4.75	$6.17	$7.36	$8.56

Meadowbrook's earnings per share (EPS) have trended higher.

Earnings per Share
(In $Millions except Book Value)

2007	2008	2009	2010	2011
$0.85	$0.61	$0.92	$1.10	$0.83

Principles of Insurance:



Insurance is considered to be both an art and a science. Estimating losses can be especially challenging. This can be explained by the fact that, for various reasons, significant periods of time can elapse:

- Between the occurrence of the loss;
- The reporting of a loss; and
- The insurance company's payment for the loss.

Step 1 – Initial Contact:

The first step in the claims process occurs when the customer contacts his or her insurance agent. The insurance agent then forwards a brief claims report to the home office. As quickly as possible, the home office assigns a claims adjustor to look at the loss and decide how the company can best settle it.

Step 2 – Investigating the Claim:

The claims adjustor is often the primary liaison between the insurance company and the insurance customer.

- This requires that the adjustor tries his or her best to be professional, fair, reasonable, flexible and impartial when settling a claim.
- There is pressure on the adjustor to assess the situation quickly. Claims investigation can sometimes be complicated and difficult to complete.
- Claims adjustors often interview the insurance customers and witnesses; consult police and hospital records, and inspect properties to determine the extent of the company's liability. Even after interviewing people, consulting records and inspecting property, there is still a large amount of human judgment involved.

Step 3 – Settling the Claim:

Based on the available information, the claims adjustor will try to settle the claim. Some claims are straightforward and can be settled quickly and fairly.

Example:

Ernie owns a five-year-old Chrysler Town and Country minivan that was parked on a side street. A neighbor runs into the van and totals it. The value of the van can be calculated accurately by consulting a used vehicle valuation report.

However, it is common to determine that there is either more or less property damage than initially recorded in an inspection report. MIG's history suggests that claims have been recorded fair and square. Recently, the company has had to report adverse developments to previous claims.

Company president and CEO, Robert S. Cubbin, noted in a July 2012, press release:

> *"Aside from activity in the past three quarters, our reserves developed favorably for the past five years."*

Total Adverse (Favorable) Development in Prior Years
(In $Millions)

2006	2007	2008	2009	2010	2011	2012[1]
($2.7)	($7.1)	(16.8)	($28.7)	($31.0)	$7.3	$44.6

1. Nine-month total.

Insurance companies benefit from the passage of time because better, more accurate information becomes available. Companies then use this clearer information to determine what the true costs are to settle each claim.

This is a daily function. Employees who work in an insurance company's claim department update the status of each incident. The incidents are carefully tracked and monitored. New information allows companies such as MIG to better and more accurately determine how to price their insurance policies.

Companies learn from their experience. Sometimes they learn that they have priced the insurance incorrectly based on the amount of risk assumed. Carriers may determine that they did not understand the risk involved and that they priced the insurance too low. Increased knowledge may allow the insurer to adjust customer premiums when the policy comes up for renewal.

Based on MIG's adverse experience, the company made the decision to simply stop insuring certain types of businesses. The organization is reducing its premium volume by over $100 million in certain unprofitable lines of business or terminating the programs entirely. The company disclosed this information in a November 1, 2012, press release.

Value investors consider this type of scenario as "addition through subtraction."

A company can become more profitable by discontinuing an activity that creates losses. It is also comforting to see this happen because it shows us that management is rational. When something is not working, they stop doing it!

An Industry Based on Trust:

The insurance industry is based on trust. Everyone who buys an insurance policy hopes and believes that by paying their premiums, if and when they file a claim, it will be settled fairly and quickly.

Publicly traded insurance companies have an additional responsibility to be fair and honest with their shareholders. They must try to estimate claims as accurately as possible and to the best of their ability. Insurance companies can report higher profits if they under-report their claims. When customers see that an insurance company has significantly increased its reserves of old claims, this raises a red flag. Is the company being honest? Perhaps the company overstated its earnings.

A.M. Best:

Based on four consecutive quarters of recognizing additional adverse developments, A.M. Best, an insurance company rating agency, started to scrutinize and question MIG's results.

Best ratings are important because they provide a report card allowing people to determine if they should do business with a particular insurance company. People want to know that if they have a claim, the insurance company has the resources (cash) to pay their claim.

LFS believes people should do business with insurance carriers that have an "A" rating. MIG's rating currently is an "A-," which we view as being acceptable. On October 19, 2012, Best placed MIG "under review with negative implications." This rating was the result of the adverse developments that occurred. MIG is being proactive and doing its best to maintain its acceptable rating.

In an October 23, 2012, press release Robert S. Cubbin, Meadowbrook's President and Chief Executive Officer, commented:

> *"We are in the process of evaluating various reinsurance alternatives and other strategies designed to optimize our Best's Capital Adequacy Ratio.*
>
> *"We are cooperating and working with A.M. Best to address their concerns in a timely manner.*
>
> *"We have retained Willis Capital Markets & Advisory to assist us in reviewing our various strategies to respond to the current situation."*

The company strengthened its balance sheet by selling some of its bond portfolio for a profit. Mr. Cubbin commented in a November 1, 2012, press release, how this helped with the company's Best rating:

> *"On an after-tax basis this will immediately increase our statutory surplus by approximately $20-$21 million and enhance our A.M. Best's Capital Adequacy Ratio.*
>
> *"We will still have approximately $100 million in additional pretax unrealized gains remaining in the $1.5 billion portfolio."*

The company reduced its dividend from $0.05 to $0.02 per quarter.

Next, MIG entered into a quota-share reinsurance agreement with Swiss Re on December 20, 2012:

MIG would cede a selected portion of its business on a proportional basis with certain limitations.

- The agreement became effective December 31, 2012, when MIG ceded 50 percent of its unearned premium on the selected book of business and receive a provisional ceding commission.
- In addition, MIG ceded 25 percent of direct written premium on this selected book of business commencing January 1, 2013.

After the agreement was signed, Mr. Cubbin commented:

> *"We are committed to our shareholders, partners, agents, customers, and employees to solidify our A.M. Best rating.*
>
> *"We are moving as expeditiously as possible to solve the existing uncertainty.*
>
> *"We believe this agreement with Swiss Re, along with the previously announced termination of nonperforming businesses and the realization of $50.0 million of capital gains (after-tax $37.0 million) will help alleviate the doubt relating to our rating and establish a capital position that currently and prospectively supports our business strategy."*

LFS is optimistic that A.M. Best will affirm the company's current rating based on the recent changes MIG has made.

Calculating the Value of MIG Stock:

At this point, LFS believes that the stock is statistically inexpensive and the stock is now poised to appreciate in value.

Historically, MIG has traded at an average valuation 1.1 times its tangible book value. LFS studied the time period 2002 through the present.

Book Value and Share Price

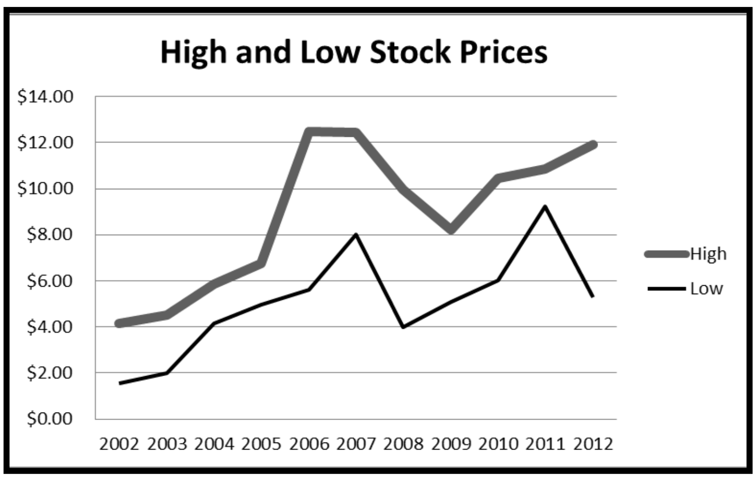
Tangible book value	On 09/30/12	$8.13
Share price	On 02/07/13	$6.18

Valuation:

This is how we determined the full value of the stock. MIG has some goodwill and other intangible assets on its balance sheet. We deducted these items when determining the company's tangible book value. A table showing the relevant data follows.

MIG Tangible Book Value and Price-to-Book Calculations

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Equity	$147.4	$155.1	$167.5	$177.4	$201.7	$301.9	$438.2	$502.9	$547.1	$592.4
Goodwill	(29.0)	(29.0)	(29.0)	(30.8)	(31.6)	(43.5)	(119.0)	(118.9)	(118.8)	120.8)
Other intangible assets	0	0	0	0	0	(17.1)	(47.0)	(41.3)	(36.7)	(34.4)
Total	$118.4	$126.1	$138.5	$146.6	$170.1	$241.3	$272.2	$342.7	$391.6	$437.2
Shares out-standing in millions	29.6	29.0	29.1	28.7	29.1	37.0	57.3	55.5	53.2	51.0
Tangible book value	$4.00	$4.35	$4.76	$5.11	$5.84	$6.52	$4.75	$6.17	$7.36	$8.56
Stock price:										
High	$4.14	$4.51	$5.86	$6.77	$12.48	$12.45	$9.95	$8.21	$10.46	$10.85
Low	$1.56	$2.00	$4.15	$4.98	$5.63	$8.02	$3.97	$5.08	$6.01	$8.27
Price-to-book:										
High	1.0X	1.0X	1.2X	1.3X	2.1X	1.9X	2.1X	1.3X	1.4X	1.3X
Low	0.4X	0.5X	0.9X	1.0X	1.0X	1.2X	0.8X	0.8X	0.8X	1.1X



Calculating Average Valuation:

Step 1 – Determine Average Valuation:

Price-to-Book Range 2002 to 2011

(Ranked from Lowest Value to Highest Value)

					Median[1]					
High	1.0X	1.0X	1.2X	1.3X	1.3X	1.3X	1.4X	1.9X	2.1X	2.1X
Low	0.4X	0.5X	0.8X	0.8X	0.8X	0.9X	1.0X	1.0X	1.1X	1.2X

1. Median: The mathematical value at the midpoint of a list of values

Average

1.3 + 1.3 + 0.8 + 0.9 = 4.3

Step 2 – Calculate Multiplier:

4.3 ÷ 4 = 1.08

Step 3 – Determine Valuation:

Book value on 09/30/12	$8.13
X multiplier	X 1.08
Average valuation	$8.78

In order for MIG to trade at the $8.78 per share price, LFS believes that the company must improve its return-on-equity (ROE). ROE allows interested parties to see how well management is able to use the capital (people, buildings and cash) that is entrusted to them. LFS believes companies should be able to earn an ROE of 12 percent. MIG's objective is to earn between 10 percent and 17 percent, which is acceptable in the current business environment.

MIG seeks to combine profitable underwriting, income from its net commissions and fees, investment returns and efficient capital management to deliver consistent long-term growth in shareholder value.

LFS is optimistic that MIG’s operating results will improve in the future. Meanwhile, the company is doing the following to enhance shareholder value:

Enhancing Shareholder Value:

Management has a history of enhancing shareholder value. In a September 2010 shareholder presentation, the company noted that one of management’s goals is to be an efficient capital manager.

Stock Buybacks:

- When the stock trades below book value, the company buys back shares. During 2009, 2010, 2011 and the first three quarters of 2012, the company spent approximately $65 million buying back stock.

Stock Buyback Information

	2009	2010	2011	2012[1]
Shares purchased in millions	1.9	2.5	2.2	1.3
Average price per share	$7.32	$7.84	$9.27	$8.85
Total cost in $millions	$12.8	$20.7	$20.4	$11.5

1. Nine months.

Shares Outstanding
(In Millions of Shares)

2006	2007	2008	2009	2010	2011
29.1	37.0	57.3	55.5	53.2	51.1

- In June 2002, MIG sold 21,275,000 shares of newly issued common stock at $3.10 per share in a public offering.
- On July 19, 2007, 6,437,500 shares of common stock were sold in a secondary public offering price of $9.65 per share.

Dividends:

- Paying a dividend is an efficient way to reward shareholders with a return on their investment.

- MIG resumed paying a quarterly cash dividend during the first quarter of 2008. The dividend was stopped during the third quarter of 2001.

Dividends per Share

2008	2009	2010	2011
$0.08	$0.09	$0.13	$0.17

- Company stock has performed well over a period of time.
- The company is currently paying a dividend of $0.02 per quarter.

Stock Prices

Stock price:	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
High	$4.14	$4.51	$5.86	$6.77	$12.48	$12.45	$9.95	$8.21	$10.46	$10.85	$11.69
Low	$1.56	$2.00	$4.15	$4.98	$5.63	$8.02	$3.97	$5.08	$6.01	$8.27	$5.29

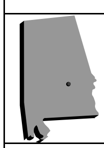
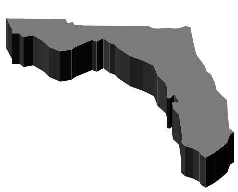
Customers:

MIG's customers include:

- Agents, who often place between $2 and $25 million in premiums annually;
- Professional and trade associations[1];
- Pools;
- Trusts; and
- Small to medium insureds.

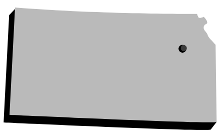
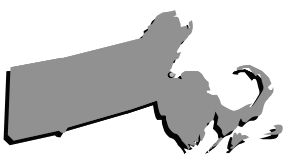
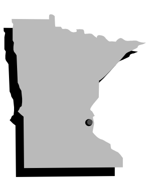
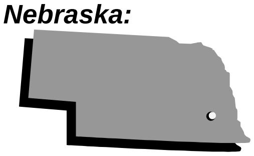
In MIG's 2006 annual report, the company provided several examples of its customers and services offered.

Customer Locations and Service Descriptions

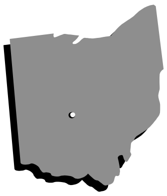
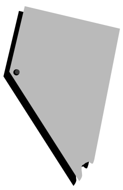
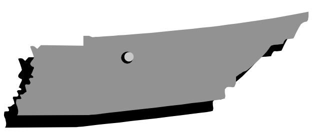
Location/Customer Name	Description of Services Provided
 ***Alabama:***	• Provides risk management and claim services for self insured groups and municipal entities; and • Insures members of the forestry industry. (Alabama Trust Fund)
Bermuda and Barbados:	Provides administrative services for client-owned and captive insurance companies and MIG's own rent-a-captive facility.
California and adjacent states:	
Crest Financial Corporation	Specializes in servicing the trucking market.
Sacramento 	• Specialty insurance for a variety of niche industries, such as: • Agricultural; • Technology; • Janitorial; • Funeral homes; and • Oil and gas energy.
Florida:	Underwrites and administers workers' compensation business in the state of Florida.
 Largo	Excess liability coverage for municipalities in Florida, North Carolina, New Jersey, Pennsylvania and Texas. The following are insured: • Public officials and police for professional liability; • Municipalities' general and auto liability; and • Workers' compensation exposures.
Sarasota	Provides administrative and claims services for an unaffiliated insurance company.

1 MIG supports these entitites with self-insurance.

Customer Locations and Service Descriptions

Location/Customer Name	Description of Services Provided
Florida, continued Insurance & Benefits Consultants (IBC) Offices in Venice and Braderton	• Specializes in health insurance policies and personal financial planning services. • IBC is one of the oldest Blue Cross and Blue Shield of Florida's contracted general agencies.
Kansas:  Overland Park	Endorsed to provide workers' compensation programs for nearly 40 professional trade associations which include: • Christian book sellers; • Auto parts suppliers; • Music stores; and • A variety of other programs for: - Municipalities; - Livestock markets; - Agricultural businesses; - Educators; and - Real estate appraisers.
Massachusetts: TPA Associates office  Wellsley	• Provides risk management and administrative services for several self-insured groups. • Serves as a wholesaler to three northeast-based agent associations. • Manages over $87 million in premiums for several nation and regional insurance carriers in the territory. • Provides claims administration for a large workers' compensation program underwritten by the Star Insurance Company, an MIG subsidiary.
Michigan: Southfield and Saginaw 	• Commercial and personal insurance products to clients ranging from large manufacturers and small businesses to families and individuals.
Grand Rapids	• Michigan Municipal League's self-insurance pool and fund.
Minnesota: Bloomington St. Paul 	Offices provide: • Risk management for the Minnesota Counties Insurance Trust; and • Administrative services for a number of self-insured groups in a variety of industries
Nebraska:  Lincoln	Provides public entity risk management services for the League Association of Risk Management, a self-insured group of Nebraska municipalities.

Customer Locations and Service Descriptions, continued

Location/Customer Name	Description of Services Provided
Ohio: 	Manages a variety of specialty insurance programs, such as: • Mobile home parks; • Fitness centers; and • Municipal water districts.
Nevada:  Las Vegas and Reno	• Is among the largest provider of workers' compensation insurance in the state. • Handles self-insured claims services through Nevada CompFirst and MedWest. Office underwrites and manages a wide variety of specialty/niche programs for a wide range of businesses, such as: • Municipalities; • Livestock markets; • Agricultural businesses; • Educators; and • Real estate appraisers.
Tennessee: 	Acts as the wholesaler for the insurors of Tennessee, providing markets exclusively for member agencies.

Competitive Advantages:

LFS has identified that MIG has 18 competitive advantages. Six of the 18 (Numbers 7, 9, 13, 14, 15 and 18) will be detailed in this newsletter. For information on the remainder, please secure a copy of the full report.

The company:

1. Has the ability to align its financial objectives with its customers.
2. Has the ability to create new products.
3. Has a decentralized management style.
4. Has a state-of-the-art computer system.
5. Is excellent at handling claims.
6. Has a unique distribution method.
7. Is not afraid to admit its mistakes.
8. Has made its business more predictable.
9. Makes consistent underwriting profits.
10. Is able to generate revenue from fees.
11. Focuses on organic growth.
12. Acquires other insurance companies.
13. Excels at managing its investment portfolio.
14. Has a stable and talented staff.
15. Manages its balance sheet with care.
16. Offers three distinct methods of insuring risks.
17. Is able to reinsure some risk.
18. Has the ability to change and adapt.

Competitive Advantage 7 – Is Not Afraid to Admit its Mistakes:

Occasionally, MIG will decide that it does not understand an insurance risk fully. As a result, the risk may not have been profitable or profitable enough. Based on the company's experience, it will exit lines of business. In 1999, 2000, and 2001, the company eliminated a limited group of unprofitable programs.

Competitive Advantage 9 – Makes Consistent Underwriting Profits:

The company:

- Performs the majority of its own underwriting, which produces more consistent data and a better understanding of the risks to be insured.
- Will not lower its prices simply to gain market share;
- Carefully monitors its business results; and
- Proactively responds to areas of business that need attention through both underwriting actions and rate increases.

Workers' compensation rates have been raised proactively.

Rate Increases by State

			2011		2012	
	10/01/09	**04/01/10**	**01/11**	**03/01**	**01/01**	**04/15**
CA	10%	9.2%	-	7.7%	-	7.5%
FL	—	—	7.8%	—	8.9%	—
NJ	—	—	3.9%	—	—	—

These strategies allow the company to consistently generate an underwriting profit. MIG has reduced its combined ratio from 108.6 percent in 2002 to 99.7 percent in 2011.

Combined Ratio
(In Percentages)

2002	2003	2004	2005	2006
108.6%	104.4%	101.4%	98.7%	96.8%

Combined Ratio, continued
(In Percentages)

2007	2008	2009	2010	2011
96.1%	93.6%	93.2%	95.0%	99.7%

The company's long-term goal is a combined ratio of 95 percent.

MIG monitors the combined ratio by:

- Limiting exposure to catastrophe-prone areas and the purchase of excess loss and catastrophe insurance;
- Using associates that have significant underwriting experience and expertise;
- Having the company's actuarial associates support underwriting with pricing and loss analysis;
- Having new business or program opportunities undergo a thorough due diligence process;
- Having robust program controls to help monitor programs for performance; and
- Creating and maintaining long-term agent relationships, which are matched with high-quality reinsurance partners.

Competitive Advantage 13 – Excels at Managing its Investment Portfolio:

The company:

- Has a conservative investment philosophy.
- Seeks to generate consistent investment income through a low-risk, high-quality investment portfolio;
- Invests in highly rated, investment grade securities;
- Manages the duration of its investment portfolio to match its liabilities; and
- Ensures that it has sufficient liquidity to fund its cash needs without having to sell securities prior to maturity.

This approach reinforces the company's focus on underwriting profitability and reduces its overall risk-return profile. Refer to the financial statements at the end of the newsletter for details.

Competitive Advantage 14 – Has a Stable and Talented Staff:

Insurance Professionals:

The company has a team of talented insurance professionals with a wide range of expertise across all functions and lines of business. MIG believes that it has created an environment emphasizing integrity, training, innovation and respect. Moreover, MIG's regional structure enables its associates to deliver strong and responsive local service to clients. This unique aspect of the business model enables better service to the agency network.

MIG associates have the ability to:

- Develop the proper criteria for selecting risks;
- Evaluate and recommend the appropriate levels of rate and risk retention; and
- Design managed programs for a fee, based on the profile of the specific program.

Number of Employees

2007[1]	2008[2]	2009	2010	2011
643	921	918	967	1,054

1. As of March 3, 2008.
2. As of March 4, 2009.

Management Team:

The company has an experienced and motivated management team. The following table shows the management team as of September 5, 2007:

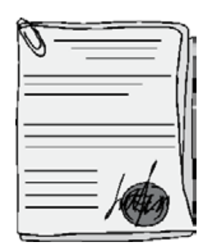
Management Team Descriptions

Name	Position	Years in Insurance Industry	Years with MIG
Kenn Allen	Sr. VP Retail Agency Operations	31	21
Stephen Belden	Sr. VP Chief Actuary	29	4
Michael Costello	General Counsel and Secretary	14	14
Robert Cubbin	President and CEO	24	20
James LeRoy[1]	Sr. VP Business Development	35	13
James M. Mahoney	Sr. VP Field Operations	32	7
Joseph Mattingly[1]	Sr. VP Insurance Company Operations	26	4
Archie McIntyre[2]	Sr. VP Business Development	21	21
Merton Segal[3]	Founder and Chairman	52	52
Karen Spaun	Chief Financial Officer	16	9
R. Christopher Spring	Sr. VP Business Operations	31	7

1. Unsure if this person is still employed by the company.
2. Left in 2012.
3. Retired on 09/30/08.

Competitive Advantage 15 – Manages its Balance Sheet with Care:

The company's strong focus on its balance sheet has allowed its A.M. Best rating to improve over a period of time. This rating improved from B+ in 2002 to an A- in 2007. The company currently maintains this rating.



The company believes that:3

- It is currently operating from a strong capital position.
- Its insurance company subsidiaries are well capitalized and have adequate surplus to support meaningful future premium growth.
- It has carefully and creatively used debt instruments to finance its growth.

Tangible Stockholders Equity
(In $Millions)

	2002	2003	2004	2005	2006	2007
Equity	$147.4	$155.1	$167.5	$177.4	$201.7	$301.9
Goodwill	(29.0)	(29.0)	(29.0)	(30.8)	(31.6)	(43.5)
Other intangible assets	0	0	0	0	0	(17.1)
Total	$118.4	$126.1	$138.5	$146.6	$170.1	$241.3

Tangible Stockholders Equity, continued
(In $Millions)

	2008	2009	2010	2011	09/30/12
Equity	$438.2	$502.9	$547.1	$592.4	$557.3
Goodwill	(119.0)	(118.9)	(118.8)	(120.8)	(121.0)
Other intangible assets	(47.0)	(41.3)	(36.7)	(34.4)	(31.5)
Total	$272.2	$342.7	$391.6	$437.2	$404.8

MIG's debt is comprised of:

1. A revolving line of credit;
2. A term loan;
3. A loan from the Federal Home Loan Bank of Indianapolis; and
4. Debentures.

Debt
(In $Millions)

	2007	2008	2009	2010	2011	09/30/12
1. Revolving line of credit		$0	$0	$0	$4.5	$10.0
2. Term loan		60.3	49.9	37.8	23.9	30.0
3. Federal Home Loan Bank of Indianapolis		0	0	0	0	30.0
Subtotal	$0	$60.3	$49.9	$37.8	$28.4	$70.0
4. Debentures	$55.9	$80.9	$80.9	$80.9	$80.9	80.9
Total debt	$55.9	$141.2	$130.8	$118.6	$109.3	$150.9

Interest Expense
(In $Millions)

2005	2006	2007	2008	2009	2010	2011	09/30/12[1]
$3.9	$6.0	$6.0	$7.7	$10.6	$9.5	$8.3	$6.4

1. Nine-month total.

MIG's debt level increased in 2012. However, as a percentage of total capitalization, it has been higher in the past.

Debt-to-Equity Calculation,
Debt as a Percentage of Total Capital
(In $Millions except Percentages)

	2007	2008	2009	2010	2011	09/30/12
Debt	$55.9	$141.2	$130.8	$118.6	$109.3	$150.9
Tangible equity	241.3	272.2	342.7	391.6	437.2	404.8
Total	$297.2	$413.4	$473.5	$510.2	$546.5	$555.7
Debt as a percentage of total capital	18.8%	34.2%	27.6%	23.2%	20.0%	27.2%

Competitive Advantage 18 – Has the Ability to Change and Adapt:

MIG stumbled badly in 1996 and again in 2001. The company identified its challenges and was able to fix them.

1996 – 1998 Challenges Identified:

- Adverse impacts of deviating away from core business strategy emerged.
- Formed a nontraditional management team (Office of the President);
- Implemented new programs that differed from its core risk-sharing strategy; and
- Introduced aggregate stop loss provisions.
- Continued involvement in surety line of business without executive level expertise.

Stumble:

In 2000, MIG made an investment in a reinsurer. The reinsurer failed in 2001 and MIG was forced to recognize a large loss during the second quarter.

1999 – 2001 Strategies Applied:

- Returned to core business strategy;
- Implemented a turnaround plan;
- Formed a traditional management team – President and Chief Operating Office named.
- Discontinued unprofitable programs that differed from core strategy;
- Brought claims and underwriting in-house; and
- Began to explore capital-raising alternatives.

Financial Statements:

The following financial statements are included in this newsletter:

1. Estimated Fair Value.
2. Net Investment Income Earned..
3. Balance Sheet.
4. Statement of Income.
5. Income Statement Analysis.
6. Revenue.
7. Expenses.
8. Net Operating Income.
9. Statement of Comprehensive Income.
10. Statutory Results.

Table 1: Estimated Fair Value of Debt Securities Investment
(In $Millions)

	2007	**2008**	**2009**	**2010**	**2011**
U.S. Government and agencies	$54.9	$56.3	$27.2	$26.7	$22.4
Obligations of states and political subs	290.4	479.9	520.1	547.2	606.0
Corporate securities	117.4	141.2	267.2	400.2	509.0
Redeemable preferred stocks	0	2.3	4.0	4.4	2.3
Residential mortgage-backed securities	148.0	255.5	225.2	193.3	164.0
Commercial mortgage-backed securities	0	24.6	23.7	35.7	39.5
Other asset-backed securities	0	26.7	21.2	18.9	15.5
Total debt securities available for sale	$610.7	$986.5	$1,088.6	$1,226.4	$1,358.7
Equity securities:[1]					
Perpetual preferred stock		$10.5	$13.3	$12.9	$12.2
Common stock		12.1	15.0	15.6	15.0
Total equity securities available for sale		22.6	$28.3	$28.5	$27.2
Total securities available for sale		$1,009.1	$1,116.9	$1,254.9	$1,385.9

1. The company did not provide a breakdown of the equity securities for 2007.

Table 2: Net Investment Income Earned
(In $Millions)

Category	2007	2008	2009	2010	2011
Debt securities	$23.8	$33.9	$48.2	$52.4	$53.0
Equity securities	NS[1]	1.1	2.2	2.1	2.0
Cash and cash equivalents	3.2	2.5	1.0	0.8	0.8
Total gross investment income	$27.0	$37.5	$51.4	$55.3	$55.8
Less investment expenses	(0.6)	(0.9)	(1.0)	(1.1)	(1.3)
Net investment income	$26.4	$36.6	$50.4	$54.2	$54.5

1. Not Significant

Table 3: MIG Consolidated Balance Sheets
(In $Millions)

	2007	2008	2009	2010	2011
Assets:					
Investments:					
Debt securities available for sale, at fair value	$610.8	$986.5	$1,088.6	$1,226.4	$1,358.7
Equity securities available for sale, at fair value	0	22.6	28.3	28.5	27.2
Cash and cash equivalents	40.8	76.6	86.3	90.4	101.7
Accrued investment income	6.5	10.4	11.6	13.0	13.8
Premiums and agent balances receivable	87.3	117.7	155.3	169.9	183.2
Reinsurance recoverable on:					
Paid losses	1.1	8.3	7.7	13.3	9.9
Unpaid losses	198.5	260.4	266.8	280.8	315.9
Prepaid reinsurance premiums	17.8	31.9	35.3	28.2	33.7
Deferred policy acquisition costs	26.9	56.5	68.8	78.8	85.7
Deferred income taxes, net	14.9	22.7	5.7	5.6	0
Goodwill	43.5	119.0	118.8	118.8	120.8
Other intangible assets	17.1	46.9	41.3	36.6	34.5
Other assets	48.8	54.4	81.2	87.3	96.2
Total assets	$1,114.0	$1,813.9	$1,995.7	$2,177.6	$2,381.3
Liabilities and Shareholders' Equity:					
Liabilities:					
Losses and loss adjustment expenses	$540.0	$885.7	$949.2	$1,065.1	$1,195.0
Unearned premiums	153.9	282.1	325.9	352.6	386.8
Debt	0	60.3	49.9	37.7	28.4
Debentures	55.9	80.9	80.9	80.9	80.9
Accounts payable and accrued expenses	22.6	27.8	34.3	38.6	38.7
Reinsurance funds held and balances payable	16.4	27.8	29.2	28.8	25.9
Payable to insurance companies	6.3	3.2	3.3	2.8	4.3
Deferred income taxes, net	0	0	0	0	12.4
Other liabilities	17.0	7.9	20.2	24.0	16.5
Total liabilities	$812.1	$1,375.7	$1,492.9	$1,630.5	$1,788.9
Shareholders' Equity:					
Common stock, $0.01 stated value	$0.4	$0.6	$0.6	$0.5	$0.5
Additional paid-in capital	194.6	314.6	304.9	292.7	279.0
Retained earnings	104.3	127.2	172.4	219.3	245.8
Note receivable from officer	(0.9)	(0.9)	(0.8)	(0.8)	(0.8)
Accumulated other comprehensive income	3.5	(3.3)	25.8	35.4	67.9
Total shareholders' equity	$301.9	$438.2	$502.9	$547.1	$592.4
Total liabilities and shareholders' equity	$1,114.0	$1,813.9	$1,995.7[1]	$2,177.6	$2,381.3

1. Number off slightly due to rounding.

Table 4: MIG Statement of Income
(In $Millions except Share and per Share Data)

	2007	2008	2009	2010	2011
Revenues:					
Premiums earned					
Gross	$337.1	$455.8	$644.9	$775.2	$869.8
Ceded	(68.9)	(86.1)	(105.3)	(115.3)	(122.2)
Net earned premiums	$268.2	$369.7	$539.6	$659.9	$747.6
Net commissions and fees	46.0	42.9	37.9	34.2	32.1
Net investment income	26.4	36.6	50.4	54.2	54.5
Realized (losses) gains:					
Total other-than-temporary impairments on securities	0	($11.7)	($5.2)	($0.5)	NS
Portion of loss recognized in other comprehensive income	0	0	1.7	0	0
Net other-than-temporary impairments on securities recognized in earnings	0	(11.7)	(3.5)	(0.5)	NS
Net realized gains excluding other-than-temporary impairments on securities	0.1	0.3	3.2	2.3	3.0
Net realized gains (losses)	$0.1	($11.4)	($0.3)	$1.8	$3.0
Total revenues	$340.7	$437.8	$627.6	$750.1	$837.2
Expenses					
Losses and loss adjustment expenses	$191.9	$299.1	$396.3	$471.8	$590.7
Reinsurance recoveries	(40.9)	(69.9)	(68.9)	(72.2)	(95.3)
Net losses and loss adjustment expenses	$151.0	$229.2	$327.4	$399.6	$495.4
Policy acquisition and other underwriting expenses	56.4	117.0	175.1	227.0	249.6
General selling and administrative expenses	53.7	29.3	29.6	22.5	24.8
General corporate expense	32.3	4.5	6.0	5.7	0.4
Amortization expense	1.9	6.3	5.8	5.0	5.0
Interest expense	6.0	7.7	10.6	9.5	8.3
Total expenses	$301.3	$394.0	$554.5	$669.3	$783.5
Income before taxes and equity earnings	$39.4	$43.8	$73.1	$80.8	$53.7
Federal and state income tax expense	(11.7)	(16.7)	(21.3)	(23.8)	(12.5)
Equity earnings of affiliates, net of tax	0	0	0.9	2.2	2.4
Equity (losses) earnings of unconsolidated subsidiaries, net of tax	0.3	0.3	NS	0.5	NS
Net income	$28.0	$27.4	$52.7	$59.7	$43.6
Earnings Per Share					
Basic	$0.85	$0.61	$0.92	$1.11	$0.83
Diluted	$0.85	$0.61	$0.92	$1.10	$0.83
Weighted average number of common shares					
Basic	33,007,200	44,810,994	57,248,497	53,979,374	52.404,377
Diluted	33,101,965	44,995,712	57,413,391	54,289,131	52,404,377

Tables 5.1, 5.2 and 5.3: Income Statement Analysis – Revenue

Table 5.1: Revenue[1]

(In $Millions)

	2008	2009	2010	2011
Net premium earned	$369.7	$539.6	$659.9	$747.6
Management administrative fees	21.0	19.7	16.2	12.8
Claims fees	8.9	7.4	6.8	6.3
Commission revenue	13.0	10.7	11.2	13.1
Net investment income	36.6	50.4	54.2	54.5
Net realized gains (losses)	(11.4)	(0.2)	1.8	2.9
Total revenue:	$437.8	$627.6	$750.1	$837.2

1. Current presentation. Presentation changed in 2010.

Table 5.2: Revenue

(In Percentages)

	2008	2009	2010	2011
Net premium earned	84.4%	86.0%	88.0%	89.3%
Management administrative fees	4.8%	3.1%	2.2%	1.5%
Claims fees	2.0%	1.2%	0.9%	0.7%
Commission revenue	3.0%	1.7%	1.5%	1.6%
Net investment income	8.4%	8.0%	7.2%	6.5%
Net realized gains	(2.6%)	NS	0.2%	0.4%
Total revenue:	100.0%	100.0%	100.0%	100.0%

Table 5.3:Revenue[1]

(In $Millions)

	2005	2006	2007	2008	2009
Net earned premiums	$250.0	$254.9	$268.2	$369.7	$539.6
Management fees	16.7	18.7	24.0	21.1	18.9
Claims fees	7.1	8.8	9.0	8.9	7.4
Loss control fees	2.2	2.2	2.2	2.1	2.0
Reinsurance placement	0.7	0.7	0.9	0.7	0.9
Investment income	17.7	21.1	25.5	35.9	49.9
Net realized gains	0.1	0.1	0.1	(11.4)	(0.2)
Specialty risk management	$294.5	$306.5	$329.9	$427.0	$618.5
Agency operations	$11.3	$12.3	$11.3	$11.1	$9.6
Holding Company interest income earned	0.4	0.9	0.9	0.7	0.4
Intersegment revenue	(2.2)	(1.5)	(1.4)	(1.0)	(0.9)
Consolidated revenue	$304.0	$318.2	$340.7	$437.8	$627.6

1. Prior presentation. Presentation changed in 2010.

Tables 6.1 and 6.2: Income Statement Analysis – Expenses

Table 6.1: Expenses

(In $Millions)

	2007	2008	2009	2010	2011
Net losses and loss adjustment expenses		$229.2	$327.4	$399.6	$495.4
General, selling and administrative expenses		29.3	29.6	22.5	24.8
General corporate expenses		4.5	6.0	5.7	0.4
Amortization expense		6.3	5.8	5.0	5.0
Interest expense		7.7	10.6	9.5	8.3
Total Expenses:		$394.0	$554.5	$669.3	$783.5

Table 6.2: Expenses
(In Percentages)

	2007	2008	2009	2010	2011
Net losses and loss adjustment expenses		58.2%	59.0%	59.7%	63.2%
Policy acquisition and other underwriting expenses		29.7%	31.6%	33.9%	31.8%
General, selling and administrative expenses		7.4%	5.3%	3.4%	3.2%
General corporate expenses		1.1%	1.1%	0.9%	0.1%
Amortization expense		1.6%	1.1%	0.7%	0.6%
Interest expense		2.0%	1.9%	1.4%	1.1%
Total expenses		100.0%	100.0%	100.0%	100.0%

Table 7: Net Operating Income and Operating Income per Share
(In $Millions except Share and per Share Data)

	2007	2008	2009	2010	2011
Operating income, net of tax	$27.9	$38.8	$53.5	$58.2	$40.9
Net realized gains (losses), net of tax		(11.4)	(0.9)	1.5	2.7
Net income		$27.4	$52.6	$59.7	$43.6
Diluted earnings per common share:					
Net operating income	$0.84	$0.80	$0.93	$1.07	$0.78
Net income	$0.85	$0.61	$0.92	$1.10	$0.83
Diluted weighted average common shares outstanding		45.0	57.4	54.3	52.4

Table 8: Statement of Comprehensive Income
(In $Millions)

	2007	2008	2009	2010	2011
Net income	$28.0	$27.4	$52.7	$59.7	$43.6
Other comprehensive income, net of tax:					
Unrealized gains on securities	4.8	(13.0)	27.0	10.2	34.8
Unrealized (losses) gains in affiliates and unconsolidated subsidiaries	0	0	0	0.2	NS
Increase (decrease) on noncredit other-than-temporary impairments on securities	0	0	(0.2)	0.9	NS
Net deferred derivative gains (losses) - hedging activity	(0.5)	(5.4)	1.9	NS	0.6
Less: reclassification adjustment for investment (gains) losses included in net income	NS	11.6	0.4	(1.7)	(2.9)
Other comprehensive income	$4.3	($6.8)	$29.1	$9.6	$32.5
Comprehensive income	$32.3	$20.6[1]	$81.8	$69.3	$76.1

1. Number off slightly due to rounding.

Tables 9.1 through 9.5 Statuary Results by Company

Table 9.1: Ameritrust[1]
(In $Millions)

	2005	2006	2007	2008	2009	2010	2011
Statutory capital and surplus		$16.5	$19.0	$19.2	$20.2	$20.6	$20.1
RBC authorized control level		$2.5	$2.8	$2.9	$3.7	$4.3	$5.1
Statutory net income		$2.3	$2.5	$2.7	$3.0	$3.1	$2.3

1. Domiciled in Michigan.

Table 9.2: Century
(In $Millions)

	2005	2006	2007	2008	2009	2010	2011
Statutory capital and surplus				$122.9	$144.8	$144.1	$156.2
RBC authorized control level				$33.9	$24.3	$28.8	$33.8
Statutory net income				($11.2)	$26.6	$15.7	$12.4

Table 9.3: PIC
(In $Millions)

	2005	2006	2007	2008	2009	2010	2011
Statutory capital and surplus				$31.2	$29.1	$32.9	$35.7
RBC authorized control level				$2.9	$5.9	$7.0	$8.3
Statutory net income				$2.4	($1.6)	$3.4	$2.5

Table 9.4 Savers[1]
(In $Millions)

	2005	2006	2007	2008	2009	2010	2011
Statutory capital and surplus		$35.9	$41.6	$42.7	$44.4	$45.1	$43.4
RBC authorized control level		$5.7	$6.3	$6.5	$8.2	$9.7	$11.4
Statutory net income		$4.1	$5.5	$6.5	$6.8	$6.8	$5.0

1. Domiciled in Missouri.

Table 9.5: Star[1]
(In $Millions)

	2005	2006	2007	2008	2009	2010	2011
Statutory capital and surplus		$161.1	$188.4	$199.9	$207.0	$226.4	$229.1
RBC authorized control level		$31.6	$34.4	$36.2	$47.1	$54.4	$64.3
Statutory net income		$9.5	$13.9	$27.2	$25.4	$28.6	$25.8

1. Domiciled in Michigan.

Table 9.6 Williamsburg[1]
(In $Millions)

	2005	2006	2007	2008	2009	2010	2011
Statutory capital and surplus		$19.0	$21.8	$21.9	$22.9	$23.0	$21.3
RBC authorized control level		$3.0	$3.3	$3.4	$4.2	$5.0	$5.9
Statutory net income		$2.0	$2.8	$2.8	$3.0	$3.3	$2.3

1. Domiciled in Michigan.

MIG owns six different insurance companies with a variety of licenses, which provides the capability of writing business on both an admitted and nonadmitted bases in all 50 states.

MIG's insurance companies were able to become members of the Federal Home Loan Bank of Indianapolis. As a member, the companies are able to borrow money on a collateralized basis at a relatively low interest rate.

I would like information on the following:

- ☐ **ADDvantage Group Holdings (AEY)**
- ☐ **Bassett Industries, Inc. (BSET)**
- ☐ **Delphax Technologies, Inc. (DLPX)**
- ☐ **Deswell Industries Incorporated (DSWL)**
- ☐ **Federated National Holdings Co. (FNHC)***
- ☐ **Jefferies Group, Inc. (JEF)**
- ☐ **Jinpan International, Ltd. (JST)**
- ☐ **Lakeland Industries, Inc. (LAKE)**
- ☐ **Lincoln Education Services Corp. (LINC)**
- ☐ **Meadowbrook Insurance Group, Inc. (MIG)**
- ☐ **Star Gas Partners, L.P. (SGU)**

Insurance:

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I would like to receive communications from LFS via email.

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Return to LFS at 322 Alana Drive; New Lenox, IL 60451 or access our web site for more information.

***Formerly 21st Century Holdings (TCHC)**

To our Clients and Friends:

The following pages set forth the Privacy Notice, detailing the methods by which we obtain and secure information. Additionally, LFS provides information on an annual basis regarding:

1. Privacy Policy Disclosure Statement.
2. U.S. Patriot Act.
3. Complaint Inquiries.
4. Information on FINRA.
5. Information on Securities Investor Protection Corporation (SIPC).
6. SEC Rule 605 (formerly SEC 11Ac1-3) Payment For Order Flow.
7. SEC Rule 606 (formerly SEC 11Ac1-6) Disclosure of Order Routing Practices.

If you would like us to send to you a copy of our advisory *Disclosure Brochure (Form ADV Part II with Schedule F)*, please contact us at 815-485-5559; fax 815-485-9130; e-mail lenoxfin@aol.com; or visit our web site www.lenoxfinancialservices.com and a copy will be sent to you free of charge.

Dated: February 2013.

Privacy Notice:

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WHERE DO WE OBTAIN THE INFORMATION? The information that we have comes directly from you. This includes such information as your name, address and Social Security number that you provided on applications, agreements or other forms. In addition, we maintain records of each of your transactions and holdings processed by us.

We also may obtain information about you, such as your credit history or other facts relating to creditworthiness, from a consumer-reporting agency.

TO WHOM DO WE DISCLOSE THE INFORMATION? We provide information about current or former clients from the sources described above to parties outside of this firm only as described below:

To other companies as necessary to process your business: For example, we process your mutual fund and variable product transactions through product providers with whom we have dealer selling agreements. If you have a trading account, the information that we obtained from you is given to the clearing firm for purposes of facilitating securities trading and statement preparation. These parties must limit their use of the information to the purpose for which it was provided.

Where required by law or regulation: Examples include responses to a subpoena, court order or regulatory demand.

As authorized by you: You may direct us, for example, to send account statements or other account information to a third party.

As otherwise authorized or permitted by law: For example, the law permits us to respond to a request for information about you from a consumer-reporting agency.

CONFIDENTIALITY AND SECURITY. We restrict access to information about you to those employees and authorized agents who need to know that information in order to provide products or services to you. We maintain physical, electronic and procedural safeguards to maintain the confidentiality of your information.

1. Privacy Policy Disclosure Statement:

We collect nonpublic personal information about you from the following sources:

- Information we receive from you on applications or other forms:
- Information about your transactions with us, our affiliates, or others; and
- Information we receive from a consumer-reporting agency.

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except as permitted by law, or with express permission from you.

We restrict access to nonpublic personal information about you to those employees and vendors who need to know that information to provide products or services to you. We maintain physical, electronic, and procedural safeguards that comply with Federal standards.

2. USA Patriot Act:

Effective October 1, 2003, Lenox Financial Services, Inc., was required by the USA Patriot Act's Customer Identification Program (CIP) to implement reasonable procedures to verify the identity of any person establishing an account.

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account

What this means for you: When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

3. Complaint Inquiries:

We feel confident that we will have a mutually satisfying business relationship with all of our clients, as we have for many years. If, however, you feel the need to register a complaint, it should be directed to:

Douglas Ruth, President
322 Alana Drive, New Lenox, IL 60451
(815) 485-5559
lenoxfin@aol.com

4. Information on FINRA:

Lenox Financial Services, Inc., is a member of FINRA. Pursuant to NASD Rules, we are required to provide to you, our customers, the following information about FINRA:

FINRA Web Site: FINRA maintains a web site that is designed to provide investors with the tools to make safe, smart, and rewarding investments. The web site address is www.finra.org.

Public Disclosure Hotline: For assistance with checking the background of a broker, call the Public Disclosure Hotline at (800) 289-9999.

Information on the FINRA Public Disclosure Program: FINRA has created a brochure for investors that provides different resources available to perform an online background check of a broker, brokerage firm, investment adviser or other investment professionals. That brochure is available on the FINRA web site or by contacting the Public Disclosure Hotline.

5. Information on SIPC:

Lenox Financial Services, Inc., is a member of the Securities Investor Protection Corporation otherwise known as SIPC. Pursuant to FINRA and SIPC rules, we are required to provide to you, our customers, the following information about SIPC:

SIPC Brochure: SIPC has prepared an informative brochure which provides an understanding of the Securities Investor Protection Corporation (SIPC), its role and how it protects you. The brochure can be obtained by contacting SIPC at (202) 371-8300.

SIPC Web Site and Telephone Number: The SIPC maintains a web site that is designed to provide investors with knowledge about the mission and function of SIPC. The web site address is www.sipc.org. The telephone number for SIPC is (202) 371-8300.

6. SEC Rule 605 (formerly SEC 11Ac1-3) Payment for Order Flow:

Pursuant to SEC Rule 605 (formerly SEC 11Ac1-3), we are required to notify you of payment for order flow arrangements. Lenox Financial Services, Inc., may receive remuneration in the form of payments for directing orders to designated broker/dealers or market centers for execution. Such remuneration is considered to be compensation to the firm. All orders are executed at prices equal to or better than the displayed national best bid/offer prices. The source and amount of any compensation received in connection with a transaction and any additional information concerning order flow payment will be disclosed upon written request.

7. SEC Rule 606 (formerly SEC 11Ac1-6) Disclosure of Order Routing Practices:

Lenox Financial Services, Inc., is required to make available quarterly reports that present a general overview of our routing practices. These reports identify the significant venues to which customer orders were routed for execution during the applicable quarter.

Lenox Financial Services, Inc., transmits the majority of our customer orders to our clearing firm, Southwest Securities, Inc., Member FINRA/CSE/MSRB/SIFMA/SIPC. Southwest Securities, Inc., may then route these orders to various venues for execution. Customers of Lenox Financial Services, Inc., may also request a written copy of this report.