

Invest

Fremont Michigan Insuracorp, Inc.

(Ticker Symbol: FMMH)



Greetings from LFS

Dear Clients and Friends:

Here is my quarterly newsletter, *Invest*. The goal of *Invest* is to keep you abreast of what is happening in the financial market, inform you about new investments and keep you informed about your current investments. I welcome any questions, comments or suggestions.

Sincerely,

Douglas Ruth

Invest

This newsletter is published by Douglas Ruth
Lenox Financial Service, Inc.
322 Alana Drive
New Lenox, IL 60451

Phone: 815-485-5559

708-481-1348

Fax: 815-485-9130

E-mail: LenoxFin@aol.com

All rights reserved

Conclusion:

Patient investors should own some Fremont stock. Based on common financial analysis, the stock is a terrific buy and tremendously undervalued.



Summary:

Fremont Michigan Insuracorp, Inc., is a company with more than 130 years of history. The company offers a variety of property and casualty insurance products primarily designed to meet the insurance needs of rural and suburban property owners and small businesses located in Michigan. The company:

- Became a public entity in October 2004. The company's results between 1999 and 2002 were challenging.
- Has resolved the problems that caused the poor results and Fremont is now thriving.

LFS invites you to read this newsletter to understand the Fremont Michigan Insuracorp, Inc., story.

Valuation:

Fremont is a small, misunderstood microcap stock. During the mid to late 1990s the company struggled to generate consistent net income. The company identified the causes of its problems and has fixed them.

Fremont's profits have increased nicely in the last four years.

Net Income (Loss) (In \$Millions)

2002	2003	2004	2005	2006
(\$0.6)	\$0.2	\$1.5	\$5.3 ¹	\$7.2

¹. Assumes a normal tax rate.

Calculating Valuation by Price-to-Earnings Ratio:

The stock is currently trading at a price-to-earnings ratio of about 7. Other property and casualty companies are trading at above 9. A premium valuation of 10 or higher is justified because the company is generating exceptional returns on stockholders equity. LFS is using a valuation of 10 in its analysis because of FMMH's short track record as a public entity.

This method suggests that, based on the current price, Fremont could trade above \$40 per share. Investors, however, must be patient. Daily trading volume is low. Appreciation of more than 40% is a reasonable expectation.

Price-to-Earnings of Fremont Stock

Price as of 03-21-07	\$28.50	Actual Price-to-Earnings Ratio:
2006 Earnings	\$4.10	\$28.10 ÷ \$4.10 = 7
March 2007		Possible Price-to-Earnings Ratio
		\$41.10 ÷ \$4.10 = 10

Calculating Valuation with Fremont as a Takeover Target:

Note to Readers: Before reading this section you should know that Fremont's management disagrees with LFS. According to Fremont:

"Company management has clearly stated it is not seeking potential acquirers, nor does the possibility of being acquired play a role in any part of its current business strategy. The company has in place various change in control agreements with members of management."

Fremont's valuation could be explored using a second method – one that justifies the valuation of a price-to-earnings ratio of 10 to 1. The company is potentially a takeover target. Fremont is selling approximately \$40 million of insurance per year. In the insurance world, this is a small amount.

The *ValueLine Investment Survey* – small- and mid-cap edition – lists 30 companies, none of which are as small as Fremont. The smallest company, Merchants Group, was acquired in November 2006 by American European Group. Following is a list of insurance companies from *ValueLine*:

Insurance Companies Ranked by Sales

Name of Insurance Company	Sales in \$Millions
Assurant, Inc.	\$6,521
Odyssey Re Holdings	\$2,277
Aspen Insurance Holding	\$1,508
Renaissance Re. Holdings	\$1,403
Zenith National Insurance	\$1,179
State Auto Financial	\$1,050
Philadelphia Consolidated	\$977
Infinity Property & Casualty	\$962
Montpelier Re. Holding	\$954
Harleyville Group	\$842
Argonaut Group	\$699
Midland Co.	\$632
Safety Insurance Group	\$623
USI Holdings Corp.	\$499
United American Indemnity	\$475
United Fire & Casualty	\$456
EMC Insurance	\$416
Direct General Corporation	\$404
PXRE Group, Ltd.	\$388
C N A Surety Corp	\$348
Donegal Group	\$295
Meadowbrook Insurance Group	\$250
Erie Indemnity Co.	\$216
National Interstate Corp.	\$194
Baldwin & Lyons	\$186
Tower Group, Inc.	\$164
James River Group	\$118
Brooke Corp	\$87
Mercer Insurance Group	\$75
Merchants Group ¹	\$49
Fremont Insurance	\$40

1. Acquired in November 2006 by American European Group.

Book Value:

Property and casualty (P&C) insurance companies can trade at a wide range in relation to their Book Value. Some P&C companies trade at a discount to Book Value while others trade at a large premium. Valuation is both an art and a science. The most important characteristic that drives the valuation is Return On Equity (ROE). The higher the ROE, the more the insurance company is worth. Fremont's ROE is high and it seems reasonable to suggest a valuation of two times Book Value, approximately \$40, is fair at this time.

Calculating Book Value

Book Value as of 12-31-06:	\$19.95 x 2	= \$39.90 per share
----------------------------	-------------	---------------------

Fremont is a very profitable company with 130 years of operating history in the State of Michigan. Its unique position in the industry makes it an attractive takeover target by other larger companies.

Shareholder Rights Plan:

In 2004, Fremont adopted a shareholder rights plan. The intention of the plan was to protect shareholders by making it more difficult to take over the company. The benefits of such plans are sometimes contested. The debate is whether:

- Shareholders are being protected.
- Management and their high salaries being protected.

Maximizing Shareholder Value:

LFS believes that Fremont needs to make two immediate changes to maximize shareholder value:

1. Wrong Stock Exchange:

Note to Readers: Before reading this section you should know that Fremont's management disagrees with LFS. According to Fremont:

"The Company management has stated it believes its listing status is appropriate at present and has determined that moving to a different exchange would be counter to the best interests at this time. Fremont is focused on growing its core business and bottom-line value for shareholders in a planned and efficient manner. Management has determined that the negative financial and operational ramifications of such a change outweigh the potential benefits at this time. As a result, a change in listing status is not part of Fremont's business strategy."

LFS believes the company is on the wrong stock exchange. The stock currently trades on the NASDAQ Bulletin Board. It should be on the NASDAQ National Market Exchange.

The wrong stock exchange creates an opportunity for LFS investors. We encourage investors to consider any and all opportunities regardless of stock price, industry or physical location. If the opportunity is right, we are interested! LFS believes that, eventually, additional investors will discover Fremont and they will bid up the stock price.

2. Split the Stock:



The stock should be split 2 for 1. On October 17, 2006, the company split the stock 2 for 1. However, the split was not enough to increase sufficiently the number of shares outstanding. Increasing the shares outstanding would make the stock easier to trade.

Company Overview:

Fremont is a property and casualty insurance company that provides insurance to individuals, farms and small businesses in Michigan:

- Founded in 1876, the company has served Michigan policyholders since that time.
- The company initially sold fire and casualty insurance to farmers.
- The West Michigan community provides the bulk of Fremont's business with Berrien, Kent, Newaygo and VanBuren counties accounting for 19.5%.
- Since 2000, however, the company has continued to diversify its geographical customer mix by focusing more on Michigan's northern Lower Peninsula and the Upper Peninsula as well.
- Policies are marketed through approximately 175 independent insurance agencies.

The company has four business segments: Personal, Commercial, Farm and Marine.

Fremont believes that one of its competitive advantages is that the company is local. Its employees and agents live and work in Michigan and its home office is based there.

The following table shows the number of policies in place and stockholders equity.

Fremont Insurance Number of Policies and Assets					
	2002	2003	2004	2005	2006
Approx number of policies in place			49,500	51,000	54,800
Stockholders equity (in \$millions)	\$7.3	\$8.2	\$17.3	\$25.8	\$34.8
Stockholders equity per share				\$14.98	\$19.95

Insurance Rules:



The property and casualty insurance industry that Fremont serves can and should be consistently profitable. To generate consistent profits, several rules must be followed:

Basic Insurance Rules:

Rule 1: Property and casualty companies should be consistently profitable.

Rule 2: It is reasonable to expect that occasional extreme weather will cause a company to lose money for the year. This is the exception to the rule, however, and can only be rarely tolerated.

Rule 3: Integrity and honesty by agents and management is expected. Dishonesty will not be accepted.

Rule 4: Insurance will only be sold when acceptable profit margins can be achieved.

Rule 5: Companies will lessen risk by either limiting the number of policies sold in a concentrated geographic area or re-insuring some policies when this occurs.

Profit and the Combined Ratio:

The profits of an insurance company are measured by looking at the combined ratio. Fremont's core business is performing well and the company is generating an underwriting profit from selling insurance. Underwriting profit is produced when the combined ratio is below 100%. 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.

Insurance companies should be able to generate underwriting profits. The following table shows Fremont's combined ratio for the last several years.

Reducing the Combined Ratio:

	Combined Ratio				
	2002	2003	2004	2005	2006
	104.2%	100.9%	98.1%	85.7%	79.4%
Net loss and LAE ¹ ratio	64.8%	62.8%	62.7%	53.4%	44.8%
Expense ratio	<u>39.4%</u>	<u>38.1%¹</u>	<u>35.4%¹</u>	<u>32.3%</u>	<u>34.6%</u>
Total	104.2%	100.9%	98.1%	85.7%	79.4%

1. Loss Adjusting Expense.

Fremont is emphasizing controlling expenses. The company has been able to significantly reduce expenses over the last three years. The expense level increased in 2006 because of the additional funds spent on technology. Fremont recognized higher depreciation on its computer systems in 2006.

Acceptable Return on Stockholders Equity:

An acceptable Return on Stockholders Equity (ROE) is 12%. In each of the last three years, Fremont has generated returns on stockholders equity that are substantially above that. It would seem doubtful that the high return on equity could be sustained at this rate.

Three factors have increased the ROE during the last three years:

3. **Weather:** Extreme weather can affect Fremont's results. Thunderstorms, high winds and seasonal freezing and thawing are normal occurrences in the State of Michigan. However, winter weather in Michigan has been warmer than normal in the last three years. Although winter weather has negatively impacted the company in the past, thunderstorms and wind damage is more of a risk than winter-related losses. The last time Fremont reported that the weather had a significant affect on results was in 2001.
4. **Changes to Loss Estimates (LAE):** Estimating an insurance loss is highly subjective. A simple example illustrates the challenge inherent in estimating a loss:



Example: A 35-year-old man is in an auto accident in 2005. He reports to the police officer on the scene that he is experiencing back pain. The insurance company must estimate how long and how much it will cost to treat the accident victim.

Back problems run the gamut from simple to complicated. An estimate is made based on an accident report and a preliminary examination by a physician.

Continuing with our simple example, the insurance company initially estimated that it would take a longer time period and would cost more money to treat the accident victim. In this case, the man's back responded favorably to treatment and estimates of the costs were too high.

Each year insurance companies adjust their claims from prior years to correspond with the actual costs. During both 2005 and 2006, Fremont has favorably adjusted its estimates from prior years' claims. It would seem doubtful, however, that Fremont will always be able to adjust their estimates favorably. In the future, the company may have to readjust their estimates upward instead.

5. **Management:** Management has the company operating at a higher level. The company is selling more auto insurance, which is generating a nice profit.

	2002	2003	2004	2005	2006
Stockholders equity (in \$millions)	\$7.32	\$8.25	\$17.32	\$25.87	\$34.43
Earnings	(\$0.57)	\$0.23	\$1.51	\$9.08	\$7.22
Return on equity- Adjusted for normal tax rate	Negative	3.1%	18.3%	52.5%	27.9%
			12.7%	30.6%	

Fremont history as a public entity is short. It remains to be seen what the Return on Stockholders Equity will be in future years. It is difficult to quantify what the Return on Stockholders Equity would have been IF the weather had caused more losses to the company.

The results generated by Fremont during the last three years are absolutely outstanding!

In a fourth-quarter earnings release, Richard E. Dunning, President and C.E.O of Fremont, stated:

"We are pleased with our results for the fourth quarter and fiscal year, as it is clear that the disciplined growth strategy we established several years ago has served us well and remains the best

path for continued success. We have established our current momentum by maintaining our discipline and avoiding the pricing battles that come with a softening market. We continue to focus our energy on product segments that offer the best sustainable returns."

2006 – The Breakthrough Year:

As explained in the brief report summary, Fremont's results for the 1999-through-2002-time period were challenging:

- The tone of the company's financial reports during this time and through 2005 were defensive in nature.
- The 2006 financial report had a very positive tone. The report contained minimum discussion of the challenging time period.
- In December 2006, A.M. Best, which rates insurance companies based on factors of concern to policyholders, upgraded Fremont from a B+ rating to a B++ (Very Good) rating. A.M. Best assigns B++ ratings to companies that, in its opinion, have demonstrated very good overall performance when compared to the standards established by A.M. Best.

Written management commentary explained how FMMH would build on the fine results generated in 2006.

2007 Business Strategies:

Fremont's goals for 2007 are to continue to build on the excellent results generated in 2006. The company has adopted three strategies that it believes will allow further growth:

Strategy 1 – Web-Based Rating and Automation:

The first strategy mentioned was increasing operating efficiencies both internally and externally using web-based ratings and automation to decrease individual decision-making and increase overall productivity.



Insurance Scores:

Fremont uses insurance scores to help set insurance rates. A breakthrough in insurance underwriting occurred when the financial stability of customers began to be considered. Fremont has used insurance scoring for homeowners, mobile owners, personal auto, and marine and farm lines.

The company has determined that customers having an insurance score of 700 or above are desirable risks. In a 2004 financial report, Fremont disclosed that 20.7% of its homeowners policies were insured with a score of less than 700.

Using Technology:

Major emphasis is occurring within the Information Technology area to develop and implement the Fremont Complete system's web-based rating and underwriting applications.

- In 2006, the business owners and personal automobile lines were converted to the Fremont Complete platform with good success.
- By mid-2007, the homeowners, mobile owners and marine lines will be fully operating including the capability for agents to make on-line endorsements enabling improvement in doing business with FMMH.

Strategy 2 – Managing Lines of Business:

The second strategy mentioned in Fremont's financial report was managing product lines and mix of business by continuing to increase personal auto insurance and commercial lines insurance in order to enhance profitability and lessen the impact of property losses on overall results.

Fremont research showed that the profit margins for personal auto and commercial insurance were increasing so the company is trying to increase sales of these two segments. In the challenging period of 1999 through 2002, the company made mistakes when selling homeowners' policies. The following table shows the dollar amounts of direct-written premiums by insurance line.



**Direct Written Premiums
Dollar Amounts by Insurance Line**

(In \$Millions)	2000	2001	2002	2003	2004	2005	2006
Personal Lines:							
Homeowners			\$11.81	\$13.42	\$14.78 ¹	\$15.39	\$15.98
Mobilowners			1.71	1.61	1.59	1.51	1.48
Auto			4.98	6.44	8.83	11.42	14.07
Dwelling			1.52	1.49	1.46	1.43	1.43
Other			0.05	0.08	0.07	0.06	0.04
			\$20.33	\$22.96	\$26.66	\$29.75	\$32.96
Commercial Lines							
Business owners			\$177	\$2.32	\$2.35	\$2.57	\$2.71
Commercial Package			3.78	4.77	4.62	4.72	4.31
Commercial Auto			1.00	1.01	0.78	0.67	0.68
Workers compensation			1.67	1.63	1.35	1.11	1.16
Other			0.62	0.14	0.12	0.11	0.14
			\$8.84	\$9.87	\$9.22	\$9.18	\$9.00
Farm Policies			\$3.89	\$4.24	\$4.57	\$4.81	\$5.01
Marine			1.06	1.27	1.52	1.77	1.90
Total			\$34.11	\$38.32 ¹	\$41.97 ¹	\$45.52	\$48.87

1. Some variation year to year.

The following tables show information about product sales:

Percentage of Policies Within Product Lines

	2000	2001	2002	2003	2004	2005	2006
Personal Auto	10.6%			14.9%	18.2%	25.1%	
Com'l Pkg Policy Product Lines:	5.3%			12.6%	9.9%	10.4%	
Homeowners Policies				34.5%	35.2%	33.8%	
Farm Policies				11.3%	11.3%	10.6%	

**Direct Written Premiums
Percentage by Personal and Commercial Lines Only**

Line:	2000	2001	2002	2003	2004	2005	2006
Personal		66.9%	62.7%	62.4%			
Commercial		<u>33.1%</u>	<u>37.3%</u>	<u>37.6%</u>			
Total		100.0%	100.0%	100.0%			

**Direct Written Premiums
Percentage by All Business Lines**

Line:	2000	2001	2002	2003
Personal	71%	64%	60%	59%
Commercial	15%	22%	26%	27%
Farm	12%	11%	11%	11%
Marine	<u>2%</u>	<u>3%</u>	<u>3%</u>	<u>3%</u>
Total	100%	100%	100%	100%

Insurance Lines Offered by Fremont:

The following information describes the various lines of insurance offered by Fremont:



Personal Lines – Fremont offers insurance that most individuals purchase including:

- **Homeowners:** This policy is sold to people in Michigan

who typically own homes worth between \$100,000 and \$500,000.

- **Mobile Home Insurance:** Similar to homeowners:

- A unit is insured for either replacement cost or actual cash value depending on its age.
- During 2003, the company introduced a “stated value” form as a niche product to insure older units for an amount over their current blue book value.
- This allows the company to optimize the rates for these units and continue coverage on selected older units that exhibit a higher degree of care and maintenance.

- **Rental Insurance:** Fremont offers dwelling insurance coverage to renters.

- **Personal Auto:** This is Fremont’s fastest-growing line of business:

- Introduced in May 1999, the personal auto line was intended to complement the homeowners/mobile owners/farm owners’ book and provide the ability to offer a multi-policy discount.
- The emphasis is placed on multi-policy accounts rather than single policies with no support.
- In 2005, Fremont attained this goal with 91% of auto policyholders receiving the discount.

**Percentage of Auto Policyholders
Receiving Discounts**

2002	2003	2004	2005	2006
		85.6%	91.0%	

- Other target markets include age group 30-69 and low motor-vehicle violation experience.

- **Personal Umbrella:**

- This is a form of excess liability insurance available to individuals protecting them against claims in excess of their limits on their primary policies or for claims not covered by their underlying policies.

- In order to be eligible, both an individual's personal auto and home must be written with Fremont.

Commercial Lines – Fremont offers insurance to business people. Currently, the company's commercial lines business segment represents about 10% of overall revenue. The company has five broad categories in this line:



- **Business Owners Policy (BOP):** The BOP provides comprehensive property and liability coverage for business owners in the listed categories. Eligibility restrictions apply in all categories and generally deal with the size of the business sales or the size of the structure housing the business:
 - **Bed and Breakfast/Condominium:** The B&B area is a niche product while condominium insurance covers condominium owner associations.
 - **Mercantile:** This includes retail businesses from gift shops and shoe stores to selected small restaurants.
 - **Offices:** Generally, offices of all occupancies or buildings housing offices are eligible under this class.
 - **Service:** Business in this category includes barbers and beauticians to jewelry repair, mini-storage and taxidermists.
 - **Wholesale:** Most types of wholesalers are eligible in this category.
- **Commercial Package Policy (CPP):** The CPP is designed to insure a broader range of commercial operations than the BOP.
 - Manufacturing risks, contractors and restaurants are typically covered under this program.
 - This is one of Fremont's largest businesses among commercial lines. These commercial package policies are usually larger and generate higher premiums than the company's other insurance lines.
- **Commercial Auto (CA):**
 - CA policies are written in conjunction with BOP or CPP policies to meet customer requirements.

- CA-covered vehicles are owned by a business or used in businesses owned by individuals. Some of the vehicles covered include passenger cars, tractor-trailer rigs, earth-moving equipment and delivery vehicles.

- **Workers Compensation:** Introduced in 1997 to complement the farm owners and commercial lines of business, the workers compensation coverage is written to support customers with Farm, BOP or CPP policies.
- **Other Commercial Products:** These include endorsements for equipment breakdown, inland marine or umbrella liability coverages. An underlying policy is required to issue umbrella coverage and up to \$2 million limits are available.
 - Manufacturing risks, contractors and restaurants are typically covered under this program.
 - These policies are one of Fremont's largest businesses among commercial lines because policies are usually larger and generate higher premiums.



Farm Line – Fremont originated as a “farm line” insurance provider and continues to be a strong provider for the Michigan agricultural industry:

- **Products:** This segment's products include fully operating farm coverage, country estate for the hobby or part-time farmer, and farm for non-owner-occupied farms.
 - Farm owners and country estate policies are comprehensive policies offering protection similar to homeowners' policies but also offer the option to cover the insured's farm buildings, personal property (livestock, machinery, etc), and provide farm liability protection.
 - The farm policy is primarily a fire, wind and liability product designed for non-owner-occupied farms.
- **Target Market:** The country estate policy is the target market, making up 21.5% of the total direct written premiums in this segment.

Country Estate Policies as a Percentage Of Total Farm Line

2000	2001	2002	2003	2004	2005	2006
				21.8%	21.5%	

Marine – Michigan leads the nation in the number of registered boats:



- **Two Product Lines:** This line is composed of the boat owner’s program (usually smaller and less expensive boats) and the yacht program.
- **Discount Offered:** The company offers a discount for boat policies supported by another policy such as a homeowners’ policy but will also write boat policies without a supporting policy.

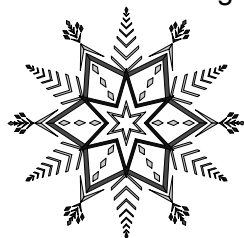
How the Weather Has Historically Affected Fremont’s Bottom Line:

An interesting byproduct of investing in an insurance company stock is that it increases stockholder interest in the weather. People working in an office every day aren’t affected much by the weather. Insurance companies, however, are greatly impacted by weather phenomena.

Because Fremont operates in Michigan, the company would not generally be affected by hurricanes. Ice and snow, however, can create severe conditions, which can cause the combined ratio of some of Fremont’s lines of business to soar.

Examples of recent catastrophic storms include:

- **1998:** A windstorm on May 31, 1998, that caused Fremont to incur \$7.15 million in damages, resulted in a \$1.1 million net loss after reinsurance recovery.
- **1999:** A winter snowstorm on January 1, 1999, that caused the company to incur \$2.1 million in damages resulted in a \$684,000 net loss after reinsurance recovery.
- **2000:** A winter storm on December 12, 2000, that caused the company to incur almost \$5 million in damages, resulted in a \$1.5 million net loss after reinsurance recovery. The storm created significant accumulations of snow. Instead of a consistent snow melt, temperatures shifted erratically after the snowstorm, which caused the snow to melt and



then re-freeze over a period of several days. This situation, commonly known as ice damming, caused significant water damage to policyholders’ roofs.

- **2001:** Catastrophic losses in 2001 produced gross losses of \$6.0 million and net losses of \$2.5 million after reinsurance recovery.

When reviewing Fremont’s financial results, investors should use some caution. Occasionally, mild winters will occur which result in fewer damage claims being paid. Such was the case in 2005 and 2006. The good results can partially be explained by mild weather patterns that occurred throughout the year.

Strategy 3 – Maintaining Agency Relationships:

The third strategy is maintaining profitable relationships with agencies having a business philosophy equivalent to Fremont’s. Its strong relationship with its agents is a competitive advantage that other insurance companies do not enjoy. The company is very selective when choosing agents to market and sell Fremont products:



- The agency force has been selected from over 1,200 independent agencies within the State of Michigan.
- Company standards are clearly communicated to agents including a strong commitment to:
 - Ethics.
 - Professionalism.
 - Honestly.
 - Accountability.
- Insurance agents have recognized that it is desirable to sell Fremont’s products.
- Each year, 50 appointment requests are received from agencies in Michigan but less than 10% are provided contracts.

Fremont Complete:

Insurance agents represent the sales force of Fremont. Insurance companies provide agents with many opportunities and with the leeway to market their products. Ethical agents who treat both the customers and company fairly are paramount in conducting business.

In 2006, Fremont and its agents worked well together. Part of the reason can be explained by the new system called *Fremont Complete*, which allowed agents to be more productive. The company started to roll out the system, which:



- Is a web-based proprietary platform.
- Was implemented in the first quarter of 2006.
- Is used by the agent force to quote, bind and issue policies in a real-time environment.
- Can be accessed 24-hours a day, seven days a week, through the company web site.
- During 2006, the business owners and personal automobile product lines were converted to this platform.
- By mid-2007 the homeowners, mobile owners and marine lines will be fully operational.
- Additional lines will be added in 2008.
- Agents will be able to make on-line endorsements.

Customer Service:

Fremont employees assist customers with their questions – a necessary service. The challenge each insurance company faces is to provide customer service in a timely, cost-efficient manner. Technology allows Fremont to provide better service at a lower cost. For example, the company uses in-house adjusters to settle claims. These in-house adjusters created several initiatives in 2006:

Claims Department Improvements:

- **Fire Loss Folder:** During 2006 the claims department developed a large fire loss folder, which is provided to a policyholder when the adjuster makes the initial on-site inspection.

The folder includes:

- Helpful information to the policyholders so they can understand the claims process and what they should expect from FMMH.
- Information on how to protect damaged property after the loss occurrence in order to avoid any further



damage from weather exposure or potential looting.

Electronic First Notice of Loss: The claims department also implemented an electronic first notice of loss so that agents can submit a notice of loss through the company web site. This new feature allows:

- Agents to notify the company faster in the event of a loss.
- Adjusters to get in touch with the policyholder in a shorter time frame.
- **Electronic Claims Status:** Additionally, agent claim inquiry capability has been implemented:
 - Allows checking of the status of a claim through the web site.
 - Provides real-time access to agents, which reduces the need for a phone call to a claims representative to find out the claim status.

- **Customer Satisfaction Survey:** Lastly, the claims department implemented a customer satisfaction survey to solicit candid feedback from policyholders who had a recent claim.



The survey process has confirmed that the company is achieving a high degree of customer satisfaction when it comes to settling policyholder claims.

Marketing:

The company markets its property and casualty products exclusively in Michigan. Fremont's objective is to be ranked among the top four insurers within each agency.

Agencies are:

- Compensated through a fixed base commission with an opportunity for profit sharing, depending on the profitability of the business the company receives from the agency.
- Monitored and supported by a marketing manager and two experienced marketing representatives.
- Supported by three personal lines underwriters and two commercial lines underwriters who assist agency relations with direct calling efforts.

- Contacted by claims adjusters who deal directly with agencies while handling claims.

The strength of this move is to put more people in the field to develop profitable relationships and gather market intelligence. Visitation reports are required for each agency visit and are reviewed by senior management.

Strategy 4 – Managing Investments:

Fremont and Investing:

Fremont’s investment strategy is to be conservative. The Board of Directors sets policy regarding how the company invests its assets. The Board’s decisions are influenced by the State Insurance Commissioner who oversees companies doing business in a given area. Some of the decisions the Board makes include:



- The percentage of assets to be invested in the stock market and/or bond market.
- Whether money management will be done internally by the company’s employees or externally by an outside money manager.
- Whether the company will invest in individual securities or mutual funds.

Fremont has increased the percentage of stocks in its portfolio in recent years.

Stocks as a Percentage Of FMMH’s Total Portfolio

2002	2003	2004	2005	2006
15.9%	10.1%	12.0%	18.5%	20.6%

Investment Income:

The majority of the company’s assets remain invested in the bond market. The insurance company uses some of the income generated by its investment portfolio to pay claims.

Fremont’s bond portfolio is managed in a very conservative manner. As of December 31, 2006, all of the fixed maturity investments were rated by Moody’s as investment grade with an average credit quality rating of AA and an average duration of 3.96 years.

When Fremont’s total return is compared to the Vanguard Short-Term Bond Index, the results are satisfactory.

Over the last several years, the company made several changes in its investment portfolio and how

it is managed.

- In April 2003, the company engaged an investment management consultant, Prime Advisors, Inc., for the fixed maturity portfolio. This consultant specializes in managing insurance company investment portfolios and manages over \$5.0 billion in assets.
- Under the guidelines provided to the consultant, the fixed maturity portfolio experienced a rebalancing during 2004 and 2005.
- The focus of the rebalancing was to improve credit quality, liquidity and diversification within the portfolio, to create a more stable income stream, and to enhance long-term total return.
- In 2004, management shifted more of the equity portfolio into mutual funds versus individual securities.
- During 2004 and 2005, special attention was given to portfolio duration in order to reduce market value fluctuations in a rising interest rate environment.
- During 2005 and 2006, FMMH liquidated its holdings in common and preferred stocks and shifted those investments into mutual funds. As a result of the shift, the dividend income went down because the mutual funds did not pay regular dividends. The common and preferred stocks that had been held by the company in the past did pay dividends.

Properties:

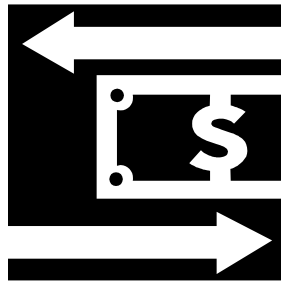
Fremont owns the main office, located at 933 E. Main Street, Fremont, Michigan. This is a 30,000-square-foot brick veneer building constructed in 1981. There is no mortgage indebtedness on the building. Management believes that the building is sufficient for the needs of the company, both now and in the foreseeable future.



Company Ownership and Challenges: Types of Insurance Company Ownership:

Insurance companies can be owned either by its policyholders or by stockholders. When policyholders own the insurance company this is called *mutual ownership*. When stockholders own the company, this type of ownership is called *stock ownership*.

Occasionally, insurance companies will be converted from mutual ownership to stock ownership. Stock ownership offers an insurance company increased financial flexibility. For example, additional shares of stock can be issued to pay for an acquisition.



In the last several years, two of the nation's largest insurance companies – Metropolitan Life (MetLife) and Prudential Financial (Pru) – converted from mutual companies to stock ownership. When these two companies converted, policyholders were compensated by receiving some stock in the new company. Perhaps this happened to you or someone you know.

Fremont Converts:

In October 2004, Fremont converted from mutual ownership to stock ownership. Thus Fremont, a company that has been in business since 1876, has been a public company for less than two years.



Visit the LFS Website at www.lenoxfinancialservices.com

For all the latest information on Stocks, Bonds and Insurance.

If you have a password, you can access your Southwest Securities account as well.

For a password, call the LFS office at 815-485-5559 or e-mail lenoxfin@aol.com.



I would like information on the following:

Investments:

- Autographics, Inc. (AUGR)
- Buckeye Technologies, Inc. (BKI)
- Delphax Technologies, Inc. (DLPX)
- Fremont Insurance (FMMH)
- IOMED, Inc. (IOX)
- Jinpan International Limited (JST)
- Park-Ohio Holdings (PKOH)
- R. G. Barry (DFZ)
- Tembec (TMBAF)
- Other Stocks and Bonds _____
- Mutual Funds
- Qualified Retirement Plans

Insurance:

- Term
- Whole Life
- Fixed Annuities
- Disability Income
- Universal Life
- Individual Health
- Group Health

Check out our website at www.LenoxFinancialServices.com

I would like to receive communications from LFS via:

Email: My email address is: _____

Phone: My phone number is: _____

Best time to call _____ a.m. p.m.

Name _____

Address _____

Mail to: **Lenox Financial Services; 322 Alana Drive; New Lenox, IL 60451**