

# **CODE OF BUSINESS CONDUCT AND ETHICS**

## **OF PROCENTURY CORPORATION**

### **1. STATEMENT OF THE BOARD OF DIRECTORS**

We believe that ProCentury Corporation (the "Company") and each of its directors, officers, and employees should be committed to conducting business with the highest levels of ethical standards and integrity. This Code applies equally to all of us from top to bottom, including members of the Board of Directors, officers, and employees. Although no Code can replace honest and ethical conduct, the purpose of this Code is to provide guidance to all of us in recognizing and dealing with ethical issues.

This Code also requires the responsibility of all of us. Not only is each of us responsible for the consequences of our own personal actions, but also we bear responsibility for the actions of those with whom we work.

Finally, this Code requires accountability from all of us. The provisions of this Code will be enforced consistently.

### **2. MEANING OF CERTAIN TERMS**

Although a goal of this Code is that it will be in simple terms understandable by all, we need to have a common understanding of certain terms.

“Company” as used throughout means the entire enterprise, including subsidiaries, joint ventures, and affiliates.

The term “family member” means any person who is a relative by blood, marriage, or adoption or who has the same residence.

The term “financial interest” means an interest in the financial success or failure of a transaction, such as a right to receive compensation or another benefit from such transaction other than as an employee of the Company. It also means an interest in the financial success or failure of a person other than the Company, such as through being a stockholder, partner, or owner, or being a creditor of such person. Financial interest does not include nominal interests in any publicly-held company in which your only interest is as a shareholder owning less than five percent of the outstanding securities of any class of capital stock or as a bondholder, debtholder, or other form of creditor holding less than five percent of the outstanding principal amount of that class of indebtedness.

A “Reporting Firm” is any firm hired by the Company to be the designated recipient of any reports of suspected improper conduct or violations of this Code by any director, officer, employee, or other person. The Reporting Firm would then deliver such reports, on a confidential basis, to appropriate persons in the Company.

The term “superior” means a person or committee higher in the chain of management or responsibility. Examples of a superior include: an employee’s manager or supervisor; the Chief Executive Officer with respect to the Chief Financial Officer; and the Board or Audit Committee with respect to any executive officer.

A “publicly-held company” is any company that files annual reports on Form 10-K or Form 10-KSB with the Securities and Exchange Commission.

### **3. COMPETENT, LAWFUL, ETHICAL, AND HONEST CONDUCT**

Each of us has the responsibility to serve, and to encourage those of us whom we supervise to serve, the Company to the best of our abilities and in conformity with applicable laws and regulations. This includes the responsibility to maintain, and to encourage those of us whom we supervise to maintain, our abilities to serve the Company by ongoing development of our knowledge and skills and by being vigilant to changes in applicable laws and regulations.

Each of us has the responsibility to act honestly and ethically, and to encourage those of us whom we supervise to act honestly and ethically, in the performance of our responsibilities to or on behalf of the Company.

### **4. CONFLICTS OF INTEREST**

Each of us must avoid conflicts of interest. A “conflict of interest” occurs when an individual’s personal interest interferes – or even appears to interfere – with the best interests of the Company as a whole. A conflict situation can arise when we take actions or have interests that may make it difficult to perform our responsibilities to the Company objectively and effectively. Examples of conflicts of interest include:

- Having a financial interest in a supplier, vendor, customer, or other person doing business with the Company or in any recognized competitor of the Company;
- Having a financial interest in any asset or liability of the Company other than our interest as a shareholder, director, officer, or employee of the Company;
- Engaging in business transactions with the Company other than in our position as director, officer, or employee, or causing the Company to engage in business transaction with family members;
- Using any non-public information of the Company or of any supplier, vendor, customer, or other person doing business with the Company obtained through the Company for personal gain by us or any family member or friend;
- Receiving a loan, or guarantee of obligations, from the Company or any other person as a result of our position with the Company; and
- Receiving any other improper personal benefits as a result of our position in the Company.

### **5. COMPANY PROPERTY**

All Company property, including confidential or proprietary information, is to remain, as between the Company, on one part, and any of us, on the other part, the sole and exclusive property of the Company. Our use of all such Company property should be limited to use intended by the Company or use consistent with or not opposed to the best interests of the Company. In our use of any confidential or proprietary information, we have a duty to preserve the confidential and proprietary nature of such information for the benefit of the Company.

## 6. BUSINESS OPPORTUNITIES

None of us should compete or prepare to compete with any business of the Company while we are serving as director, officer, or employee. None of us should take advantage of any opportunity to engage in a business opportunity of which we become aware:

- By virtue of our position as director, officer, or employee with the Company;
- In connection with performing functions in the business of the Company; or
- In using facilities or other resources of the Company.

Nor should we usurp any opportunity if we have reason to believe that the person offering the opportunity expects it to be offered to the Company. Finally, we should avoid to the extent possible taking advantage of an opportunity that is closely related to a business in which the Company is engaged or expected to engage unless the Company has rejected such opportunity with knowledge of relevant facts.

## 7. GIFTS, ENTERTAINMENT OR SPECIAL TREATMENT FROM CUSTOMERS OR SUPPLIERS

None of us should solicit or accept or give, or ask for or receive “anything of value” from a customer of or supplier to the Company. In addition, you are not allowed to ask for or receive “anything of value” from a Director, fellow Associate or any other person or company with whom the Company maintains a business relationship.

Do not accept “anything of value.” The definition of “anything of value” means any gifts, expenditures or discounts which have a value of over \$200. Examples include the use of vacation homes, hunting lodges, villas and hotel accommodations; airplane fares and any other travel expenses; free or discounted services, supplies or materials; and discounts from the market value of goods and services not generally available to all others.

The foregoing includes expenses paid by others in connection with a trip to evaluate a potential customer transaction with the Company or to select a supplier for the Company.

**Gifts of cash in any amount are not permitted.**

But the most important rule of thumb about a gift is: Always decline any gift (regardless of value) for you or your family if it appears to, or is intended to, influence decisions you make for the Company.

There are some types of gifts, favors or entertainment that you MAY accept under certain circumstances, including but not limited to these examples:

- **Meals and other entertainment:** You may occasionally accept meals, refreshments, and other entertainment from a supplier, customer, attorney, vendor or other service provider if they are of reasonable value and the purpose of the meeting or event is to further the best interests of the Company. Entertainment of reasonable value (such as attending a local football game) is also acceptable if it is a normal business practice generally offered to their customers by suppliers, vendors or service providers

- **“Nominal” gifts:** You may occasionally accept small gifts or favors of nominal value offered as advertising or promotional material (e.g. pens, pencils, note pads, calendars, food, coffee cups, etc.). But remember, it is not acceptable to take a gift or favor even of nominal value in connection with a business decision or transaction, or a gift made or possibly made to exert special influence over you. Additionally, gifts of nominal value are not allowed if they are given on a regular basis and, over time, could qualify as “anything of value.” If you receive a gift and are unsure if it qualifies as one of “nominal value,” immediately consult with your manager.
- **Personal gifts:** You may accept gifts of nominal value when they are related to recognized special occasions such as a graduation, promotion, new job, wedding, retirement, or a holiday. If a gift is given based on an obvious family or close personal relationship and is unrelated to the business involved between the individuals, this is also acceptable.

On a case-by-case basis, the Company may approve other circumstances that are not addressed above. If it is reasonable to conclude that the cost associated with a particular item, meal, entertainment or event is greater than \$200 and otherwise furthers the interests of the Company, you should submit a “Request for Exception” form (copy attached) to the CEO or his designee for approval. This request needs to be made prior to the event. A report of all exceptions made or allowed shall be compiled and reported to the Nominating and Corporate Governance Committee at least annually.

Report it when you get an improper gift. If someone sends you a gift that does not comply with the rules stated here, and you were not able to decline it personally, report it to your manager for direction about what to do with it.

Each of the restrictions and guidelines set forth above that apply to receiving gifts also apply to making gifts except in connection with Company sponsored or other events considered usual and customary in the conduct of business and reimbursable in accordance with the Company’s business practices.

### **Taking Business Opportunities**

It is a conflict of interest if you take for yourself a business opportunity that belongs to the Company. Associates, Officers and Directors are prohibited from (a) taking for themselves personally opportunities that are discovered through the use of corporate property, information or position; (b) using corporate property, information or position for personal gain; and (c) competing with the Company. Associates, Officers and Directors owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

Opportunities rightfully belong to the Company when the Company has pursued the opportunity, when it has been offered to the Company, when it is the kind of business the Company competes in, when the Company has funded it, when the Company has devoted facilities or personnel to develop it, or when it is in the same line of business as the Company’s business. These opportunities must not be taken by an Associate, Officer or Director.

## **Giving Tax or Legal Advice**

Giving tax, legal or certain kinds of financial advice often presents a conflict of interest. Yet many Associates are often asked by their customers, friends or family members for these services.

You should avoid giving such advice unless it is an inherent part of your job. Generally, you should not give legal advice, tax advice or financial advice unless you are both qualified and authorized to do so.

## **Loans**

The Company will not, directly or indirectly, extend or maintain credit, or arrange for an extension of credit, in the form of a personal loan to any Executive Officer or Director.

## **8. IMPROPER PAYMENTS**

None of us should offer, or permit any family member to offer, any bribe, kickback, or illegal gratuity or payment to any person, organization, or governmental representative for the purpose of securing preferential consideration of the Company or of us in our position with the Company. Nor should any of us make or permit any family member to make any payment, gift, or contribution either with Company funds or the personal funds to any official or employee of any federal, state, local, or foreign government for the purpose of influencing such official's or employee's conduct, action or decision in any matter.

## **9. SECURITIES TRANSACTIONS**

None of us should purchase or sell, or advise others to purchase or sell, any Company stock or stock of any other publicly-held company based on material information obtained as a consequence of our position with the Company until such information is disclosed or otherwise becomes known to the public.

Likewise, none of us who are directors or officers should purchase or sell, or advise others to purchase or sell, any Company Stock during any blackout period announced by the Company during which there is to be no trading in Company stock by Company management. This includes any period known by us as a blackout period during which such transactions by or on behalf of participants on any of the Company's qualified pension, 401(k), profit-sharing, or stock bonus plans are suspended.

## **10. OUTSIDE ACTIVITIES**

The Company encourages civic, community, charitable, or political activities by its employees and representatives. However, none of us should engage in any activity that may interfere with our responsibilities to the Company or our obligations under this Code.

## **11. INTERNAL CONTROLS**

### **(a) Internal controls**

Each of us who are financial, accounting, or auditing officers or employees of the Company should take reasonable actions to maintain and implement internal controls and procedures providing assurance that:

- The Company's transactions are properly authorized and are executed as so authorized;
- The Company's assets are safeguarded against unauthorized or improper use;
- The Company's transactions are properly recorded and reported to (A) permit preparation of financial statements in conformity with generally accepted accounting principles, and (B) maintain accountability for assets;
- Transactions as recorded and reported are compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences; and
- The Company's financial statements present fairly the results of the Company's operations and financial position, and the Company's financial reports, including reports filed with the Securities and Exchange Commission or disseminated to shareholders or investors, do not contain a false or misleading statement with respect to a material fact.

**(b) Reporting deficiencies and improper conduct**

Each of us should report to a superior or to the Reporting Firm any evidence of any deficiency in such internal controls and procedures or of any improper conduct by any person in maintaining, implementing, or complying with such controls and procedures. For any of us who are directors, any such evidence should be reported to the Audit Committee of the Board of Directors. For any of us who are officers or employees, any such evidence should be reported to the Reporting Firm, and if there is no Reporting Firm, then to the Chief Financial Officer or Internal Auditor (or persons performing similar functions), unless it is believed that doing so is inappropriate, then to the Chief Executive Officer. The Chief Executive Officer, Chief Financial Officer, and Internal Auditor are responsible for reporting any evidence believed to be credible of a material deficiency or improper conduct regarding internal controls and procedures to the Audit Committee of the Board of Directors and to the public accounting firm serving as the Company's independent auditor.

**12. MATERIAL VIOLATIONS OF LAW OR BREACH OF FIDUCIARY DUTY**

Each of us having evidence of a material violation of law or material breach of fiduciary duty, including any of the following, should report such evidence to the Reporting Firm, and if there is no Reporting Firm, then to a superior:

- An action believed to be a material violation of law or a material breach of fiduciary duty or similar violation by the Company or any agent thereof;
- A materially misleading statement or omission made by anyone in connection with any audit or examination of the Company's financial statements or the preparation of any financial information for filing with the Securities Exchange Commission or for dissemination to the public in connection with the Company's stock;
- An action to fraudulently influence, coerce, manipulate, or mislead any independent or certified public accountant engaged in the performance of an audit or review of the Company's financial statements;
- A discharge, demotion, suspension, discipline, threat, harassment, or other manner of discrimination against an employee because of any information reported or caused to be reported by that employee pursuant to this Code or pursuant to applicable law; and

- A failure to retain or properly dispose of Company records in accordance with established Company policies and applicable legal and regulatory requirements.

In the case of any of us who are directors, any such evidence should be reported to the Audit Committee or any committee designated as the Legal Compliance Committee of the Board of Directors. In the case of any of us who are officers or employees, any such evidence should be reported to the Reporting Firm, and if there is no Reporting Firm, then to the Chief Executive Officer. The Chief Executive Officer is responsible for reporting any evidence believed to be credible of a material violation of securities law or breach of fiduciary duty to the Audit Committee or other appropriate committee of the Board of Directors.

### **13. ADMINISTRATION OF THE CODE**

#### **(a) Waivers**

This Code applies equally to all directors, officers, and employees. There shall be no waiver of any provision of this Code with respect to any director or executive officer except by vote of the Board of Directors or an authorized committee of the Board. There shall be no waiver of any provision of this Code with respect to any employee who is not a director or executive officer of the Company except by the Chief Financial Officer or Chief Executive Officer, as long as such officer is disinterested, or if no such officer is disinterested, by the Audit Committee of the Board of Directors.

#### **(b) Reporting**

Each of us having evidence of an actual or potential violation of this Code should report such evidence to the Reporting Firm or a superior. In the case of any of us who are directors, any such evidence should be reported to the Audit Committee or any committee designated as the Legal Compliance Committee of the Board of Directors. In the case of any of us who are officers, any such evidence should be reported to the Reporting Firm, and if there is no Reporting Firm, then to a superior officer, unless it is believed that doing so is inappropriate, then to the Audit Committee of the Board of Directors. In the case of any of us who are non-officer employees, any such evidence should be reported to the Reporting Firm, and if there is no Reporting Firm, then to the Chief Financial Officer, or the Chief Executive Officer, unless it is believed that doing so is inappropriate, then to the Audit Committee of the Board of Directors.

#### **(c) Discipline**

Violations of the Code will result in discipline up to and including termination of employment and forfeiture of incentive and equity based compensation.