Amtrust Financial Services, Inc.
Form 10-Q
November 10, 2014

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________________ to ____________________

Commission file no. 001-33143

AmTrust Financial Services, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	04-3106389 (IRS Employer Identification No.)
59 Maiden Lane, 43rd Floor, New York, New York (Address of principal executive offices)	10038 (Zip Code)

(212) 220-7120
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).
Yes ¨ No x

As of November 3, 2014, the Registrant had one class of Common Stock ($.01 par value), of which 74,815,409 shares were issued and outstanding.

INDEX

PART 1 - FINANCIAL INFORMATION
Item 1. Financial Statements
AMTRUST FINANCIAL SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet
(In Thousands, Except Par Value)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $4,110,606; $3,107,043)	$4,220,364	$3,100,936
Equity securities, available-for-sale, at market value (cost $85,188; $16,010)	86,449	15,148
Equity securities, trading, at market value (cost $21,661; $0)	22,049	—
Short-term investments	51,373	114,202
Equity investment in unconsolidated subsidiaries – related party	118,207	89,756
Other investments	16,442	25,749
Securities pledged (amortized cost of $0; $316,576)	—	311,518
Total investments	4,514,884	3,657,309
Cash and cash equivalents	546,241	830,022
Restricted cash and cash equivalents	172,499	100,439
Accrued interest and dividends	31,146	27,800
Premiums receivable, net	1,828,139	1,593,975
Reinsurance recoverable (related party $1,418,259; $1,144,168)	2,283,765	1,929,848
Prepaid reinsurance premium (related party $876,980; $739,719)	1,259,707	1,011,304
Other assets (related party $125,365, $0; recorded at fair value $283,200; $233,024)	1,076,833	890,333
Deferred policy acquisition costs	631,684	468,404
Property and equipment, net	150,873	104,299
Goodwill	400,338	373,591
Intangible assets	324,198	291,802
	$13,220,307	$11,279,126
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss adjustment expense reserves	$5,298,819	$4,368,234
Unearned premiums	3,416,453	2,680,982
Ceded reinsurance premiums payable (related party $371,681; $393,941)	640,420	635,588
Reinsurance payable on paid losses	15,541	18,818
Funds held under reinsurance treaties	22,068	27,574
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	18,737	—
Securities sold under agreements to repurchase, at contract value	—	293,222
Accrued expenses and other current liabilities (recorded at fair value $13,417; $14,999)	698,318	672,575
Deferred income taxes	205,320	274,519
Debt	592,293	560,174
Total liabilities	11,075,944	9,699,661
Commitments and contingencies		
Redeemable non-controlling interest	600	600
Stockholders' equity:		
	980	980

Common stock, $.01 par value; 150,000 shares authorized, 98,206 and 98,122 issued in 2014 and 2013, respectively; 74,886 and 74,765 outstanding in 2014 and 2013, respectively		
Preferred stock, $.01 par value; 10,000 shares authorized, 4,785 and 4,600 issued and outstanding in 2014 and 2013, respectively	300,000	115,000
Additional paid-in capital	1,031,340	1,033,084
Treasury stock at cost; 23,320 and 23,357 shares in 2014 and 2013, respectively	(315,178)	(284,891)
Accumulated other comprehensive income (loss)	69,484	(8,164)
Retained earnings	902,564	584,996
Total AmTrust Financial Services, Inc. equity	1,989,190	1,441,005
Non-controlling interest	154,573	137,860
Total stockholders' equity	2,143,763	1,578,865
	$13,220,307	$11,279,126

See accompanying notes to unaudited condensed consolidated financial statements.

AmTrust Financial Services, Inc.
Condensed Consolidated Statements of Income
(Unaudited)
(In Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Premium income:				
Net written premium	$1,004,196	$728,796	$3,058,147	$1,900,899
Change in unearned premium	(89,783)	(114,901)	(439,746)	(342,471)
Net earned premium	914,413	613,895	2,618,401	1,558,428
Service and fee income (related parties – three months $14,737; $11,715 and nine months $42,055; $36,636)	117,583	89,981	308,083	238,596
Net investment income	34,552	23,290	95,673	64,019
Net realized and unrealized gain on investments	5,086	1,112	14,431	20,463
Total revenues	1,071,634	728,278	3,036,588	1,881,506
Expenses:				
Loss and loss adjustment expense	609,352	410,579	1,755,155	1,046,945
Acquisition costs and other underwriting expenses (net of ceding commission - related party - three months $109,540; $68,219 and nine months $288,891; $199,334)	225,512	137,186	620,181	367,417
Other	103,493	90,195	278,672	223,332
Total expenses	938,357	637,960	2,654,008	1,637,694
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	133,277	90,318	382,580	243,812
Other income (expense):				
Interest expense, net of interest income - related party - three months $365; $0 and nine months $365; $0)	(11,801)	(9,120)	(35,885)	(24,089)
(Loss) gain on investment in life settlement contracts net of profit commission	(2,910)	76	(5,180)	80
Foreign currency gain	26,594	368	25,826	2,423
Acquisition gain on purchase	—	—	—	48,715
Gain on sale of subsidiary	—	—	6,631	—
Total other income (expense)	11,883	(8,676)	(8,608)	27,129
Income before income taxes and equity in earnings of unconsolidated subsidiaries	145,160	81,642	373,972	270,941
(Benefit) provision for income taxes	(7,664)	23,880	37,746	67,391
Income before equity in earnings of unconsolidated subsidiaries	152,824	57,762	336,226	203,550
Equity in earnings of unconsolidated subsidiary – related party	4,332	1,927	26,847	10,537
Net income	$157,156	$59,689	$363,073	$214,087
Net loss attributable to non-controlling interest of subsidiaries	2,939	597	7,029	1,474

Net income attributable to AmTrust Financial Services, Inc.	$160,095	$60,286	$370,102	$215,561
Dividends on preference stock	(3,505)	(2,048)	(7,387)	(2,048)
Net income attributable to AmTrust common shareholders	$156,590	$58,238	$362,715	$213,513
Earnings per common share:				
Basic earnings per share	$2.09	$0.78	$4.84	$2.88
Diluted earnings per share	$1.97	$0.74	$4.57	$2.75
Dividends declared per common share	$0.20	$0.14	$0.60	$0.42
Net realized gain on investments:				
Total other-than-temporary impairment loss	$(464)	$—	$(4,003)	$—
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	(464)	—	(4,003)	—
Other net realized gain on investments	5,550	1,112	18,434	20,463
Net realized investment gain	$5,086	$1,112	$14,431	$20,463

See accompanying notes to unaudited condensed consolidated financial statements.

AmTrust Financial Services, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(In Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$157,156	$59,689	$363,073	$214,087
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(13,092)	10,826	(5,289)	(4,739)
Change in fair value of interest rate swap	347	(74)	581	862
Unrealized gains (losses) on securities:				
Unrealized holding gain (loss) arising during period	(1,725)	7,290	85,726	(72,193)
Reclassification adjustment for gains (losses) included in net income	(1,574)	578	(3,370)	3,839
Other comprehensive income (loss), net of tax	$(16,044)	$18,620	$77,648	$(72,231)
Comprehensive income	141,112	78,309	440,721	141,856
Less: Comprehensive income (loss) attributable to non-controlling interest	(2,939)	(597)	(7,029)	(1,474)
Comprehensive income attributable to AmTrust Financial Services, Inc.	$144,051	$78,906	$447,750	$143,330

See accompanying notes to unaudited condensed consolidated financial statements.

AmTrust Financial Services, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In Thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$363,073	$214,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,085	35,985
Net amortization of bond premium or discount	13,059	14,002
Equity earnings on investment in unconsolidated subsidiaries	(26,847)	(10,537)
Loss (gain) on investment in life settlement contracts, net	5,180	(80)
Realized gain on marketable securities	(18,046)	(20,463)
Non-cash write-down of marketable securities	4,003	—
Discount on notes payable	2,425	2,226
Stock based compensation	13,911	7,920
Bad debt expense	22,459	17,286
Foreign currency gain	(25,826)	(2,423)
Gain on acquisition or sale	(6,631)	(48,715)
Dividend received from equity investment	—	12,203
Changes in assets - (increase) decrease:		
Premiums and note receivables	(259,697)	(115,370)
Reinsurance recoverable	(352,731)	(478,253)
Deferred policy acquisition costs, net	(184,997)	(108,243)
Prepaid reinsurance premiums	(248,403)	(202,270)
Other assets	(37,931)	(168,297)
Changes in liabilities - increase (decrease):		
Reinsurance premium payable	5,655	(97,420)
Loss and loss expense reserve	910,360	924,679
Unearned premiums	710,590	544,781
Funds held under reinsurance treaties	1,019	(3,570)
Accrued expenses and other current liabilities	35,511	86,009
Deferred tax liability	(73,654)	(25,011)
Net cash provided by operating activities	897,567	578,526
Cash flows from investing activities:		
Net purchases of securities with fixed maturities, available-for-sale	(619,152)	(695,935)
Net (purchases) sales of equity securities, available-for-sale	(56,448)	15,491
Net purchases of equity securities, trading	(4,183)	—
Net sales (purchases) of other investments	11,709	(3,409)
Acquisition of life settlement contracts	(25,419)	(11,906)
Receipt of life settlement contract proceeds	5,027	9,054
Loan to ACP Re	(125,000)	—
Acquisition of subsidiaries, net of cash obtained	(75,914)	(74,859)
Sale of subsidiary, net of cash for subsidiary	20,059	—
Increase in restricted cash and cash equivalents	(72,060)	(33,375)
Purchase of property and equipment	(64,742)	(29,311)
Net cash used in investing activities	(1,006,123)	(824,250)

Cash flows from financing activities:		
Common share (purchase) issuance	(44,564)	472

6

Preferred share issuance, net	178,641	111,130
Repurchase agreements, net	(293,222)	(30,605)
Senior notes proceeds	—	250,000
Secured loan proceeds	30,500	—
Secured loan agreements payments	(806)	(1,037)
Promissory notes payments	(10,695)	—
Financing fees	(967)	(2,740)
Non-controlling interest capital contribution to consolidated subsidiaries	16,877	16,108
Stock option exercise and other	4,981	5,429
Dividends distributed on common stock	(40,705)	(29,337)
Dividends distributed on preference stock	(7,387)	(2,048)
Net cash (used in) provided by financing activities	(167,347)	317,372
Effect of exchange rate changes on cash	(7,878)	(217)
Net increase in cash and cash equivalents	(283,781)	71,431
Cash and cash equivalents, beginning of the period	830,022	414,370
Cash and cash equivalents, end of the period	$546,241	$485,801
Supplemental Cash Flow Information		
Income tax payments	$42,624	$26,634
Interest payments on debt	$29,129	$13,056

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements
(Unaudited)
(Dollars In Thousands, Except Per Share Data)
1. Basis of Reporting

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. These interim statements should be read in conjunction with the financial statements and notes thereto included in the AmTrust Financial Services, Inc. ("AmTrust" or the "Company") Annual Report on Form 10-K for the year ended December 31, 2013, previously filed with the Securities and Exchange Commission ("SEC") on March 3, 2014. The balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

These interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim period and all such adjustments are of a normal recurring nature. The results of operations for the interim period are not necessarily indicative, if annualized, of those to be expected for the full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

A detailed description of the Company's significant accounting policies and management judgments is located in the audited consolidated financial statements for the year ended December 31, 2013, included in the Company's Form 10-K filed with the SEC.

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, the Company identified and corrected an error in which the Company previously reported ceding commission as a component of revenue and now presents ceding commission earned as a reduction of acquisition costs and other underwriting expenses. In addition, the Company identified and corrected an error in which the Company historically recorded reductions in its Luxembourg tax liability as a reduction of policy acquisition expense and now records such reductions as a reduction of its provision for income taxes in accordance with Accounting Standards Codification ("ASC") 740, Income Taxes. The Company assessed the materiality of these errors in accordance with the guidance in ASC Topic 250, Accounting Changes and Error Corrections, and ASC Topic 250-10-S99-1, Assessing Materiality, and determined that both errors were immaterial to the consolidated financial statements taken as a whole. The Company revised its consolidated statements of income, as well as related footnotes, for the year ended December 31, 2013 and will reflect these corrections in all future filings that contain such consolidated financial statements. The effect of correcting the immaterial error related to ceding commission on the presentation of the comparative condensed consolidated statements of income for the three months and nine months ended September 30, 2013 was a decrease to total revenues and an increase to acquisition costs and other underwriting expenses of $68,219 and $199,334, respectively. The effect of correcting the immaterial error related to reductions in the Company's Luxembourg tax liability on the presentation of the comparative condensed consolidated statements of income for the three months and nine months ended September 30, 2013 was an increase to policy acquisition expenses and a decrease to income tax expense of $8,801 and $20,768, respectively (which reduced the Company's effective tax rate by approximately 6.9% and 7.7%, respectively). There was no impact to net income or liquidity as a result of these immaterial errors.

As a result, the Company changed its accounting policy for ceding commission on reinsurance transactions during the three months ended June 30, 2014, which is stated herein below:

Ceding Commissions on Reinsurance Transactions - Ceding commissions on reinsurance transactions are commissions the Company receives from ceding gross written premiums to third party reinsurers. In connection with the Maiden Quota Share, which is the Company's primary source of ceding commissions, the amount the Company receives is a blended rate based on a contractual formula contained in the individual reinsurance agreements, and the rate may not correlate specifically to the cost structure of the individual segments. The ceding commissions the Company receives cover a portion of its capitalized direct acquisition costs and a portion of other underwriting expenses. Ceding commissions received from reinsurance transactions that represent recovery of capitalized direct acquisition costs are recorded as a reduction of capitalized unamortized deferred acquisition costs and the net amount is charged to expense in proportion to net premium revenue recognized. Ceding commissions received from reinsurance transactions that represent the recovery of other underwriting expenses are recognized in the income statement over the insurance contract period in proportion to the insurance protection provided and classified as a reduction of acquisition costs and other underwriting expenses. Ceding commissions received, but not yet earned, that represent the recovery of other underwriting expenses are classified as a component of accrued expenses and other current liabilities. The Company allocates earned ceding commissions to its segments based on each segment's proportionate share of total acquisition costs and other underwriting expenses recognized during the period. As a result of adopting this policy, deferred policy acquisition costs, total assets, accrued expenses and other current liabilities and total liabilities increased by approximately $21,717 as of December 31, 2013.

During the three months ended September 30, 2014, the Company reclassified approximately $16,728 of its equity securities from available-for-sale securities, carried at estimated fair market value, to trading securities. Equity securities classified as trading securities are generally held for resale in anticipation of short-term market movements. Trading securities are stated at estimated fair market value. Gains and losses, both realized and unrealized, are included in the net realized gain or loss on investment on the Condensed Consolidated Statements of Income.

All significant inter-company transactions and accounts have been eliminated in the consolidated financial statements.

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation.

2. Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2014, as compared to those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, that are of significance, or potential significance, to the Company.

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-11, Transfers and Serving (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, which amends accounting for repurchase-to-maturity transactions and associated repurchase financing to secured borrowing. The revised guidance also requires expanded disclosure for certain transactions comprising (1) a transfer of a financial asset accounted for as a sale and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction, as well as expands disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The updated guidance is effective for the period ending March 31, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In June 2014, the FASB issued ASU 2014-12, Compensation--Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, to clarify how entities should treat performance targets that can be met after the requisite service period of a share-based payment award. The ASU states that the share-based payment award should be treated as a performance condition that affects vesting and, therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity’s satisfaction of a performance target until it becomes probable that the performance target will be met. No new disclosures are required under this ASU. ASU 2014-12 is effective beginning after December 15, 2015. Early adoption is permitted. In addition, all entities will have the option of applying the guidance either prospectively (i.e., only to awards granted or modified on or after the effective date of the issue) or retrospectively. Retrospective application would only apply to awards with performance targets outstanding at or after the beginning of the first annual period presented (i.e., the earliest presented comparative period). The adoption of this guidance is not expected to have an impact on the Company's results of operations, financial condition or liquidity.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to clarify the principles for recognizing revenue. While insurance contracts are not within the scope of this updated guidance, the Company’s service and fee income will be subject to this updated guidance. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The updated guidance is effective for the quarter ending March 31, 2017. We are currently evaluating the impact this guidance will have on the Company's results of operations, financial position or liquidity.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statement (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity, which provides revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance is effective for the period ending March 31, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance on the presentation of an unrecognized tax benefit when a net operating loss ("NOL") carry-forward, a similar tax loss, or a tax credit carry-forward exists. Under the ASU, an entity must present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a NOL carry-forward, similar tax loss, or a tax credit carry-forward. There are two exceptions to this form of presentation as follows:

- To the extent a NOL carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position; or
- The entity does not intend to use the deferred tax asset for this purpose.

If either of these conditions exists, an entity should present an unrecognized benefit in the financial statements as a liability and should net the unrecognizable tax benefit with a deferred tax asset. The Company adopted ASU 2013-11 on January 1, 2014 and the implementation did not have an impact on the Company's results of operations, financial condition or liquidity.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, with the objective of resolving the diversity about whether ASC 810-10, Consolidation - Overall, or ASC 830-30, Foreign Currency Matters - Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in-substance real estate or conveyance of oil and gas mineral rights) within a foreign entity.

Under this guidance, when a reporting entity that is also the parent entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to apply the guidance in ASC 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, for an equity method investment that is a foreign entity, the partial sale guidance in ASC 830-30-40 continues to be applicable. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment. Furthermore, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (that is, irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. The amendments in this ASU are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The update was adopted effective January 1, 2014. The adoption of this guidance did not have an impact on the Company's results of operations, financial condition or liquidity.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated market value and gross unrealized appreciation and depreciation of available-for-sale securities as of September 30, 2014 and December 31, 2013, are presented in the table below:

(Amounts in Thousands) As of September 30, 2014	Original or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Preferred stock	$4,500	$251	$(26)	$4,725
Common stock	80,688	1,760	(724)	81,724
U.S. treasury securities	48,484	1,308	(161)	49,631
U.S. government agencies	16,439	555	(9)	16,985
Municipal bonds	475,133	12,270	(3,887)	483,516
Foreign government	104,075	5,421	(147)	109,349
Corporate bonds:				
Finance	1,198,838	67,308	(5,005)	1,261,141
Industrial	1,109,706	34,718	(11,922)	1,132,502
Utilities	103,038	2,546	(1,285)	104,299
Commercial mortgage backed securities	46,779	1,120	(210)	47,689
Residential mortgage backed securities:				
Agency backed	993,656	14,440	(7,068)	1,001,028
Non-agency backed	13,031	148	(381)	12,798
Asset-backed securities	1,427	1	(2)	1,426
	$4,195,794	$141,846	$(30,827)	$4,306,813

(Amounts in Thousands) As of December 31, 2013	Original or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Preferred stock	$1,498	$82	$(74)	$1,506
Common stock	14,512	1,156	(2,026)	13,642
U.S. treasury securities	158,915	1,196	(851)	159,260
U.S. government agencies	10,466	107	(84)	10,489
Municipal bonds	461,325	4,781	(19,923)	446,183
Foreign government	160,459	971	(1,325)	160,105
Corporate bonds:				
Finance	1,057,542	41,027	(13,970)	1,084,599
Industrial	768,161	7,695	(21,439)	754,417
Utilities	70,924	1,310	(2,008)	70,226
Commercial mortgage backed securities	28,970	—	(404)	28,566
Residential mortgage backed securities:				
Agency backed	694,001	5,657	(13,918)	685,740
Non-agency backed	6,737	19	(7)	6,749
Asset backed securities	6,119	4	(3)	6,120
	$3,439,629	$64,005	$(76,032)	$3,427,602
Less: Securities pledged	316,576	506	(5,564)	311,518
	$3,123,053	$63,499	$(70,468)	$3,116,084

11

Investments in foreign government securities include securities issued by national entities as well as instruments that are unconditionally guaranteed by such entities. As of September 30, 2014, the Company's foreign government securities were issued or guaranteed primarily by governments in Canada, Europe, and Israel.

Proceeds from the sale of investments in available-for-sale securities during the nine months ended September 30, 2014 and 2013 were approximately $1,568,126 and $976,396, respectively.

A summary of the Company’s available-for-sale fixed securities as of September 30, 2014 and December 31, 2013, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2014		December 31, 2013	
(Amounts in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$110,336	$110,161	$128,128	$128,214
Due after one through five years	643,905	667,327	592,703	603,942
Due after five through ten years	1,988,673	2,064,616	1,632,115	1,631,751
Due after ten years	312,799	315,320	334,846	321,372
Mortgage and asset backed securities	1,054,893	1,062,940	735,827	727,175
Total fixed maturities	$4,110,606	$4,220,364	$3,423,619	$3,412,454

Other-than-temporary impairment ("OTTI") charges of our fixed-maturities and equity securities for the three and nine months ended September 30, 2014 and 2013 are presented in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2014	2013	2014	2013
Equity securities recognized in earnings	$—	$—	$2,291	$—
Fixed-maturity securities recognized in earnings	464	—	1,712	—
	$464	$—	$4,003	$—

The table below summarizes the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized position as of September 30, 2014 and December 31, 2013:

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) As of September 30, 2014	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$14,412	$(567)	26	$315	$(183)	2	$14,727	$(750)
U.S. treasury securities	30,753	(120)	35	2,046	(41)	5	32,799	(161)
U.S. government agencies	—	—	—	1,369	(9)	6	1,369	(9)
Municipal bonds	46,652	(1,029)	68	89,680	(2,858)	109	136,332	(3,887)
Foreign government	13,351	(147)	11	—	—	—	13,351	(147)
Corporate bonds:								
Finance	204,075	(3,997)	184	63,182	(1,008)	15	267,257	(5,005)
Industrial	232,809	(10,407)	209	49,044	(1,515)	34	281,853	(11,922)
Utilities	20,348	(1,274)	20	377	(11)	2	20,725	(1,285)
Commercial mortgage backed securities	14	—	2	5,155	(210)	8	5,169	(210)
Residential mortgage backed securities:								
Agency backed	172,828	(3,972)	35	122,718	(3,096)	42	295,546	(7,068)
Non-agency backed	5,190	(380)	3	30	(1)	2	5,220	(381)
Asset-backed securities	661	(1)	3	631	(1)	3	1,292	(2)
Total temporarily impaired securities	$741,093	$(21,894)	596	$334,547	$(8,933)	228	$1,075,640	$(30,827)

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2013	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$4,875	$(2,100)	51	$—	$—	—	$4,875	$(2,100)
U.S. treasury securities	52,757	(851)	18	—	—	—	52,757	(851)
U.S. government agencies	4,135	(84)	11	—	—	—	4,135	(84)
Municipal bonds	254,219	(17,986)	302	24,169	(1,937)	9	278,388	(19,923)
Foreign government	68,102	(1,324)	16	999	(1)	1	69,101	(1,325)
Corporate bonds:								
Finance	500,564	(13,402)	182	58,923	(568)	9	559,487	(13,970)
Industrial	500,366	(21,203)	263	3,383	(236)	2	503,749	(21,439)
Utilities	45,663	(2,008)	21	—	—	—	45,663	(2,008)
Commercial mortgage backed securities	28,552	(404)	18	—	—	—	28,552	(404)
Residential mortgage backed securities:								
Agency backed	492,740	(13,918)	120	—	—	—	492,740	(13,918)
Non-agency backed	205	(5)	6	23	(2)	1	228	(7)

Asset-backed securities	1,463	(3)	4	—	—	—	1,463	(3)
Total temporarily impaired securities	$1,953,641	$(73,288)	1,012	$87,497	$(2,744)	22	$2,041,138	$(76,032)

There are 824 and 1,034 securities at September 30, 2014 and December 31, 2013, respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company’s determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security’s cost, the nature of the investment and management’s intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company’s cost basis.

(b) Trading Securities

The amortized cost, estimated market value and gross unrealized appreciation and depreciation of trading securities as of September 30, 2014 are presented in the table below:

(Amounts in Thousands) As of September 30, 2014	Original or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Common stock	$21,661	$716	$(328)	$22,049

Proceeds from the sale of investments in trading securities during the nine months ended September 30, 2014 was approximately $9,520. As of December 31, 2013, the Company did not have any securities classified as trading securities.

(c) Investment Income

Net investment income for the three and nine months ended September 30, 2014 and 2013 was derived from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2014	2013	2014	2013
Fixed maturities, available-for-sale	$34,112	$21,766	$92,852	$57,354
Equity securities, available-for-sale	249	1,086	550	5,375
Equity securities, trading	77	—	77	—
Cash and short term investments	854	782	4,278	2,530
	35,292	23,634	97,757	65,259
Less:				
Investment expenses and interest expense on securities sold under agreement to repurchase	(740)	(344)	(2,084)	(1,240)
	$34,552	$23,290	$95,673	$64,019

(d) Derivatives

The Company from time to time invests in a limited number of derivatives and other financial instruments as part of its investment portfolio to manage interest rate changes or other exposures to a particular financial market. The Company records changes in valuation on its derivative positions not designated as a hedge as a component of net realized gains and losses.

The Company records changes in valuation on its hedge positions as a component of other comprehensive income. As of September 30, 2014 and December 31, 2013, the Company had two interest rate swaps designated as hedges that were recorded as a liability in the total amount of $2,160 and $3,054, respectively, and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's interest rate swaps as of September 30, 2014:

	Remaining Life of Notional Amount [1]	
	One Year	Total

(Amounts in Thousands)		Two Through Five Years	Six Through Ten Years	After Ten Years	
Interest rate swaps	$—	$70,000	$—	$—	$70,000

(1) Notional amount is not representative of either market risk or credit risk and is not recorded in the consolidated balance sheet.

(e) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets are primarily in the form of cash and certain high grade securities. The fair values of our restricted assets as of September 30, 2014 and December 31, 2013 are as follows:

(Amounts in Thousands)	2014	2013
Restricted cash	$172,499	$100,439
Restricted investments	775,115	978,910
Total restricted cash and investments	$947,614	$1,079,349

(f) Other

Securities sold but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of September 30, 2014 was $18,737, which consisted primarily of equity securities. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold but not yet purchased may exceed the amount reflected at September 30, 2014. Substantially all securities owned under these arrangements are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations. The Company did not have any securities sold but not yet purchased as of December 31, 2013.

From time to time, the Company enters into repurchase agreements that are subject to a master netting arrangement, which are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities that it invests or holds in short term or fixed income securities. As of September 30, 2014, the Company had no repurchase agreements outstanding. Interest expense associated with these repurchase agreements, which was recorded as a component of investment income, was $2 and $275 for the three and nine months ended September 30, 2014, respectively, and $197 and $688 for the three and nine months ended September 30, 2013, respectively, for repurchase agreements outstanding during these periods.

4. Fair Value of Financial Instruments

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of September 30, 2014 and December 31, 2013:

(Amounts in Thousands) As of September 30, 2014	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$49,631	$49,631	$—	$—
U.S. government agencies	16,985	—	16,985	—
Municipal bonds	483,516	—	483,516	—
Foreign government	109,349	—	109,349	—
Corporate bonds and other bonds:				
Finance	1,261,141	—	1,261,141	—
Industrial	1,132,502	—	1,132,502	—
Utilities	104,299	—	104,299	—
Commercial mortgage backed securities	47,689	—	47,689	—
Residential mortgage backed securities:				
Agency backed	1,001,028	—	1,001,028	—
Non-agency backed	12,798	—	12,798	—
Asset-backed securities	1,426	—	1,426	—
Equity securities, available-for-sale	86,449	33,013	53,436	—
Equity securities, trading	22,049	22,049	—	—
Short term investments	51,373	51,373	—	—
Other investments	16,442	—	—	16,442
Life settlement contracts	283,200	—	—	283,200
	$4,679,877	$156,066	$4,224,169	$299,642
Liabilities:				
Equity securities sold but not yet purchased, market	$18,737	$18,737	$—	$—
Life settlement contract profit commission	11,257	—	—	11,257
Derivatives	2,160	—	2,160	—
	$32,154	$18,737	$2,160	$11,257

(Amounts in Thousands) As of December 31, 2013	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$110,345	$110,345	$—	$—
U.S. government agencies	10,489	—	10,489	—
Municipal bonds	446,183	—	446,183	—
Foreign government	160,105	—	160,105	—
Corporate bonds and other bonds:				
Finance	1,084,599	—	1,084,599	—
Industrial	754,417	—	754,417	—
Utilities	70,226	—	70,226	—
Commercial mortgage backed securities	28,566	—	28,566	—
Residential mortgage backed securities:				
Agency backed	423,137	—	423,137	—
Non-agency backed	6,749	—	6,749	—
Asset-backed securities	6,120	—	6,120	—
Equity securities	15,148	15,148	—	—
Short term investments	114,202	114,202	—	—
Other investments	25,749	—	—	25,749
Securities held as collateral	311,518	48,915	262,603	—
Life settlement contracts	233,024	—	—	233,024
	$3,800,577	$288,610	$3,253,194	$258,773
Liabilities:				
Securities sold under agreements to repurchase, at carrying value	$293,222	$—	$293,222	$—
Life settlement contract profit commission	11,945	—	—	11,945
Derivatives	3,054	—	3,054	—
	$308,221	$—	$296,276	$11,945

The Company classifies its financial assets and liabilities in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. This classification requires judgment in assessing the market and pricing methodologies for a particular security. The fair value hierarchy includes the following three levels:

- Level 1 – Valuations are based on unadjusted quoted market prices in active markets for identical financial assets or liabilities.

Examples of instruments utilizing Level 1 inputs include: exchange-traded securities and U.S. Treasury bonds.

- Level 2 – Valuations of financial assets and liabilities are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets obtained from third party pricing services or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data. The fair value of securities in this category are determined by management after reviewing market prices obtained from independent pricing services and brokers.

Examples of instruments utilizing Level 2 inputs include: U.S. government-sponsored agency securities; non-U.S. government obligations; corporate and municipal bonds; mortgage-backed bonds; asset-backed securities, listed derivatives that are not actively traded and equity securities that are not publicly traded.

- Level 3 – Valuations are based on unobservable inputs for assets and liabilities where there is little or no market activity. Management’s assumptions are used in internal valuation pricing models to determine the fair value of financial assets or liabilities, which may include projected cash flows, collateral performance or liquidity circumstances in the security or similar securities that may have occurred since the prior pricing period.

17

Examples of instruments utilizing Level 3 inputs include: hedge and credit funds with partial transparency.

For additional discussion regarding techniques used to value the Company's investment portfolio, refer to Note 2. "Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data" in its 2013 Form 10-K.

The following tables provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities for the three and nine months ended September 30, 2014 and 2013:

(Amounts in Thousands)	Balance as of June 30, 2014	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2014
Other investments	$14,095	$—	$ —	$2,828	$ (481)	$—	$ 16,442
Life settlement contracts	276,199	7,001	—	—	—	—	283,200
Life settlement contract profit commission	(12,529)	1,272	—	—	—	—	(11,257)
Total	$277,765	$8,273	$ —	$2,828	$ (481)	$—	$ 288,385

(Amounts in Thousands)	Balance as of December 31, 2013	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2014
Other investments	$25,749	$2,402	$ —	$6,145	$ (17,854)	$—	$ 16,442
Life settlement contracts	233,024	29,784	—	25,419	(5,027)	—	283,200
Life settlement contract profit commission	(11,945)	688	—	—	—	—	(11,257)
Total	$246,828	$32,874	$ —	$31,564	$ (22,881)	$—	$ 288,385

(Amounts in Thousands)	Balance as of June 30, 2013	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2013
Other investments	$24,779	$296	$ —	$2,304	$ (2,868)	$—	$24,511
Life settlement contracts	208,694	9,575	—	11,906	(3,011)	—	227,164
Life settlement contract profit commission	(12,513)	1,468	—	—	—	—	(11,045)
Total	$220,960	$11,339	$ —	$14,210	$ (5,879)	$—	$240,630

(Amounts in Thousands)	Balance as of December 31, 2012	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of September 30, 2013
Other investments	$11,144	$973	$ —	$17,185	$ (4,791)	$—	$24,511
Life settlement contracts	193,927	30,385	—	11,906	(9,054)	—	227,164
	(11,750)	705	—	—	—	—	(11,045)

Life settlement contract profit commission							
Total	$193,321	$32,063	$ —	$29,091	$(13,845)	$—	$240,630

The Company had transfers between Level 1 and Level 2 of $17,861 during the three and nine months ended September 30, 2014 due to change in valuation methodology. There were no transfers during the equivalent periods in 2013.

A reconciliation of net income for life settlement contracts in the above table to (loss) gain on investment in life settlement contracts net of profit commission included in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2014	2013	2014	2013
Net income	$7,001	$9,575	$29,784	$30,385
Premiums paid	(10,728)	(9,718)	(33,200)	(28,259)
Profit commission	1,272	1,468	688	705
Other expenses	(455)	(1,249)	(2,452)	(2,751)
(Loss) gain on investment in life settlement contracts	$(2,910)	$76	$(5,180)	$80

The Company uses the following methods and assumptions in estimating its fair value disclosures for financial instruments:

- Equity and Fixed Income Investments: Fair value disclosures for these investments are disclosed above in this note. The carrying values of cash, short term investments and investment income accrued approximate their fair values and are classified as Level 1 in the financial hierarchy.

- Premiums Receivable: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset and are classified as Level 1 in the financial hierarchy.

- Other Investments: The Company has approximately 0.3% of its investment portfolio in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy.

- Equity Investment in Unconsolidated Subsidiaries - Related Party: The Company has an approximate ownership percentage of 13.2% in National General Holdings Corp. ("NGHC"). The Company accounts for this investment under the equity method of accounting as it has the ability to exert significant influence on NGHC. The fair value of the investment was approximately $207,670 as of September 30, 2014. The carrying value was $118,207 as of September 30, 2014.

- Subordinated Debentures and Debt: The current fair value of the Company's convertible senior notes, subordinated debentures, and 6.125% Notes was $311,520, $63,620, and $262,448 as of September 30, 2014, respectively. The convertible senior notes and the 6.125% Notes are publicly traded instruments and are classified as Level 1 in the fair value hierarchy. The subordinated debentures are classified as Level 3 in the fair value hierarchy. The fair value of the subordinated debentures was determined using the Black-Derman-Toy interest rate lattice model.

- Derivatives: The Company classifies interest rate swaps as Level 2 in fair value hierarchy. The Company uses these interest rate swaps to hedge floating interest rates on its debt, thereby changing the variable rate exposure to a fixed rate exposure for interest on these obligations. The estimated fair value of the interest rate swaps, which is obtained from a third party pricing service, is measured using discounted cash flow analysis that incorporates significant observable inputs, including the LIBOR forward curve and a measurement of volatility.

- Repurchase Agreements: The carrying value of repurchase agreements in the accompanying balance sheets represents their fair values and are classified as Level 2 in the financial hierarchy.

The fair value of life settlement contracts as well as life settlement profit commission liability is based on information available to the Company at the end of the reporting period. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments (if available and applicable), financial standing of the issuer, changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and life expectancy reports prepared by nationally recognized and independent third party medical underwriters. The Company estimates the fair value of a life insurance policy by applying an investment discount rate based on the cost of funding the Company's life settlement contracts as compared to returns on investments in asset classes with comparable credit quality, which the Company has determined to be 7.5%, to the expected cash flow generated by the policies in the Company's life settlement portfolio (death benefits less premium payments), net of policy specific adjustments and reserves. In order to confirm the integrity of their calculation of fair value, the Company, quarterly, retains an independent third-party actuary to verify that the actuarial modeling used by the Company to determine fair value was performed correctly and that the valuation, as determined through the Company's actuarial modeling, is consistent with other methodologies. The Company considers this information in its assessment of the reasonableness of the life expectancy and discount rate inputs used in the valuation of these investments.

The Company adjusts the standard mortality for each insured for the insured's life expectancy based on reviews of the insured's medical records. The Company establishes policy specific reserves for the following uncertainties: improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to the Company, and the future expenses related to the administration of the portfolio. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the expected cash flow gross of these reserves.

The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies as of September 30, 2014 and December 31, 2013 and, as described in Note 5. "Investments in Life Settlements", only includes data for policies to which the Company assigned value at those dates:

	September 30, 2014	December 31, 2013
Average age of insured	81.1 years	80.1 years
Average life expectancy, months (1)	121	131
Average face amount per policy	$6,616,000	$6,611,000
Effective discount rate (2)	13.9 %	14.2 %

(1) Standard life expectancy as adjusted for specific circumstances.

(2) Effective Discount Rate ("EDR") is the Company's estimated internal rate of return on its life settlement contract portfolio and is determined from the gross expected cash flows and valuation of the portfolio. The valuation of the portfolio is calculated net of all reserves using a 7.5% discount rate. The EDR is implicit of the reserves and the gross expected cash flows of the portfolio. The Company anticipates that the EDR's range is between 12.5% and 17.5% and reflects the uncertainty that exists surrounding the information available as of the reporting date. As the accuracy and reliability of information improves (declines), the EDR will decrease (increase). The change in the EDR from December 31, 2013 to September 30, 2014 resulted from routine updating of life expectancies and other factors relating to operational risk.

The Company's assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables were held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below as of September 30, 2014 and December 31, 2013:

	Change in life expectancy	
(Amounts in Thousands)	Plus 4 Months	Minus 4 Months
Investment in life policies:		
September 30, 2014	$(35,729)	$37,059
December 31, 2013	$(29,537)	$31,313
	Change in discount rate (1)	
(Amounts in Thousands)	Plus 1%	Minus 1%

Investment in life policies:		
September 30, 2014	$(23,470)	$26,361
December 31, 2013	$(20,055)	$22,605

(1) Discount rate is a present value calculation that considers legal risk, credit risk and liquidity risk and is a component of EDR.

5. Investment in Life Settlements

The Company currently owns and periodically acquires life settlement contracts. A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. The LSC entities may also acquire premium finance loans made in connection with the borrowers' purchase of life insurance policies that are secured by the policies. The LSC entities acquire the underlying policies through the borrowers' voluntary surrender of the policy in satisfaction of the loan or foreclosure. The Company currently has a fifty percent ownership interest in four subsidiaries (collectively, the "LSC entities") that acquire life settlement contracts. A subsidiary of NGHC owns the remaining fifty percent interest in the LSC entities. A third party serves as the administrator for two of the life settlement contract portfolios, for which it receives an administrative fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company provides certain actuarial and finance functions related to the LSC entities. In conjunction with the Company's 13.2% ownership percentage of NGHC, the Company ultimately receives 56.6% of the profits and losses of the LSC entities. As such, in accordance with ASC 810-10, Consolidation, the Company has been deemed the primary beneficiary and, therefore, consolidates the LSC entities.

The Company accounts for investments in life settlements in accordance with ASC 325-30, Investments in Insurance Contracts, which states that an investor shall elect to account for its investments in life settlement contracts by using either the investment method or the fair value method. The election is made on an instrument-by-instrument basis and is irrevocable. The Company has elected to account for these policies using the fair value method. As no comparable market pricing is available, the Company determines fair value based upon its estimate of the discounted cash flow related to policies (net of the reserves for improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to the Company, and the future expenses related to the administration of the portfolio), which incorporates current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts.

Total capital contributions of $33,353 and $29,847 were made to the LSC entities during the nine months ended September 30, 2014 and 2013, respectively, for which the Company contributed $16,489 and $14,963 in those same periods, respectively. The LSC entities used the contributed capital to pay premiums and purchase policies. The Company's investments in life settlements and premium finance loans were $283,200 and $233,024 as of September 30, 2014 and December 31, 2013, respectively, and are included in Other assets on the Consolidated Balance Sheet. The Company recorded a loss of $2,910 and $5,180, respectively, on investment in life settlement contracts, net of profit commission, for the three and nine months ended September 30, 2014, and a gain of $76 and $80 for the three and nine months ended September 30, 2013, respectively, related to the life settlement contracts.

As of September 30, 2014, the LSC entities owned no premium finance loans. As of December 31, 2013, the LSC entities owned 2 premium finance loans, which were secured by life insurance policies and were carried at a value of $0.

The following table describes the Company's investment in life settlements as of September 30, 2014 and December 31, 2013:

(Amounts in Thousands, except number of Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value (1)	Face Value
As of September 30, 2014			
0-1	—	$—	$—
1-2	3	18,234	25,000
2-3	8	43,193	70,500
3-4	3	5,684	12,500
4-5	9	17,704	56,000
Thereafter	259	198,385	1,639,209
Total	282	$283,200	$1,803,209

(Amounts in Thousands, except number of Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value (1)	Face Value
As of December 31, 2013			
0-1	—	$—	$—
1-2	—	—	—
2-3	1	2,726	5,000
3-4	13	53,767	103,000
4-5	2	5,622	13,000
Thereafter	255	170,909	1,641,409
Total	271	$233,024	$1,762,409

(1) The Company determined the fair value as of September 30, 2014 based on 226 policies out of 282 policies, as the Company assigned no value to 56 of the policies as of September 30, 2014. The Company determined the fair value as of December 31, 2013 based on 191 policies out of 271 policies, as the Company assigned no value to 80 of the policies as of December 31, 2013. The Company estimated the fair value of a life insurance policy using a cash flow model with an appropriate discount rate. In some cases, the cash flow model calculates the value of an individual policy to be negative, and therefore the fair value of the policy is zero as no liability exists when a negative value is calculated. The Company is not contractually bound to pay the premium on its life settlement contracts and, therefore, would not pay a willing buyer to assume title of these contracts. Additionally, certain of the Company's acquired policies were structured to have low premium payments at inception of the policy term, which later escalate greatly towards the tail end of the policy term. At the current time, the Company expenses all premium paid, even on policies with zero fair value. Once the premium payments escalate, the Company may allow the policies to lapse. In the event that death benefits are realized in the time frame between initial acquisition and premium escalation, it is a benefit to cash flow.

For these contracts where the Company determined the fair value to be negative and therefore assigned a fair value of zero, the table below details the amount of premiums paid and the death benefits received during the twelve months preceding September 30, 2014 and December 31, 2013:

(Amounts in Thousands, except number of Life Settlement Contracts)	September 30, 2014	December 31, 2013
Number of policies with a negative value from discounted cash flow model as of period end	56	80
Premiums paid for the preceding twelve month period for period ended	$5,125	$9,371
Death benefit received	$—	$3,012

22

Premiums to be paid by the LSC entities for each of the five succeeding fiscal years to keep the life insurance policies in force as of September 30, 2014, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts
2014	$42,790
2015	47,738
2016	61,273
2017	41,266
2018	41,074
Thereafter	567,317
Total	$801,458

6.Debt

The Company's borrowings consisted of the following at September 30, 2014 and December 31, 2013:

(Amounts in Thousands)	September 30, 2014	December 31, 2013
Revolving credit facility	$—	$—
Convertible senior notes	166,643	164,218
6.125% Notes due 2023	250,000	250,000
Junior subordinated debentures	123,714	123,714
Secured loan agreements	37,436	7,742
Promissory notes	14,500	14,500
	$592,293	$560,174

Aggregate scheduled maturities of the Company's borrowings at September 30, 2014 are:

(Amounts in Thousands)		
2014	$2,199	
2015	6,987	
2016	7,172	
2017	7,363	
2018	9,446	
Thereafter	559,126	(1)

(1) Amount reflected in balance sheet for convertible senior notes is net of unamortized original issue discount of $33,357.

Revolving Credit Agreement

On September 12, 2014, the Company entered into a five-year, $350,000 credit agreement (the "Credit Agreement"), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Lloyd's Bank PLC and Associated Bank, as Co-Documentation Agents and the various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $175,000 and an expansion feature of not more than an additional $150,000. The Credit Agreement has a maturity date of September 12, 2019. In connection with entering into the Credit Agreement, the Company terminated its existing $200,000 credit agreement (the "Preceding Credit Agreement"), dated August 10, 2012, with JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents, and the various lending institutions party thereto. Letters of credit issued and outstanding under the Preceding Credit Agreement were deemed issued and outstanding under the Credit Agreement. Deferred origination costs associated with the Credit Agreement were approximately $967 and are being amortized into interest expense over the term of the Credit Agreement.

The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio, a minimum consolidated risk-based capital and a minimum consolidated statutory surplus. The Company was in compliance with all of its covenants as of September 30, 2014.

As of September 30, 2014, the Company had no outstanding borrowings under this Credit Agreement. As of September 30, 2014, the Company had outstanding letters of credit under this Credit Agreement of $82,025, which reduced the availability for letters of credit to $92,975, and the total aggregate availability under the facility to $267,975.

Borrowings under the Credit Agreement bear interest at either the Alternate Base Rate or the LIBO rate. Borrowings bearing interest at a rate determined by reference to the Alternate Base Rate will bear interest at (x) the greatest of (a) the administrative agent's prime rate, (b) the federal funds effective rate plus 0.5%, or (c) the adjusted LIBO rate for a one-month interest period on such day plus 1.0%, plus (y) a margin ranging from 0.125% to 0.625%, adjusted on the basis of the Company's consolidated leverage ratio. Eurodollar borrowings will bear interest at the adjusted LIBO rate for the interest period in effect plus a margin ranging from 1.125% to 1.625%, adjusted on the basis of the Company's consolidated leverage ratio. The interest rate on the credit facility as of September 30, 2014 was 1.375%.

Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (equal to the margin applicable to Eurodollar borrowings), a letter of credit fronting fee with respect to each letter of credit (0.125%) and a commitment fee on the available commitments of the lenders (a range of 0.15% to 0.25% based on the Company's consolidated leverage ratio, which was 0.175%).

Interest expense, including amortization of the deferred origination costs and fees associated with the letters of credit under the Credit Agreement and the Preceding Credit Agreement, was approximately $356 and $379 for the three months ended September 30, 2014 and 2013, respectively, and $1,107 and $1,555 for nine months ended September 30, 2014 and 2013, respectively.

Convertible Senior Notes

The Company has outstanding $200,000 aggregate principal amount of convertible senior notes due 2021 (the "Convertible Notes"). The Convertible Notes bear interest at a rate equal to 5.5% per year, payable semiannually in arrears on June 15th and December 15th of each year.

The Convertible Notes will mature on December 15, 2021 (the "Maturity Date"), unless earlier purchased by the Company or converted into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"). Prior to September 15, 2021, the Convertible Notes will be convertible only in the following circumstances: (i) during any fiscal quarter, and only during any such fiscal quarter, if the last reported sale price of the Company's Common Stock was greater than or equal to 130% of the applicable conversion price for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter (the "Sale Price Condition"); (ii) during the five consecutive business day period following any five consecutive trading day period in which, for each day of that period, the trading price for the Convertible Notes was less than 98% of the product of the last reported sale price of the Company's Common Stock and the applicable conversion rate on such trading day; or (iii) upon the occurrence of specified corporate transactions. On or after September 15, 2021, the Convertible Notes will be convertible at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate at September 30, 2014 is equal to 38.5985 shares of Common Stock per $1,000 principal amount of Convertible Notes, which corresponds to a conversion price of approximately $25.91 per share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the Convertible Notes. Upon conversion of the Convertible Notes, the Company will, at its election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock. As of July 1, 2014, the Convertible Notes were convertible under the Sale Price Condition described above. As of September 30, 2014, no Convertible Note holders had submitted their Convertible Notes for conversion.

Upon the occurrence of a fundamental change (as defined in the indenture governing the Convertible Notes) involving the Company, holders of the Convertible Notes will have the right to require the Company to repurchase their Convertible Notes for cash, in whole or in part, at 100% of the principal amount of the Convertible Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date.

The Company separately allocated the proceeds for the issuance of the Convertible Notes to a liability component and an equity component, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount (“OID”). The OID of $41,679 and deferred origination costs relating to the liability component of $4,750 are being amortized into interest expense over the term of the Convertible Notes. After considering the contractual interest payments and amortization of the original discount, the effective interest rate of the Convertible Notes was 8.57%. Transaction costs of $1,250 associated with the equity component were recorded in paid-in-capital. Interest expense recognized on the Convertible Notes, including amortization of OID and deferred origination costs relating to the liability component, was $3,709 and $3,640 for the three months ended September 30, 2014 and 2013, respectively, and $11,031 and $10,832 for the nine months ended September 30, 2014 and 2013, respectively.

The following table shows the amounts recorded for the Convertible Notes as of September 30, 2014 and December 31, 2013:

(Amounts in Thousands)	September 30, 2014	December 31, 2013
Liability component		
Outstanding principal	$200,000	$200,000
Unamortized OID	(33,357)	(35,782)
Liability component	$166,643	$164,218
Equity component, net of tax	$27,092	$27,092

6.125% Notes due 2023

In August 2013, the Company issued $250,000 aggregate principal amount of its 6.125% notes due 2023 (the "Notes") to certain initial purchasers in a private placement. The Notes bear interest at a rate equal to 6.125% per year, payable semiannually in arrears on February 15th and August 15th of each year. The Notes will mature on August 15, 2023, unless earlier purchased by the Company. Deferred origination costs associated with the Notes were approximately $2,706. The indenture governing the Notes contains covenants whereby the interest rate will increase by 0.50% per year if the Company's consolidated leverage ratio exceeds 30% and does not exceed 35% and will increase an additional 1.00% per year (for an aggregate increase of 1.50% per year) if the consolidated leverage ratio exceeds 35%. It is an event of default if the Company has a consolidated leverage ratio in excess of 35% for a period of 30 days, unless in connection with an acquisition, in which case the grace period is 18 months. The consolidated leverage ratio under this agreement was less than 30% as of September 30, 2014. The indenture governing the Notes also contains certain customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations, a limitation on liens, and a limitation on the disposition of stock of certain of the Company's subsidiaries. The Notes rank equally with existing and future unsecured and unsubordinated indebtedness, including the Company's Convertible Notes and amounts under the Credit Agreement. Interest expense, including amortization of deferred origination costs, recognized on the Notes was approximately $3,896 and $1,948 for the three months ended September 30, 2014 and 2013, respectively, and $11,690 and $1,948 for the nine months ended September 30, 2014 and 2013, respectively.

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling \$3,714 as of September 30, 2014 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred \$2,605 of placement fees in connection with these issuances which is being amortized over thirty years. The Company recorded \$2,028 and \$2,027 of interest expense for the three months ended September 30, 2014 and 2013, respectively, and \$6,076 and \$6,075 for the nine months ended September 30, 2014 and 2013, respectively, related to these trust preferred securities.

The table below summarizes the Company's trust preferred securities as of September 30, 2014:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate % of Notes	
AmTrust Capital Financing Trust I	$25,000	$774	$25,774	3/17/2035	8.275	(1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710	(1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	3.534	(2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	3.234	(3)
Total trust preferred securities	$120,000	$3,714	$123,714			

(1) The interest rate will change to three-month LIBOR plus 3.40% after the tenth anniversary in 2015.
(2) The interest rate is LIBOR plus 3.30%.
(3) The interest rate is LIBOR plus 3.00%.

The Company entered into two interest rate swap agreements related to these junior subordinated debentures, which effectively convert the interest rate on the trust preferred securities from a variable rate to a fixed rate. Each agreement is for a period of five years and commenced on September 15, 2011 for tranche III and March 15, 2012 for tranche IV.

Secured Loan Agreements

The Company, through a wholly-owned subsidiary, has a seven-year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10,800 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $117 through February 25, 2018, and a balloon payment of $3,240 at the maturity date. The Company recorded interest expense of approximately $80 and $92 for the three months ended September 30, 2014 and 2013, respectively, and $251 and $290 for the nine months ended September 30, 2014 and 2013, respectively, related to this agreement. The loan is secured by the aircraft.

The agreement contains certain covenants that are similar to the Company's Credit Agreement. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair value of the aircraft, the Company is required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 90% of the fair value of the aircraft. The agreement allows the Company, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

On August 29, 2014, the Company entered into a five-year secured loan agreement with Key Equipment Finance in the aggregate amount of $30,500 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 2.27% per annum and requires monthly installment payments of approximately $538 through August 31, 2019. The Company recorded interest expense of approximately $58 for the three and nine months ended September 30, 2014. The loan is secured by the aircraft.

Promissory Notes

In September 2012, as part of its participation in the New Market Tax Credit Program discussed in Note 13. "New Market Tax Credit", the Company entered into two promissory notes totaling $8,000. The loans are for a period of 15 years and have an average interest rate of 1.7% per annum. The Company recorded approximately $1,430 of deferred origination costs associated with these promissory notes. The Company recorded interest expense of approximately $94 and $75 for the three months ended September 30, 2014 and 2013, respectively, and $226 and $216 for the nine months ended September 30, 2014 and 2013, respectively, related to the promissory notes.

The Company assumed two promissory notes totaling $6,500 as a result of acquiring Mutual Insurers Holding Company ("MIHC") in 2013. The principal of these notes is due in 2034 and 2035. The notes require the payment of interest on a quarterly basis and have an interest rate of 3.8% plus the three month LIBOR per annum, which was 4.1% as of September 30, 2014. The Company recorded interest expense of approximately $170 and $79 for the three months ended September 30, 2014 and 2013, respectively, and $298 and $102 for the nine months ended September 30, 2014 and 2013, respectively, related to these notes.

ING Credit Facility

On November 26, 2013, the Company (as “Guarantor”), and two of its wholly-owned subsidiaries, AmTrust International Insurance, Ltd. (the “Account Party”) and AmTrust Corporate Capital Limited, entered into a four-year, £200,000 credit facility agreement with ING Bank, N.V., London Branch, individually and as Agent and Security Trustee. The credit facility, which matures on December 31, 2017, is a letter of credit facility that is used to support the Company’s capacity at Lloyd’s as a member of Syndicates 2526, 1206 and 44 for the 2014 underwriting year of account, as well as prior open years of account. The credit facility contains customary covenants for facilities of this type, including restrictions on indebtedness and liens, limitations on mergers, transactions with affiliates and the sale of assets, and requirements to maintain certain consolidated net worth, statutory surplus, leverage and fixed charge coverage ratios.

The facility is secured by a pledge of a collateral account pursuant to a pledge and security agreement and a Deed of Charge dated November 26, 2013. At the outset, the collateral account is 50% funded. The collateral account will be required to be 100% funded upon the occurrence of certain specified events, including an event of default, the financial strength rating of the Account Party falling below A-, the forecast underwriting losses exceeding a certain level for any year supported by a letter of credit or any non-extension notice is given with respect to any letter of credit.

Fees payable by the Company under the credit facility include a letter of credit issuance fee, payable quarterly in arrears, on the secured portion of the letters of credit at the rate of 0.55% and on the unsecured portion of the letters of credit determined based on the Account Party’s then-current financial strength rating issued by A.M. Best. As of September 30, 2014, the applicable letter of credit fee rate on the unsecured portion was 1.15% based on the Account Party’s A.M. Best financial strength rating of “A”. The Company also pays a commitment fee of 0.35% per year on the aggregate unutilized and uncanceled amount of the facility.

As of September 30, 2014, the Company had outstanding letters of credit of £196,095 (or $317,243) in place under this credit facility. The aggregated unutilized amount of £3,905 (or $6,317) under the facility was canceled as of September 30, 2014. The Company recorded total interest expense of approximately $754 and $2,067 during the three and nine months ended September 30, 2014, respectively, related to this credit facility.

Other Letters of Credit

The Company, through one of its subsidiaries, has a secured letter of credit facility with Comerica Bank. The Company utilizes this letter of credit facility to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for the Company’s obligations to workers’ compensation and Federal Longshore and Harbor Workers’ Compensation Act policyholders. The credit limit is for $75,000, of which $48,467 was utilized as of September 30, 2014. The Company is required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

The Company, through certain subsidiaries, has additional existing stand-by letters of credit with various lenders in the amount of $20,965 as of September 30, 2014.

7. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2014	2013	2014	2013
Policy acquisition expenses	$122,331	$64,363	$332,219	$155,566
Salaries and benefits	92,621	66,796	262,150	177,907
Other insurance general and administrative expenses	10,560	6,027	25,812	33,944
	$225,512	$137,186	$620,181	$367,417

8. Earnings Per Share

Effective January 1, 2009, the Company adopted ASC subtopic 260-10, Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities. ASC 260-10 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are to be included in the computation of earnings per share under the two-class method. The Company’s unvested restricted shares contain rights to receive nonforfeitable dividends and are participating securities, requiring the two-class method of computing earnings per share.

The following table is a summary of the elements used in calculating basic and diluted earnings per share for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands, except for earnings per share)	2014	2013	2014	2013
Basic earnings per share:				
Net income attributable to AmTrust common shareholders	$156,590	$58,238	$362,715	$213,513
Less: Net income allocated to participating securities and redeemable non-controlling interest	545	91	1,174	287
Net income allocated to AmTrust common shareholders	$156,045	$58,147	$361,541	$213,226
Weighted average common shares outstanding – basic	74,809	74,391	74,934	74,152
Less: Weighted average participating shares outstanding	261	116	243	99
Weighted average common shares outstanding - basic	74,548	74,275	74,691	74,053
Net income per AmTrust common share - basic	$2.09	$0.78	$4.84	$2.88
Diluted earnings per share:				
Net income attributable to AmTrust common shareholders	$156,590	$58,238	$362,715	$213,513
Less: Net income allocated to participating securities and redeemable non-controlling interest	545	91	1,174	287
Net income allocated to AmTrust common shareholders	$156,045	$58,147	$361,541	$213,226
Weighted average common shares outstanding – basic	74,548	74,275	74,691	74,053
Plus: Dilutive effect of stock options, convertible debt, other	4,841	4,522	4,394	3,595
Weighted average common shares outstanding – dilutive	79,389	78,797	79,085	77,648
Net income per AmTrust common shares – diluted	$1.97	$0.74	$4.57	$2.75

The Company repurchased 842,902 and 1,147,430 shares during the three and nine months ended September 30, 2014, respectively. The impact on basic and diluted earnings per share was approximately$0.01 for the three months ended September 30, 2014, and approximately $0.02 for the nine months ended September 30, 2014.

As of September 30, 2014, there were approximately 5,000 anti-dilutive securities excluded from diluted earnings per share.

9. Share Based Compensation

The Company's 2010 Omnibus Incentive Plan (the "Plan"), which permits the Company to grant to its officers, employees and non-employee directors incentive compensation directly linked to the price of the Company's stock, authorizes up to an aggregate of 7,315,068 shares of Company stock for awards of options to purchase shares of the Company's common stock, restricted stock, restricted stock units ("RSU"), performance share units ("PSU") or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 7,315,068 shares, subject to the authority of the Company's board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company's common stock. As of September 30, 2014, approximately 4,600,000 shares of Company common stock remained available for grants under the Plan.

The Company recognizes compensation expense under FASB ASC 718-10-25 for its share-based payments based on the fair value of the awards. The Company grants stock options at prices equal to the closing stock price of the Company's stock on the dates the options are granted. The options have a term of ten years from the date of grant and vest primarily in equal annual installments over the four year period following the date of grant for employee options. The Company uses the simplified method in determining the expected life. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The Company grants restricted shares, RSUs and PSUs with a grant date value equal to the closing stock price of the Company's stock on the dates the shares or units are granted and the restricted shares and RSUs vest over a period of two to four years, while PSUs vest based on terms of the awards.

The Company paid a ten percent stock dividend on September 4, 2013. At the dividend date, all options outstanding were adjusted by ten percent and their respective exercise prices were reduced by ten percent, which ultimately resulted in each outstanding share having the same fair value immediately prior to and subsequent to the dividend date. Therefore, the Company did not record any additional compensation expense as a result of the stock dividend. The Company also adjusted outstanding RSUs, unvested restricted stock and PSUs, resulting in no additional compensation expense. The following information and tables below for stock options, restricted stock and RSUs have been adjusted retroactively in all periods presented.

The following schedule shows all options granted, exercised, and expired under the Plan for the nine months ended September 30, 2014 and 2013:

	2014			2013		
	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
Outstanding at beginning of period	2,997,460		$10.49	3,675,776		$9.41
Granted	27,500		32.49	78,001		29.78
Exercised	(765,603	)	8.81	(573,437	)	7.29
Canceled or terminated	(8,470	)	7.03	(6,776	)	8.28
Outstanding at end of period	2,250,887		$11.35	3,173,564		$10.30

The weighted average grant date fair value of options granted during the nine months ended September 30, 2014 and 2013 was approximately $14.16 and $8.10, respectively.

A summary of the Company’s restricted stock and RSU activity for the nine months ended September 30, 2014 and 2013 is shown below:

	2014		2013	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	917,015	$24.43	888,197	$20.86
Granted	883,323	38.94	284,681	30.94
Vested	(321,353)	22.57	(257,694)	19.93
Forfeited	(6,123)	23.20	(581)	29.31
Non-vested at end of period	1,472,862	$33.54	914,603	$24.26

The Company has 328,788 PSUs granted as of September 30, 2014. During the nine months ended September 30, 2014, 347,875 PSUs were converted to restricted share awards based on achievements of certain targets. PSUs are conditional grants of a specified maximum number of common shares. In general, grants are earned, subject to the attainment of pre-specified performance goals at the end of the pre-determined period. The fair value of these PSUs on the date of the grants was $12,328.

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $5,250 and $3,139 for the three months ended September 30, 2014 and 2013, respectively, and $13,911 and $7,920 for the nine months ended September 30, 2014 and 2013, respectively.

The intrinsic value of stock options exercised during the nine months ended September 30, 2014 and 2013 was $22,867 and $14,124, respectively. The intrinsic value of stock options that were outstanding as of September 30, 2014 and 2013 was $64,088 and $91,102, respectively.

Cash received from options exercised was $4,981 and $5,429 during the nine months ended September 30, 2014 and 2013, respectively. The excess tax benefit from award exercises was approximately $4,721 and $3,805 for the nine months ended September 30, 2014 and 2013, respectively.

10. Income Taxes

The following table is a reconciliation of the Company’s statutory income tax expense to its effective tax rate for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2014	2013	2014	2013
Income before equity in earnings of unconsolidated subsidiaries	$145,160	$81,642	$373,972	$270,941
Tax at federal statutory rate of 35%	$50,806	$28,575	$130,890	$94,829
Tax effects resulting from:				
Income (loss) of non-includible foreign subsidiaries	(30,604)	6,615	(93,737)	(23,506)
Other, net	(27,866)	(11,310)	593	(3,932)
	$(7,664)	$23,880	$37,746	$67,391
Effective tax rate	(5.3)%	29.2%	10.1%	24.9%

The Company's effective tax rate was positively impacted by approximately 12.4% and 6.9% during the three months ended September 30, 2014 and 2013, respectively, and by approximately 9.8% and 7.7% during the nine months ended September 30, 2014 and 2013, respectively, due to a decrease in the deferred tax liability associated with the Company's equalization reserves for its Luxembourg reinsurers. Additionally, the decrease in the effective tax rate during the three and nine months ended September 30, 2014 compared to the same periods in 2013 was attributable to favorable return to provision adjustments in connection with the filing of the Company's 2013 federal income tax return. Without the impacts of the favorable return to provision adjustments and the decrease in deferred tax liability associated with the equalization reserves, the Company's effective tax rate for the three and nine months ended September 30, 2014 would have been approximately 26% and 27%, respectively.

The Company’s management believes that it will realize the benefits of its deferred tax assets, which are included as a component of the Company’s net deferred tax liability, and, accordingly, no valuation allowance has been recorded for the periods presented. The earnings of certain of the Company’s foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain of the Company’s foreign subsidiaries is not practicable. As of September 30, 2014 and December 31, 2013, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $479,900 and $360,000, respectively.

The Company’s major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company’s statute of limitation is open for tax years ended December 31, 2010 and forward. As permitted by FASB ASC 740-10, the Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision. The Company has not recorded any unrecognized tax benefits or any related interest and penalties at September 30, 2014 and December 31, 2013, respectively.

11. Related Party Transactions

Significant Transactions with Maiden Holdings, Ltd.

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. (“Maiden”). Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, principal shareholders, and, respectively, the chairman of the board of directors, a director, and the chief executive officer and director of the Company. As of September 30, 2014, our principal shareholders, Michael Karfunkel, Leah Karfunkel (wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind, own or control approximately 6.2%, 7.6%, 9.3% and 5.1%, respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden’s board of directors. Maiden Insurance Company, Ltd. (“Maiden Insurance”), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

Reinsurance Agreements with Maiden Holdings, Ltd.

In 2007, the Company and Maiden entered into a master agreement, as amended, by which the parties caused the Company’s Bermuda subsidiary, AmTrust International Insurance, Ltd. (“AII”) and Maiden Insurance to enter into a quota share reinsurance agreement (the “Maiden Quota Share”), as amended, by which AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by the Company’s U.S., Irish and U.K. insurance companies (the “AmTrust Ceding Insurers”), net of the cost of unaffiliated inuring reinsurance (and in the case of the Company’s U.K. insurance subsidiary, AmTrust Europe Ltd. ("AEL"), net of commissions) and 40% of losses excluding certain business that the Company commenced writing after the effective date, including the Company’s European medical liability business discussed below, business assumed from Tower Group International, Ltd. pursuant to the cut-through quota share reinsurance agreement, and risks, other than workers’ compensation risks and certain business written by the Company’s Irish subsidiary, AmTrust International Underwriters Limited (“AIU”), for which the AmTrust Ceding Insurers’ net retention exceeds $5,000 (“Covered Business”).

On March 7, 2013, after receipt of approval from each of the Company's and Maiden's Audit Committee, the Company and Maiden executed an amendment to the Maiden Quota Share. The amendment provides that, effective January 1, 2013, AII receives a ceding commission of 31% of ceded written premiums with respect to all Covered Business other than retail commercial package business, for which the ceding commission remains 34.375%. With regards to the Specialty Program portion of Covered Business only, the Company will be responsible for ultimate net loss otherwise recoverable from Maiden Insurance to the extent that the loss ratio to Maiden Insurance, which shall be determined on an inception to date basis from July 1, 2007 through the date of calculation, is between 81.5% and 95% (the "Specialty Program Loss Corridor"). For the purpose of determining whether the loss ratio falls within the Specialty Program Loss Corridor, workers' compensation business written in the Company's Specialty Program segment from July 1, 2007 through December 31, 2012 is excluded from the loss ratio calculation.

The Maiden Quota Share was renewed through July 1, 2016 and will automatically renew for successive three-year terms unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three-year term. In addition, either party is entitled to terminate on thirty days' notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

Effective April 1, 2011, the Company, through its subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which the Company cedes to Maiden Insurance 40% of its European medical liability business, including business in force at April 1, 2011. The quota share had an initial term of one year and was renewed through March 31, 2015. The agreement can be terminated by either party on four months' prior written notice. Maiden Insurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

The following is the effect on the Company's results of operations for the three and nine months ended September 30, 2014 and 2013 related to Maiden Reinsurance agreements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2014	2013	2014	2013
Results of operations:				
Premium written – ceded	$(385,452)	$(240,564)	$(1,157,716)	$(829,402)
Change in unearned premium – ceded	25,474	8,206	169,632	117,362
Earned premium - ceded	$(359,978)	$(232,358)	$(988,084)	$(712,040)
Ceding commission on premium written	$131,893	$74,594	$361,202	$246,604
Ceding commission – deferred	(22,353)	(6,375)	(72,311)	(47,270)
Ceding commission – earned	$109,540	$68,219	$288,891	$199,334
Incurred loss and loss adjustment expense – ceded	$229,045	$164,164	$666,026	$494,433

Note Payable to Maiden – Collateral for Proportionate Share of Reinsurance Obligations

In conjunction with the Maiden Quota Share, as described above, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Advances under the loan are secured by a promissory note and totaled $167,975 as of September 30, 2014 and December 31, 2013, respectively. The Company recorded $453 and $1,344 of interest expense during the three and nine months ended September 30, 2014, respectively, and $467 and $1,397 of interest expense during the three and nine months ended September 30, 2013, respectively. Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportional share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of September 30, 2014 was approximately $1,581,728. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, the Company provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The Company recorded $4,814 and $14,484 of brokerage commission during the three and nine months ended September 30, 2014, respectively, and $3,002 and $13,444 of brokerage commission during the three and nine months ended September 30, 2013, respectively. The brokerage commission was recorded as a component of service and fee income.

Asset Management Agreement

Effective July 1, 2007, a subsidiary of the Company entered into an asset management agreement with Maiden Insurance, pursuant to which the Company's subsidiary provides asset management services to Maiden Insurance and certain of its affiliates. As of September 30, 2014, the Company managed approximately $3,577,834 of assets related to this agreement. The asset management services fee is an annual rate of 0.20% for periods in which average invested assets are $1,000,000 or less and an annual rate of 0.15% for periods in which the average invested assets exceeds $1,000,000. As a result of this agreement, the Company recorded $1,325 and $3,814 of asset management fees during the three and nine months ended September 30, 2014, respectively, and $1,080 and $3,182 of asset management fees during the three and nine months ended September 30, 2013, respectively. The asset management fees were recorded as a component of service and fee income.

Significant Transactions with National General Holding Corp.

The Company has a 13.2% ownership interest in National General Holdings Corp. (“NGHC”). NGHC is a publicly-held insurance holding company (Nasdaq: NGHC) that operates fifteen insurance companies in the United States and writes consumer property and casualty insurance business through independent agents for automobiles. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. NGHC's two largest shareholders are the Michael Karfunkel 2005 Grantor Retained Annuity Trust (the “Trust”) and Michael Karfunkel individually. Michael Karfunkel is the chairman of the board of directors of the Company and the father-in-law of Barry D. Zyskind, the chief executive officer of the Company. The ultimate beneficiaries of the Trust include Michael Karfunkel’s children, one of whom is married to Mr. Zyskind. In addition, Michael Karfunkel is the Chairman, President and Chief Executive Offer of NGHC. In accordance with ASC 323-10-15, Investments-Equity Method and Joint Ventures, the Company accounts for its investment in NGHC under the equity method as it has the ability to exert significant influence on NGHC's operations.

In February 2014, NGHC issued approximately 13,600,000 shares in a follow on Rule 144A offering, which resulted in the Company reducing its ownership percentage in NGHC from 15.4% to 13.2%. As a result of the stock issuance, the Company recognized a gain on sale of its equity investment of $14,712, which is included in equity in earnings of unconsolidated subsidiary. In total, the Company recorded $4,332 and $26,847 of income during the three and nine months ended September 30, 2014, respectively, and $1,927 and $10,537 of income during the three and nine months ended September 30, 2013, respectively, related to its equity investment in NGHC.

Master Services Agreement

The Company provides NGHC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost which is currently 1.25% of gross written premium of NGHC and its affiliates plus the Company’s costs for development and support services. In addition, the Company provides NGHC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies the Company processes for NGHC and its affiliates on the policy management system. The Company recorded approximately $6,140 and $19,203 of fee income during the three and nine months ended September 30, 2014, respectively, and $7,103 and $18,475 of fee income during the three and nine months ended September 30, 2013, respectively, related to this agreement. Additionally, the Company provided certain consulting services to NGHC related to Luxembourg-domiciled reinsurance entities, for which the Company received $1,057 for the nine months ended September 30, 2014. The fees for these services were recorded as a component of service and fee income.

Asset Management Agreement

A subsidiary of the Company manages the assets of NGHC and certain of its subsidiaries, including the assets of reciprocal insurers managed by subsidiaries of NGHC, for an annual fee equal to 0.20% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for the preceding quarter is $1,000,000 or less and 0.15% of the average aggregate value of the assets under management for the preceding quarter if the average aggregate value for that quarter is more than $1,000,000. The Company managed approximately $1,433,780 of assets as of September 30, 2014 related to this agreement. As a result of this agreement, the Company earned approximately $564 and $1,454 of asset management fees during the three and nine months ended September 30, 2014, respectively, and $440 and $1,293 of asset management fees during the three and nine months ended September 30, 2013, respectively. The asset management fees were recorded as a component of service and fee income.

As a result of the above service agreements with NGHC, the Company recorded fees totaling approximately $6,704 and $20,657 for the three and nine months ended September 30, 2014, respectively, and $7,543 and $19,768 for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014, the outstanding balance payable by NGHC related to these service fees and reimbursable costs was approximately $14,346.

800 Superior

In 2011, the Company formed 800 Superior, LLC with a subsidiary of NGHC for the purposes of acquiring an office building in Cleveland, Ohio. The Company and NGHC each have a fifty percent ownership interest in 800 Superior, LLC. The cost of the building was approximately $7,500. The Company has been appointed managing member of the LLC. Additionally, in conjunction with the Company’s 13.2% ownership percentage of NGHC, the Company ultimately receives 57.7% of the profits and losses of the LLC. As such, in accordance with ASC 810-10, Consolidation, the Company has been deemed the primary beneficiary and, therefore, consolidates this entity.

In 2012, NGHC entered into an office lease with 800 Superior, LLC for approximately 134,000 square feet. The lease period is for fifteen years. NGHC paid 800 Superior, LLC approximately $560 and $1,495 of rent during the three and nine months ended September 30, 2014, respectively, and $627 and $1,698 of rent during the three and nine months ended September 30, 2013, respectively, under this lease. As discussed in Note 13. "New Market Tax Credit," 800 Superior, LLC, the Company and NGHC participated in a financing transaction related to capital improvements on the office building. As part of that transaction, NGHC and the Company entered into an agreement related to the payment and performance guaranties provided by the Company to the various parties to the financing transaction whereby NGHC has agreed to contribute 50% toward any payments the Company is required to make pursuant to the guaranties.

Sale of Personal Express Insurance Company

In April 2014, the Company completed the sale of Personal Express Insurance Company (“PEIC”), a California-domiciled property and casualty insurance carrier that offers retail personal lines insurance products in California, and its captive insurance agency Personal Express Insurance Services, Inc. (“PEIS” and, together with PEIC, the “Personal Express Companies”) to Integon National Insurance Company ("Integon"), a subsidiary of NGHC, for approximately $21,743. As a result of the the sale, the Company recorded a gain on sale of approximately $6,631. The Personal Express Companies were wholly-owned subsidiaries of Sequoia Insurance Company, which is one of the Company’s wholly-owned subsidiaries.

Personal Lines Quota Share

The Company was a party to a quota share reinsurance agreement (“Personal Lines Quota Share”) with Integon. On August 1, 2013, the Company and its wholly-owned subsidiary, Technology Insurance Company, Inc. (“TIC”), received a termination notice related to TIC's participation in the Personal Lines Quota Share effective August 1, 2013. The termination was on a run-off basis, meaning the Company is involved with the continuing cash flows associated with this business with respect to policies in force as of July 31, 2013. As such, the Personal Lines Reinsurance segment, which contains the results of operations from the Personal Lines Quota Share, is not presented as a discontinued operation in accordance with ASC 205-20, Discontinued Operations. The overall results of the Personal Lines Reinsurance segment were immaterial for the three and nine months ended September 30, 2014.

Significant Transactions with ACP Re, Ltd.

ACP Re, Ltd. (“ACP Re”) is a privately-held Bermuda reinsurance holding company formed by Michael Karfunkel, the chairman of the board of the Company. ACP Re operates 10 insurance companies in the United States and Bermuda as a result of its merger with Tower Group International, Ltd. ("Tower") during the third quarter of 2014. The following section describes the agreements in place between the Company and its subsidiaries and ACP Re and its subsidiaries.

Asset Management Agreement

A subsidiary of the Company provides asset management services to ACP Re and certain of its subsidiaries at (i) an annual rate of 0.20% of the average value of the invested assets under management, excluding investment in AmTrust stock, for the preceding calendar quarter if the average value of such assets for the quarter was $1,000,000 or less, or (ii) an annual rate of 0.15% of the average value of the invested assets under management, excluding investment in AmTrust stock, for the preceding calendar quarter if the average value of such assets for the quarter was greater than $1,000,000. The Company managed approximately $43,741 of assets as of September 30, 2014, which included assets of the ten statutory insurance companies that ACP Re acquired as a result of its September 15, 2014 merger with Tower described below. The Company recorded approximately $66 and $182 of asset management fees during the three and nine months ended September 30, 2014, respectively, and $63 and $173 of asset management fees during the three and nine months ended September 30, 2013, respectively. The asset management fees were recorded as a component of service and fee income.

Agreements as a result of ACP Re / Tower Merger

In January 2014, ACP Re, through a subsidiary, agreed to acquire 100% of the outstanding stock of Tower and merge with Tower on September 15, 2014 (the "Merger"). As a result of the Merger, the Company and ACP Re entered into the agreements and transactions described below, as well as an asset management agreement described above.
Commercial Lines Master Agreement
On July 23, 2014, the Company and ACP Re entered into the Amended and Restated Commercial Lines Master Agreement (the "Master Agreement"), which provides for the implementation of the various transactions associated with the acquisition of

Tower by ACP Re pursuant to the Merger, including entering into the agreements described below, all of which became effective on September 15, 2014. In addition, the Master Agreement requires the Company to pay ACP Re contingent consideration in the form of a three year earn-out (the “Contingent Payments”), payable semi-annually on the last day of January and July, of 3% of gross written premium of the Tower commercial lines business written or assumed by the Company following the Merger. The Contingent Payments to be made by the Company are subject to a maximum of $30,000, in the aggregate, over the three-year period. NGHC will pay contingent consideration to ACP Re on the same terms. As a result of entering into this agreement, the Company initially assigned a value of $25,200 to the renewal rights,$1,700 to goodwill, and $26,900 to the contingent consideration, which is recorded as a component of accrued expense and other liability.

Commercial Lines Reinsurance Agreements

TIC entered into the Commercial Lines Quota Share Reinsurance Agreement (the “CL Reinsurance Agreement”) with Tower’s ten statutory insurance companies (the “Tower Companies”) pursuant to which TIC will reinsure 100% of all losses under the Tower Companies’ new and renewal commercial lines business written after September 15, 2014. The ceding commission payable by TIC under the CL Reinsurance Agreement is equal to the sum of (i) reimbursement of the Tower Companies’ acquisition costs in respect of the business covered, including commission payable to AmTrust North America, Inc., a subsidiary of the Company (“ANA”), pursuant to the CL MGA Agreement described below, and premium taxes and (ii) 2% of gross written premium (net of cancellations and return premiums) collected pursuant to the CL MGA Agreement described below. The CL Reinsurance Agreement will remain in effect until termination of the CL MGA Agreement The assumption of premium under the CL Reinsurance Agreement during the three months ended September 30, 2014 was immaterial.

In connection with the execution of the CL Reinsurance Agreement, the Commercial Lines Cut-Through Quota Share Reinsurance Agreement, dated January 3, 2014, between TIC and the Tower Companies whereby TIC, through a 100% quota share, reinsured at least 60% of the Tower Companies’ then in-force commercial lines policies and most new and renewal commercial lines business from January 3, 2014 forward, was terminated on a run-off basis, with the reinsurance of all policies reinsured under that agreement remaining in effect. During the three and nine months ended September 30, 2014, TIC assumed $68,312 and $475,038 of premium, respectively, under the Cut-Through Reinsurance Agreement. During the three and nine months ended September 30, 2014, the Company had earned premium of approximately $104,250 and $300,288, respectively, and incurred approximately $72,586 and $198,050 of loss and loss adjustment expense, respectively, related to the Cut-Through Reinsurance Agreement. Additionally, the Company incurred approximately $26,302 and $71,712 of commission expense, respectively, and approximately $4,384 and $12,444 of unallocated claims expense as part of the agreement during the three and nine months ended September 30, 2014.

Commercial Lines MGA Agreement

ANA will produce and manage all new and renewal commercial lines business written by the Tower Companies pursuant to the Commercial Lines Managing General Agency Agreement (the “CL MGA Agreement”). As described above, all post-September 15, 2014 commercial lines business written by the Tower Companies will be reinsured by TIC pursuant to the CL Reinsurance Agreement. The Tower Companies will pay ANA a 10% commission on all business written pursuant to the CL MGA Agreement and reimburse ANA for commissions payable to agents producing such business. All payments by the Tower Companies to ANA pursuant to the CL MGA Agreement will be netted out of the ceding commission payable by TIC to the Tower Companies pursuant to the CL Reinsurance Agreement. The CL MGA Agreement has a term of ten years. The impact of the CL MGA Agreement on the Company during the three months ended September 30, 2014 was immaterial.

Commercial Lines Administrative Services Agreement

ANA, the Tower Companies and CastlePoint Reinsurance Company, Ltd. (“CP Re”, a subsidiary of ACP Re) entered into the Commercial Lines LPTA Administrative Services Agreement (the “CL Administrative Agreement”) pursuant to which ANA will administer the runoff of CP Re’s and the Tower Companies’ commercial lines business written prior to September 15, 2014 at cost. CP Re and the Tower Companies will reimburse ANA for its actual costs, including costs incurred in connection with claims operations, out-of-pocket expenses, costs incurred in connection with any required modifications to ANA’s claims systems and an allocated portion of the claims service expenses paid by TIC to the

Tower Companies pursuant to the CL Reinsurance Agreement. The CL Administrative Agreement will remain in effect until the first to occur of (i) the completed performance of all obligations and duties arising under the agreement, or (ii) mutual written consent. The Company did not receive any reimbursement as a result of the CL Administrative Agreement during the three months ended September 30, 2014.

Stop-Loss and Retrocession Agreements

AII and National General Re, Ltd., a subsidiary of NGHC (“NG Re Ltd.”), as reinsurers, entered into a $250,000 Aggregate Stop Loss Reinsurance Agreement (the “Stop-Loss Agreement”) with CP Re. AII and NG Re Ltd. also entered into an Aggregate Stop Loss Retrocession Contract (the “Retrocession Agreement”) with ACP Re pursuant to which ACP Re will reinsure the full amount of any payments that AII and NG Re Ltd. are obligated to make to CP Re under the Stop-Loss Agreement. Pursuant to the Stop-Loss Agreement, each of the Company and NGHC will provide, severally, $125 million of stop loss coverage with respect to the run-off of the Tower business written on or before September 15, 2014. The reinsurers’ obligation to indemnify CP Re under the Stop-Loss Agreement will be triggered only at such time as CP Re’s ultimate net loss related to the run-off of the pre-September 15, 2014 Tower business exceeds a retention equal to the Tower Companies’ loss and loss adjustment reserves and unearned premium reserves as of September 15, 2014. CP Re will pay AII and NG Re Ltd. total premium of $56,000 on the five-year anniversary of the Stop-Loss Agreement. The premium payable by AII and NG Re Ltd. to ACP Re pursuant to the Retrocession Agreement will be $56,000 in the aggregate, less a ceding commission of 5.5% to be retained by AII and NG Re Ltd.

Credit Agreement

The Company, AII, and NG Re Ltd. entered into a credit agreement (the “ACP Re Credit Agreement”) among the Company, as Administrative Agent, ACP Re and Tower, now a wholly-owned subsidiary of ACP Re, as the borrowers (collectively, the “Borrowers”), ACP Re Holdings, LLC, as Guarantor, and AII and NG Re Ltd., as Lenders pursuant to which the Lenders made a $250,000 loan ($125,000 made by each Lender) to the Borrowers. ACP Re used the proceeds of such loan to (i) finance the Merger, (ii) repay certain indebtedness of Tower and its related companies in connection with the Merger, and (iii) pay certain transaction costs and expenses incurred by the Borrowers in connection with the Merger.

The ACP Re Credit Agreement has a maturity date of September 15, 2021. Outstanding borrowings under the ACP Re Credit Agreement will bear interest at a fixed annual rate of 7%, payable semi-annually on the last day of January and July. Fees payable to the Company for its service as Administrative Agent include an annual fee equal to $30, plus reimbursement of costs, expenses and certain other charges. The obligations of the Borrowers are secured by (i) a first-priority pledge of 100% of the stock of ACP Re and ACP Re’s U.S. subsidiaries and 65% of the stock of certain of ACP Re’s foreign subsidiaries, and (ii) a first-priority lien on all of the assets of the Borrowers and Guarantor and certain of the assets of ACP Re’s subsidiaries (other than the Tower Companies).

The Borrowers have the right to prepay the amounts borrowed, in whole or in part. The Borrowers are required to prepay the amounts borrowed within thirty (30) days from the receipt of net cash proceeds received by ACP Re from (i) certain asset sales, (ii) the disposition of certain equity interests, (iii) the issuance or incurrence of certain debt, (iv) any dividend or distribution from Tower subsidiaries to ACP Re, (v) premiums and other payments received pursuant to the Retrocession Agreement, and (vi) any tax refunds, pension plan reversions, insurance proceeds, indemnity payments, purchase price adjustments (excluding working capital adjustments) under acquisition agreements, litigation proceeds and other similar receipts received by the Borrowers after the effective date of the ACP Re Credit Agreement, unless any of the foregoing proceeds (other than payments received pursuant to the Retrocession Agreement) are required for the ordinary course business operations of the Borrowers. The Borrowers are also required to deposit any excess cash flow (including payments under the Master Agreement) into a reserve account that also secures Borrowers’ obligations under the ACP Re Credit Agreement. Any funds in the reserve account after January 1, 2018 that exceed the amount of interest payable by the Borrowers for the remainder of the term of the ACP Re Credit Agreement must be applied by the Borrowers as a prepayment of principal under the ACP Re Credit Agreement.

The ACP Re Credit Agreement contains certain customary restrictive covenants (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, dispositions, creation of subsidiaries and restricted payments. There are also financial covenants that require ACP Re to maintain minimum current assets, a maximum leverage ratio, and a minimum fixed charge coverage ratio. If ACP Re fails to comply with the leverage ratio or fixed charge coverage ratio covenants as of any measurement date, the Borrowers may cure such breach by making a capital contribution to ACP Re sufficient to bring the Borrowers into compliance.

The ACP Re Credit Agreement also provides for customary events of default, with grace periods where appropriate, including failure to pay principal when due, failure to pay interest or fees within three business days after becoming due, failure to comply with covenants, breaches of representations and warranties, default under certain other indebtedness, certain insolvency, receivership or insurance regulatory events affecting the Borrowers, the occurrence of certain material judgments, certain amounts of reportable ERISA or foreign pension plan noncompliance events, a change in control of the Guarantor, any security interest created under the ACP Re Credit Agreement ceases to be in full force and effect, or if ACP Re defaults on its obligations under the Retrocession Agreement. Upon the occurrence and during the continuation of an event of default, the Company, as

Administrative Agent, upon the request of any Lender, will declare the Borrowers' obligations under the ACP Re Credit Agreement immediately due and payable and/or exercise any and all remedies and other rights under the ACP Re Credit Agreement.
As of September 30, 2014, the Company recorded $125,365 of loan and related interest receivable as a component of other assets on the condensed consolidated balance sheet. The Company recorded total interest income of approximately $365 for the three months ended September 30, 2014, under the ACP Re Credit Agreement.

Other Related Party Transactions

Lease Agreements

The Company has an office lease for its office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. The Company currently leases 39,992 square feet of office space and the lease term is through May 2023. The Company paid approximately $490 and $1,410 of rent during the three and nine months ended September 30, 2014, respectively, and $182 and $546 of rent during the three and nine months ended September 30, 2013, respectively, for the leased office space.

In November 2012, the Company entered into an agreement for its office space in Chicago, Illinois. The lease is with 135 LaSalle Property, LLC, an entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The Company leases 15,765 square feet of office space and the lease term is through November 30, 2022. The Company paid approximately $74 and $259 of rent during the three and nine months ended September 30, 2014, respectively, and $113 and $366 of rent during the three and nine months ended September 30, 2013, respectively, for the leased office space.

Use of the Company Aircraft

The Company's wholly-owned subsidiary, AmTrust Underwriters, Inc. ("AUI"), is a party to an aircraft time share agreement with each of Maiden and NGHC. The agreements provide for payment to AUI for usage of its company-owned aircraft and covers actual expenses incurred and permissible under federal aviation regulations, including travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, and airport taxes, among others. AUI does not charge Maiden or NGHC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries). The amount that each of Maiden and NGHC paid for the use of AUI's aircraft under these agreements was not material either individually or in aggregate during the three and nine months ended September 30, 2014, and 2013, respectively.

In addition, for personal travel, Mr. Zyskind, the Company's President and Chief Executive Officer and Michael Karfunkel, the Chairman of the Board, each entered into an aircraft reimbursement agreement with AUI and, since entering into such agreement, have fully reimbursed AUI for the incremental cost billed by AUI for their personal use of AUI's aircraft. The amount that each of Mr. Zyskind and Mr. Karfunkel reimbursed the Company for his personal use of AUI's aircraft under his respective agreement was not material either individually or in aggregate during the three and nine months ended September 30, 2014, and 2013, respectively.

12. Acquisitions

The Insco Dico Group

On January 3, 2014, the Company completed the acquisition of Insco Insurance Services, Inc. ("Insco Dico") and its subsidiaries for a purchase price of approximately $88,700. The transaction was funded with the Company's existing working capital. Insco Dico's subsidiaries include Developers Surety and Indemnity Company and Indemnity Company of California, which offer surety insurance to developers and contractors in all 50 states with California as the largest state. In addition, Insco Dico's subsidiary, Builders Insurance Services, markets general liability insurance policies to contractors in several states in the western region of the U.S.

A summary of the preliminary assets acquired and liabilities assumed for Insco Dico are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$ 130,031
Premium receivables	8,684
Reinsurance recoverable	5,799
Deferred tax asset	3,845
Other assets	2,114
Property and equipment	1,190
Goodwill and intangible assets	16,494
Total assets	$ 168,157
Liabilities	
Unearned premiums	$ 25,715
Loss and loss expense reserves	25,210
Accrued liabilities	10,210
Notes payable	10,000
Funds held for policyholders	5,864
Deferred tax liability	2,458
Total liabilities	$ 79,457
Cash paid	$ 88,700

The goodwill and intangible assets, as well as Insco Dico's results of operations, are included as a component of the Small Commercial Business segment. The identifiable intangible assets consist of agency relationships, which have a 20 year life, and licenses that have an indefinite life. The Company is in the process of completing its acquisition accounting and expects to have it completed in 2014.

As a result of this transaction, the Company recorded approximately $13,206 and $41,971 of written premium during the three and nine months ended September 30, 2014, respectively, related to Insco Dico. Additionally, the Company recorded approximately $1,767 and $2,346 of fee income during the three and nine months ended September 30, 2014, respectively, related to Insco Dico.

Sagicor Europe Limited

On December 23, 2013, the Company, through one of its subsidiaries, completed the acquisition of Sagicor Europe Limited and its wholly owned subsidiaries, including Sagicor at Lloyd's Limited ("Sagicor"), from Sagicor Financial Corporation for approximately $93,113. Sagicor Europe Limited and Sagicor at Lloyd's Limited subsequently changed their names to AmTrust Lloyd's Holdings Limited and AmTrust at Lloyd's Limited, respectively. AmTrust at Lloyd's Limited is a managing agency and owner of Lloyd's property/casualty insurance syndicate 1206 with stamp capacity of $330,000 and Lloyd's life insurance syndicate 44 with stamp capacity of $16,500.

A summary of the preliminary assets acquired and liabilities assumed for AmTrust Lloyd's Holdings Limited are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$429,476
Prepaid insurance	122,673
Premium receivables	89,801
Other receivable	54,479
Deferred tax asset	29,916
Other assets	10,502
Property and equipment	5,010
Goodwill and intangible assets	33,539
Total assets	$775,396
Liabilities	
Loss and loss expense reserves	$496,836
Unearned premium	113,182
Accrued expense and other liabilities	55,950
Ceded reinsurance	16,315
Total liabilities	$682,283
Cash paid	$93,113

The goodwill and intangible assets, as well as AmTrust Lloyd's Holdings Limited's results of operations, are included as a component of the Specialty Risk and Extended Warranty segment. The Company is in the process of completing its acquisition accounting and expects to have it completed in 2014.

As a result of this transaction, the Company recorded approximately $74,920 and $242,519 of written premium during the three and nine months ended September 30, 2014, respectively, related to Sagicor.

13. New Market Tax Credit

In 2012, the Company's subsidiary, 800 Superior, LLC (an entity owned equally by the Company and NGHC) received $19,400 in net proceeds from a financing transaction the Company and NGHC entered into with Key Community Development Corporation (“KCDC”) related to a capital improvement project for an office building in Cleveland, Ohio owned by 800 Superior, LLC. The Company, NGHC and KCDC collectively made capital contributions (net of allocation fees) and loans to 800 Superior NMTC Investment Fund II LLC and 800 Superior NMTC Investment Fund I LLC (collectively, the “Investment Funds”) under a qualified New Markets Tax Credit (“NMTC”) program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the “Act”) and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their federal income taxes for up to 39% of qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments (“QLICIs”).

In addition to the capital contributions and loans from the Company, NGHC and KCDC, as part of the transaction, the Investment Funds received, directly and indirectly, proceeds of approximately $8,000 from two loans originating from state and local governments of Ohio. These loans are each for a period of 15 years and have an average interest rate of 1.7% per annum.

The Investment Funds then contributed the loan proceeds and capital contributions of $19,400 to two CDEs, which, in turn, loaned the funds on similar terms to 800 Superior, LLC. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by KCDC, net of allocation fees) will be used to fund the capital improvement project. As collateral for these loans, the Company has granted a security interest in the assets acquired with the loan proceeds.

The Company and NGHC are each entitled to receive an equal portion of 49% of the benefits derived from the NMTCs generated by 800 Superior Investment Fund II LLC, while KCDC is entitled to the remaining 51%. The NMTC is subject to 100% recapture for a period of 7 years as provided in the Internal Revenue Code. During this seven-year compliance period, the entities involved are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in the projected tax benefits not being realized and, therefore, could require the Company to indemnify KCDC for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement. In addition, this transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase KCDC's interest in the Investment Funds in September 2019 at the end of the recapture period. The Company believes that KCDC will exercise its put option and, therefore, attributed an insignificant value to the put/call.

The Company has determined that the Investment Funds are variable interest entities (“VIEs”). The ongoing activities of the Investment Funds - collecting and remitting interest and fees and NMTC compliance - were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Investment Funds. When determining whether to consolidate the Investment Funds, Company management considered the contractual arrangements that obligate it to deliver tax benefits and provide various other guarantees to the structure, KCDC's lack of a material interest in the underlying economics of the project, and the fact that the Company is obligated to absorb losses of the Investment Funds. Also, the Company has a 13.2% ownership in NGHC. The Company concluded that it was the primary beneficiary and consolidated the Investment Funds, as VIEs, in accordance with the accounting standard for consolidation. KCDC's contribution, net of syndication fees, is included as accrued liability in the accompanying condensed consolidated balance sheets. Direct costs incurred in structuring the financing arrangement are deferred and will be recognized as expense over the term of the loans. Incremental costs to maintain the structure during the compliance period are recognized as incurred.

14. Stockholder Equity and Accumulated Other Comprehensive Income (Loss)

Preferred Stock Issuances

On July 1, 2014, the Company completed a public offering of 4,000,000 of its depositary shares, each representing a 1/40th interest in a share of its 7.25% Non-Cumulative Preferred Stock, Series B, $0.01 par value per share (the "Series B Preferred Stock"), with a liquidation preference of $1,000 per share (equivalent to $25 per depositary share). Each depositary share entitles the holder to a proportional fractional interest in all rights and preferences of the Series B Preferred Stock represented thereby (including any dividend, liquidation, redemption and voting rights). Dividends on the Series B Preferred Stock represented by the depositary shares will be payable on the liquidation preference amount, on a non-cumulative basis, when, as and if declared by the Company’s board of directors, at a rate of 7.25% per annum, quarterly in arrears, on March 15, June 15, September 15, and December 15 of each year, beginning on September 15, 2014, from and including the date of original issuance. The Series B Preferred Stock represented by the depositary shares is not redeemable prior to July 1, 2019. After that date, the Company may redeem at its option, in whole or in part, the Series B Preferred Stock represented by the depositary shares at a redemption price of $1,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then current dividend period. On July 10, 2014, the underwriters exercised, in part, their over-allotment option with respect to 200,000 additional depositary shares, each representing a 1/40th interest in a share of Series B Preferred Stock, on the same terms and conditions as the original issuance. A total of 4,200,000 depositary shares (equivalent to 105,000 shares of Series B Preferred Stock) were issued. Net proceeds from this offering, including the over-allotment, were $101,702. In addition, the Company incurred $3,614 in underwriting discount and commissions and expenses, which were recognized as a reduction to additional paid-in capital.

On September 16, 2014, the Company completed a public offering of 3,200,000 of its depositary shares, each representing a 1/40th interest in a share of its 7.625% Non-Cumulative Preferred Stock, Series C, $0.01 par value per share (the "Series C Preferred Stock"), with a liquidation preference of 1,000 per share (equivalent to $25 per depositary share). Each depositary share entitles the holder to a proportional fractional interest in all rights and preferences of the Series C Preferred Stock represented thereby (including any dividend, liquidation, redemption and voting rights). Dividends on the Series C Preferred Stock represented by the depositary shares will be payable on the liquidation preference amount, on a non-cumulative basis, when, as and if declared by the Company’s board of directors, at a rate of 7.625% per annum, quarterly in arrears, on March 15, June 15, September 15, and December 15 of each year, beginning on December 15, 2014, from and including the date of original issuance. The Series C Preferred Stock represented by the depositary shares is not redeemable prior to September 16, 2019. After that date, the Company may redeem at its option, in whole or in part, the Series C Preferred Stock represented by the depositary shares at a redemption price of 1,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends for prior dividend periods and accrued but unpaid dividends (whether or not declared) for the then current dividend period. Net proceeds from this offering were $77,480. In addition, the Company incurred $2,745 in underwriting discount and commissions and expenses, which were recognized as a reduction to additional paid-in capital.

Stockholders' Equity

The following table summarizes the ownership components of total stockholders' equity:

	2014			2013		
(Amounts in Thousands)	AmTrust	Non-Controlling Interest	Total	AmTrust	Non-Controlling Interest	Total
Balance, December 31,	$1,441,005	$ 137,860	$1,578,865	$1,144,121	$ 103,344	$1,247,465
Net income (loss)	370,102	(7,029)	363,073	215,561	(1,474)	214,087
Unrealized holding gain (loss)	85,726	—	85,726	(72,193)	—	(72,193)
Reclassification adjustment	(3,370)	—	(3,370)	3,839	—	3,839
Foreign currency translation	(5,289)	(271)	(5,560)	(4,739)	—	(4,739)
Unrealized gain on interest rate swap	581	—	581	862	—	862
Share exercises, compensation and other	18,892	—	18,892	13,349	—	13,349
Common share dividends	(45,147)	—	(45,147)	(29,337)	—	(29,337)
Preferred stock issuance, net of fees	178,641	—	178,641	111,130	—	111,130
Preferred stock dividends	(7,387)	—	(7,387)	(2,048)	—	(2,048)
Common share (repurchase) issuance	(44,564)	—	(44,564)	472	—	472
Capital contribution	—	24,013	24,013	—	16,108	16,108
Balance, September 30,	$1,989,190	$ 154,573	$2,143,763	$1,381,017	$ 117,978	$1,498,995

Accumulated Other Comprehensive Income (Loss)

The following table summarizes the activities and components of accumulated other comprehensive income (loss):

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Net Benefit Plan Assets and Obligations Recognized in Stockholders' Equity	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2013	$2,582	$(7,023)	$(1,985)	$(1,738)	$(8,164)
Other comprehensive income before reclassification	(8,137)	118,107	894	—	110,864
Amounts reclassed from accumulated other comprehensive income	—	(5,185)	—	—	(5,185)
Income tax expense	2,848	(30,566)	(313)	—	(28,031)
Net current-period other comprehensive income	(5,289)	82,356	581	—	77,648
Balance, September 30, 2014	$(2,707)	$75,333	$(1,404)	$(1,738)	$69,484

Balance December 31, 2012	$(10,361)	$77,605	$(3,013)	$—	$64,231
Other comprehensive income before reclassification	(7,291)	(111,066)	1,326	—	(117,031)
Amounts reclassed from accumulated other comprehensive income	—	5,906	—	—	5,906
Income tax benefit (expense)	2,552	36,806	(464)		38,894
Net current-period other comprehensive income (loss)	(4,739)	(68,354)	862	—	(72,231)
Balance, September 30, 2013	$(15,100)	$9,251	$(2,151)	$—	$(8,000)

41

15. Contingent Liabilities

Litigation

From time to time, the Company is subject to routine legal proceedings, including arbitrations, arising in the ordinary course of business. The Company’s insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company’s management believes the resolution of those actions will not have a material adverse effect on the Company’s financial position or results of operations.

16. Segments

The Company currently operates three business segments, Small Commercial Business; Specialty Risk and Extended Warranty and Specialty Program. The Company's Personal Lines Reinsurance segment is in run-off due to the termination of Personal Lines Quota Share in August 2013. The “Corporate & Other” segment represents the activities of the holding company as well as a portion of service and fee revenue. In determining total assets (excluding cash and invested assets) by segment, the Company identifies those assets that are attributable to a particular segment such as deferred acquisition cost, reinsurance recoverable, goodwill, intangible assets and prepaid reinsurance while the remaining assets are allocated based on gross written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on gross written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. Earned ceding commission is allocated to each segment based on that segment’s proportionate share of the Company’s overall acquisition costs. Interest expense is allocated based on gross written premium by segment. Income taxes are allocated on a pro-rata basis based on the Company’s effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing the Company’s shareholders with an understanding of the Company’s insurance business and operating performance.

During each of the three and nine months ended September 30, 2014, and 2013, the Company's Specialty Program segment derived over ten percent of its gross written premium primarily from one agent.

The following tables summarize the results of operations of the business segments for the three and nine months ended September 30, 2014 and 2013:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance - Run off	Corporate and Other	Total
Three months ended September 30, 2014:						