GLOBAL CASINOS INC
Form NT 10-K
September 28, 2011

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 12b-25

SEC File Number 0-15415

CUSIP Number 379-31N204

NOTICE OF LATE FILING

(Check One):

[X] Form 10-K [ ] Form 11-K [ ] Form 20-F [ ] Form 10-Q [ ] Form N-SAR

For Period Ended: June 30, 2011

If the notification relates to a portion of the filing checked above, identify the Item(s) to which the notification relates: N/A

Part I--Registrant Information

Full Name of Registrant: **GLOBAL CASINOS, INC.**

Former Name if Applicable:

Address of Principal Executive Office (Street and Number):

1507 Pine Street

Boulder, CO 80302

Part II--Rules 12b-25(b) and (c)

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12(b)-25(b), the following should be completed. (Check box if appropriate)

(a) [ ] The reasons described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense;

(b) [X] The subject annual report or semi-annual report/portion thereof will be filed on or before the fifteenth calendar day following the prescribed due date; or the subject quarterly report/portion thereof will be filed on or before the fifth calendar day following the prescribed due date; and

(c) [ ] The accountant's statement or other exhibit required by Rule 12b-25(c) has been attached if applicable.

Part III--Narrative

State below in reasonable detail the reasons why form 10-K, 11-K, 20-F, 10-Q or N-SAR or portion thereof could not be filed within the prescribed time period.

The Registrant is unable to file its Annual Form 10-K within the prescribed time period because the Company has not completed the preparation of its audited financial statements for the fiscal quarter.

Part IV--Other Information

(1)

Name and telephone number of person to contact in regard to this notification

Clifford L. Neuman, P.C.
1507 Pine Street
Boulder, Colorado 80302
(303) 449-2100

(2)

Have all other period reports required under section 13 or 15(d) of the Securities Exchange Act of 1934 or section 30 of the Investment Company Act of 1940 during the preceding 12 months or for such shorter period that the registrant was required to file such report(s) been filed? If the answer is no, identify report(s).

[X] Yes [ ] No

(3)

Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof?

[ ] Yes [X] No

If so; attach an explanation of the anticipated change, both narratively and quantitively, and, if appropriate, state the reasons why a reasonable estimate of the results cannot be made.

GLOBAL CASINOS, INC.
(Name of Registrant as specified in charter)

has caused this notification to be signed on its behalf by the undersigned thereunto duly authorized.

Date: September 28, 2011

By *<u>/s/ Clifford L Neuman</u>*
Clifford L Neuman, President

; FONT-FAMILY: times new roman"> $55,982 $51,366

Effect of income not subject to U.S. taxation	(5,471)	(3,703)	(28,100)	(12,672)
Other, net	1,756	(993)	1,626	(752)
Provision for income taxes as shown on the Condensed Consolidated Statements of Income	$13,182	$13,935	$29,508	$37,942
GAAP effective tax rate	27.3%	26.2%	18.4%	26.1%

The Company’s management believes that it will realize the benefits of its deferred tax assets, which is 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 Company does not provide for income taxes on the unremitted earnings of foreign subsidiaries where, in management’s opinion, such earnings have been indefinitely reinvested. It is not practical to determine the amount of unrecognized deferred tax liabilities for temporary differences related to these investments.

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, 2006 and forward. As permitted by FASB ASC 740-10, the Company's accounting policy is to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. At September 30, 2011, the Company has no accrued interest and penalties related to unrecognized tax benefits in accordance with FASB ASC 740-10.

11. Related Party Transactions

Maiden

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, the 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, 2011, Michael Karfunkel owns or controls approximately 13.9% of the issued and outstanding capital stock of Maiden, George Karfunkel owns or controls approximately 9.4% of the issued and outstanding capital stock of Maiden and Mr. Zyskind owns or controls approximately 5.1% of the issued and outstanding 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

During the third quarter of 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., net of commissions) and 40% of losses, excluding certain specialty risk programs that the Company commenced writing after the effective date 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”).

The Maiden Quota Share, which had an initial term of three years, was renewed through June 30, 2014 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 Maiden Quota Share, as amended, further provides that AII receives a ceding commission of 30% of ceded written premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission remains 34.375%. Commencing January 1, 2012, the ceding commission, excluding the retail package business ceding commission (which remains at 34.375%), will be adjusted to (a) 30% of ceded premium, if the Specialty Risk and Extended Warranty subject premium, excluding ceded premium related to our medical liability business discussed below, is greater than or equal to 42% of the total subject premium, (b) 30.5% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 42% but greater than or equal to 38%, or (c) 31% of ceded premium, if the Specialty Risk and Extended Warranty subject premium is less than 38% of the total subject premium. Prior to April 1, 2011, AII received a ceding commission of 31% of ceded premiums with respect to all Covered Business, except retail commercial package business, for which the ceding commission was 34.375%.

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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 has an initial term of one year and can be terminated at April 1, 2012 or any April 1 thereafter by either party on four months' 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 balance sheet as of September 30, 2011 and December 31, 2010 and the results of operations for the three and nine months ended September 30, 2011 and 2010 related to the above reinsurance agreements:

(Amounts in Thousands)	September 30, 2011	December 31, 2010
Assets and liabilities:		
Reinsurance recoverable	$ 458,855	$ 386,932
Prepaid reinsurance premium	346,586	283,899
Ceded reinsurance premiums payable	(147,171)	(95,629)
Note payable	(167,975)	(167,975)

(Amounts in Thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Results of operations:				
Premium written – ceded	$ (173,218)	$ (109,457)	$ (513,859)	$ (336,014)
Change in unearned premium – ceded	13,008	(11,122)	103,022	6,733
Earned premium - ceded	$ (160,210)	$ (120,579)	$ (410,838)	$ (329,281)
Ceding commission on premium written	$ 48,339	$ 33,855	$ 132,224	$ 104,959
Ceding commission – deferred	(6,557)	4,048	(20,269)	(1,851)
Ceding commission – earned	$ 41,782	$ 37,903	$ 111,955	$ 103,108
Incurred loss and loss adjustment expense – ceded	$ 94,371	$ 78,694	$ 275,434	$ 214,140
Interest expense on collateral loan	473	475	1,431	982

In conjunction with the Maiden Quota Share, 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, 2011. The Company recorded $1,431 and $982 of interest expense during the nine months ended September 30, 2011 and 2010, 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 proportionate share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of September 30, 2011 was approximately $434,000. Maiden retains ownership of the collateral in the trust account.

Effective September 1, 2010, the Company, through its subsidiary Technology Insurance Company, Inc. ("TIC"), entered into a quota share reinsurance agreement with Maiden Specialty Insurance Company ("Maiden Specialty") by which TIC assumes a portion (generally 90%) of premiums and losses with respect to certain surplus lines programs written by Maiden Specialty on behalf of the Company (the "Surplus Lines Facility"). The Surplus Lines Facility enables the Company to write business on a surplus lines basis throughout the United States in states in which it is otherwise unauthorized to write such business through its own insurance company subsidiaries. Currently, the Company is utilizing the Surplus Lines Facility for two programs for which Maiden Specialty receives a five percent ceding commission on all premiums ceded by Maiden Specialty to TIC. The Surplus Lines Facility shall remain continuously in force until terminated. The Company is actively pursuing surplus lines authority for two of its insurance company subsidiaries, which would remove the need for the Surplus Lines Facility. As a result of this agreement, the Company assumed approximately $12,800 of written premium for which it earned approximately $6,300 and incurred losses of approximately $3,900 for the nine months ended September 30, 2011.

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Effective September 1, 2010, the Company, through its subsidiary, Security National Insurance Company ("SNIC"), entered into a reinsurance agreement with Maiden Reinsurance Company and an unrelated third party. Under the agreement, which has a term of one year, SNIC cedes 80% of the gross liabilities produced under the Southern General Agency program to Maiden Reinsurance Company and 20% of the gross liabilities produced to the unrelated third party. SNIC receives a five percent commission on ceded written premiums. The Company ceded written premium of $333 and $448 for the three and nine months ended September 30, 2011 related to this agreement for which the Company earned ceding commission of $72 and $97 for the three and nine months ended September 30, 2011.

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. Effective April 1, 2011, the Company also provides brokerage services to Maiden Insurance relating to the reinsurance agreement on the European medical liability business for a fee equal to 1.25% of reinsured premium. The Company recorded $2,037 and $1,398 of brokerage commission (recorded as a component of service and fee income) during the three months ended September 30, 2011 and 2010, respectively and $6,295 and $4,253 during the nine months ended September 30, 2011 and 2010, respectively.

Asset Management Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into an asset management agreement with Maiden, pursuant to which the Company provides investment management services to Maiden and its affiliates. The investment management services fee is 0.20% per annum for periods in which average invested assets are $1,000,000 or less and 0.15% per annum for periods in which the average invested assets exceed $1,000,000. As a result of this agreement, the Company earned approximately $750 and $677 of investment management fees (recorded as a component of service and fee income) for the three months ended September 30, 2011 and 2010, respectively and $2,251 and $2,018 for the nine months ended September 30, 2011 and 2010, respectively.

Senior Notes

In June 2011, the Company, through a subsidiary, participated as a purchaser in a registered public offering by Maiden Holdings North America, Ltd., a subsidiary of Maiden, for $12,500 of an aggregate $107,500 principal amount of 8.25% Senior Notes due 2041 (the "Notes") that are fully and unconditionally guaranteed by Maiden. The Notes are redeemable for cash, in whole or in part, on or after June 15, 2016, at 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but not including, the redemption date. Maiden Holdings North America, Ltd. issued the Notes to use the proceeds, together with cash on hand, to repurchase, at 114% of the principal amount, $107,500 of Maiden's $260,000 outstanding trust preferred securities, on a pro rata basis, to all of its trust preferred securities holders. ACP Re, Ltd., an entity owned by a trust controlled by Michael Karfunkel, the Company's Chairman of the Board, accepted the offer to repurchase its $79,066 in principal amount of trust preferred securities. The Company's Audit Committee reviewed and approved the Company's participation in this offering.

American Capital Acquisition Corporation

During the three months ended March 31, 2010, the Company completed its strategic investment in American Capital Acquisition Corporation ("ACAC"). ACAC was formed by The Michael Karfunkel 2005 Grantor Retained Annuity Trust (the "Trust") and the Company for the purpose of acquiring from GMAC Insurance Holdings, Inc. and Motor Insurance Corporation ("MIC", together with GMAC Insurance Holdings, Inc., "GMACI"), GMACI's U.S. consumer property and casualty insurance business (the "GMACI Business"), a writer of automobile coverages through independent agents in the United States. Its coverages include standard/preferred auto, RVs, non-standard auto and commercial auto. The acquisition included ten statutory insurance companies (the "GMACI Insurers"). Michael Karfunkel, individually, and the Trust, which is controlled by Michael Karfunkel, own 100% of ACAC's common stock (subject to the Company's conversion rights described below). 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 of the Board of Directors of ACAC.

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Pursuant to the Amended Stock Purchase Agreement, ACAC issued and sold to the Company for an initial purchase price of approximately $53,000, which was equal to 25% of the capital initially required by ACAC, 53,054 shares of Series A Preferred Stock, which provides an 8% cumulative dividend, is non-redeemable and is convertible, at the Company's option, into 21.25% of the issued and outstanding common stock of ACAC (the "Preferred Stock"). The Company has pre-emptive rights with respect to any future issuances of securities by ACAC and the Company's conversion rights are subject to customary anti-dilution protections. The Company has the right to appoint two members of ACAC's board of directors, which consists of six members. Subject to certain limitations, the board of directors of ACAC may not take any action in the absence of the Company's appointees and ACAC may not take certain corporate actions without the unanimous prior approval of its board of directors (including the Company's appointees).

The Company, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportionate share of deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement, which are payable, annually on March 1 through March 1, 2013, to the extent that ACAC is unable to otherwise provide for such payments. The Company's proportionate share of such deferred payments will not exceed $15,000. In addition, in connection with the Company's investment, ACAC will grant the Company a right of first refusal to purchase or to reinsure commercial auto insurance business acquired from GMACI.

In accordance with ASC 323-10-15, Investments-Equity Method and Joint Ventures, the Company accounts for its investment in ACAC under the equity method. The Company recorded $(447) and $4,172 of income (loss) during the three months ended September 30, 2011 and 2010, respectively and $6,753 and $12,641 during the nine months ended September 30, 2011 and 2010, respectively related to its equity investment in ACAC.

Personal Lines Quota Share

The Company, effective March 1, 2010, reinsures 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement ("Personal Lines Quota Share") among the GMACI Insurers, as cedents, and the Company, ACP Re, Ltd., a Bermuda reinsurer that is a wholly-owned indirect subsidiary of the Trust, and Maiden Insurance Company, Ltd., as reinsurers. The Personal Lines Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, receive 50% of the net premium of the GMACI Insurers and assume 50% of the related net losses. The Company has a 20% participation in the Personal Lines Quota Share, by which it receives 10% of the net premiums of the personal lines business and assumes 10% of the related net losses. The Personal Lines Quota Share has an initial term of three years and will renew automatically for successive three-year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. In addition, either party is entitled to terminate on 60 days' written notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of the Company or the GMACI Insurers, run-off, or a reduction of 50% or more of the shareholders' equity. The GMACI Insurers also may terminate on nine months' written notice following the effective date of an initial public offering or private placement of stock by ACAC or a subsidiary. The Personal Lines Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. The Personal Lines Quota Share is subject to a premium cap that limits the premium that could be ceded by the GMACI Insurers to TIC to $121,000 during calendar year 2011 to the extent TIC was to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum thereafter. As a result of this agreement, the Company assumed $26,690 and $24,523 of business from the GMACI Insurers during the three months ended September 30, 2011 and 2010, respectively, and $77,276 and $59,083 of business from the GMACI Insurers during the nine months ended September 30, 2011 and 2010, respectively.

Information Technology Services Agreement

The Company provides ACAC and its affiliates information technology development services at a price of cost plus 20%. In addition, as a new system developed by the Company is implemented and ACAC or its affiliates begin using the system in its operations, the Company is receiving a license fee for use of the systems in the amount of 1.25% of gross premiums of ACAC and its affiliates plus our costs for support services. The Company recorded approximately $1,007 and $685 of fee income for the three months ended September 30, 2011 and 2010, respectively, and $2,364 and $1,307 of fee income for the nine months ended September 30, 2011 and 2010, respectively, related to this agreement. The terms and conditions of this agreement are subject to regulatory approval.

Asset Management Agreement

The Company manages the assets of ACAC and its subsidiaries 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. As a result of this agreement, the Company earned approximately $389 and $438 of investment management fees for the three months ended September 30, 2011 and 2010, respectively, and $1,170 and $1,021 of investment management fees for the nine months ended September 30, 2011 and 2010, respectively.

As a result of the above service agreements with ACAC, the Company recorded fees totaling approximately $1,396 and $1,123 for the three months ended September 30, 2011 and 2010, and $3,534 and $2,328 for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, the outstanding balance payable by ACAC related to these service fees and reimbursable costs was approximately $1,406.

800 Superior LLC

During the third quarter of 2011, the Company formed 800 Superior, LLC with a subsidiary of ACAC for the purposes of acquiring an office building in Cleveland, Ohio. The Company and ACAC 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. The Company's Audit Committee reviewed and approved this joint purchase with ACAC. Additionally in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% 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. The results of operations of the LLC did not have a material impact on the Company's results of operations for the three months ended September 30, 2011.

Diversified

Diversified Construction Management, LLC ("Diversified") provided construction management and general contractor services for a Company subsidiary in 2011 and 2010. The Company recorded a total of $52 and $0 for the three months ended September 30, 2011 and 2010, respectively and $195 and $345 for the nine months ended September 30, 2011, for Diversified's services in connection with the construction project. Robert A. Saxon, Jr., a principal of Diversified, is the brother of Michael J. Saxon, the Company's Chief Operating Officer. During several prior years, Diversified provided similar services to the Company. In March 2010, the Audit Committee ratified our existing contractual relationship and approved the ongoing contractual relationship with Diversified, including a determination that the contracts were not less favorable to the Company than similar services provided at arm's length.

Office Lease Agreements

In January 2008, the Company entered into an amended agreement 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 lease was amended such that it increased the leased space to 14,807 square feet and extended the lease through December 31, 2017. The Company's Audit Committee reviewed and approved the extension of the lease. The Company paid approximately $184 and $226 for the lease for the three months ended September 30, 2011 and 2010, respectively and $529 and $554 for the nine months ended September 30, 2011 and 2010, respectively.

In January 2011, the Company entered into an amended agreement to lease office space in Chicago, Illinois from 33 West Monroe Associates, LLC, an entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The lease was amended to increase the leased space to 9,030 square feet and extend the lease through October 31, 2017. The Company's Audit Committee reviewed and approved this amended lease agreement. The Company paid approximately $65 and $54 for the three months ended September 30, 2011 and 2010, respectively and $213 and $179 for the nine months ended September 30, 2011 and 2010, respectively.

Use of 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 ACAC. 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, airport taxes, among others. AUI does not charge Maiden or ACAC 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). During the nine months ended September 30, 2011, Maiden and ACAC paid AUI $42 and $51, respectively, for the use of AUI's aircraft under these agreements.

In addition, for personal travel, Mr. Zyskind, the Company's President and Chief Executive Officer, entered into an aircraft reimbursement agreement with AUI and, since entering into such agreement, has fully reimbursed AUI for the incremental cost billed by AUI for his personal use of AUI's aircraft, which for the nine months ended September 30, 2011 was $69. The Company's Audit Committee reviewed and approved the time share and reimbursement agreements.

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12. Acquisitions

Cardinal Comp

In September 2008, the Company entered into a managing general agency agreement with Cardinal Comp, LLC ("Cardinal Comp"), a workers' compensation managing general agent. The agency operates in eight states and primarily in the state of New York. During the nine months ended September 30, 2011, Cardinal Comp placed approximately $84,000 of workers' compensation premium that was included in the Company's small commercial business segment. In September 2011, the Company, through one of its subsidiaries, entered into a renewal rights and asset purchase agreement with Cardinal Comp and Cook Inlet Alternative Risk LLC. The purchase price was approximately $30,000. The existing managing general agency agreement entered into in 2008 was terminated as part of the new agreement and will enable the Company to reduce commissions on written premium generated from the renewal rights agreement. In accordance with FASB ASC 805-10 "Business Combinations", the Company recorded a provisional purchase price of $30,000, which consisted primarily of intangible assets of renewal rights, agency relationships, trademarks and non-compete agreements. The transaction did not have a material impact on the Company's results of operations, financial position or liquidity during the three months ended September 30, 2011.

Majestic

The Company, through certain of its subsidiaries and the Insurance Commissioner of the State of California acting solely in the capacity as the statutory conservator (the "Conservator") of Majestic Insurance Company ("Majestic"), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the "Rehabilitation Plan") by which the Company acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the "Purchase Agreement"), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the "Reinsurance Agreement"). On July 1, 2011, the Company, through one of its subsidiaries, entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic's liability for losses and loss adjustment expenses under workers' compensation insurance policies of approximately $315,151 on a gross basis (approximately $167,000 on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers' compensation business, including leases for Majestic's California office space. In addition, the Company assumed 100% of the unearned premium reserve of approximately $25,997 on all in-force Majestic policies. In connection with this transaction, the Company received approximately $216,000 of cash and investments, which included $26,000 for a reserve deficiency and also included the assignment of Majestic's reinsurance recoverables of approximately $51,715. The Reinsurance Agreement also contains a profit sharing provision whereby the Company pays Majestic up to 3% of net earned premium related to current Majestic policies that are renewed by the Company in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less. The insurance premiums, which are included in the Company's Small Commercial Business segment, have been recorded since the acquisition date and were approximately $13,000 and $39,000 for the three and nine months ended September 30, 2011, respectively.

The Company is in the process of completing its purchase price accounting related to the Reinsurance Agreement. In accordance with ASC 944-805 "Business Combinations", the Company is required to adjust to fair value Majestic's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout patterns using a current risk-free rate of interest. This risk free interest rate will then be adjusted based on different cash flow scenarios that use different payout and ultimate reserve assumptions deemed to be reasonably possible based upon the inherent uncertainties present in determining the amount and timing of payment of such reserves. The difference between the acquired loss and LAE reserves and the Company's best estimate of the fair value of such reserves at acquisition date is amortized ratably over the payout period of the acquired loss and LAE reserves. The Company expects to complete its analysis during the three months ended December 31, 2011 and anticipates the fair value of the acquired loss and LAE reserves will be less than its nominal reserves at acquisition. Accordingly, the amortization will be recorded as an expense on the Company's income statement until fully amortized.

In consideration for the Company's assumption of (i) Majestic's losses and loss adjustment expenses under its workers' compensation insurance policies pursuant to the Reinsurance Agreement and (ii) Majestic's leases for its California offices, a Company subsidiary, pursuant to the Purchase Agreement, acquired the right to offer, quote and solicit the renewals of in-force workers' compensation policies written by Majestic, certain assets required to conduct such business, including intellectual property and information technology, certain fixed asets, and to offer employment to Majestic's California-based employees.

As a result of entering into the Purchase Agreement, the Company, in accordance with FASB ASC 805 "Business Combinations" recorded $3,870 of intangible assets related to distribution networks and trademarks. The distribution networks have a life of 13 years and the trademarks have a life of two years. Additionally, the Company recorded a liability for approximately $390 related to an unfavorable lease assumed in the transaction and a liability for approximately $815 related to the above mentioned profit sharing provision. As a result, the Company recorded a preliminary bargain purchase gain of $2,665 during the three months ended September 30, 2011 related to the Majestic purchase. The Company is still in process of finalizing it purchase price accounting related to the remainder of the Purchase Agreement and expects to finalize it during the three months ended December 31, 2011.

ICM Re

In June 2011, the Company, through its subsidiary AmTrust Holdings Luxembourg Limited (formerly called AmTrust Captive Holdings Limited, “AHLL”), acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA (“ICM Re”), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315,000. The Company recorded approximately $347,000 of cash, intangible assets of $55,900 and a deferred tax liability of $87,800. The Company has classified the intangible assets as contractual use rights that will be amortized based on the actual use of the related equalization reserves. ICM Re subsequently changed its name to AmTrust Re Alpha. AHLL is included in the Company’s Specialty Risk and Extended Warranty segment.

The ICM Re transaction allows the Company to obtain the benefit of the captive’s capital and utilization of its existing and future loss reserves through a series of reinsurance arrangements with a subsidiary of the Company.

Warrantech

In August 2010, the Company, through its wholly-owned subsidiary AMT Warranty Corp., acquired 100% of the issued and outstanding capital stock of Warrantech Corporation (“Warrantech”) from WT Acquisition Holdings, LLC for approximately $7,500 in cash and an earnout payment to the sellers of a minimum of $2,000 and a maximum and $3,000 based on AMT Warranty Corp.’s EBITDA over the three-year period from January 1, 2011 through December 31, 2013. At the time of the acquisition, the Company had a 27% equity interest (in the form of preferred units) in WT Acquisition Holdings, LLC and a $20,000 senior secured note due January 31, 2012 issued to it by Warrantech. Interest on the note was payable monthly at a rate of 15% per annum and consisted of a cash component at 11% per annum and 4% per annum for the issuance of additional notes in principal amount equal to the interest not paid in cash on such date. Warrantech is a developer, marketer and third party administrator of service contracts and aftermarket warranty products that largely serves the consumer products and automotive industries in the U.S. and Canada.

Immediately prior to the consummation of this transaction, WT Acquisition Holdings, LLC redeemed the Company’s preferred units that had represented the Company’s 27% equity interest in that entity. In addition, immediately following the transaction, AMT Warranty Corp. was recapitalized and the Company contributed its note receivable from Warrantech in the approximate amount of $24,100 to AMT Warranty Corp. in exchange for Series A preferred stock, par value $0.01 per share (the “Series A Preferred Stock”), of AMT Warranty Corp. valued at $24,100. The Company also received additional shares of Series A Preferred Stock such that the total value of its 100% preferred share ownership in AMT Warranty Corp. is equivalent to $50,700. Lastly, AMT Warranty Corp. issued 20% of its issued and outstanding common stock to the Chairman of Warrantech, which had a fair value of $6,900 as determined using both a market and an income approach. Given its preference position, absent the Company’s waiver, the Company will be paid distributions on its Series A Preferred Stock before any common shareholder would be entitled to a distribution on the common stock.

During the nine months ended September 30, 2011, the Company adjusted its purchase price accounting, largely to record additional deferred tax and other liabilities. As a result, the ultimate acquisition price of Warrantech was adjusted to $78,586 and the Company has recorded goodwill and intangible assets of approximately $84,284 and $29,600, respectively. Acquisition related costs related to the deal were less than $100. The intangible assets consisted of trademarks, agency relationships and non-compete agreements, which had estimated lives of between 3 and 18 years. The Company recognizes the revenue from Warrantech as a component of service and fee income, which was approximately $14,130 and $38,772 for the three and nine months ended September 30, 2011, respectively, and includes the results of operations in its Specialty Risk and Extended Warranty segment.

13. Investment in Life Settlements

During the third quarter of 2010, the Company formed Tiger Capital LLC ("Tiger") with a subsidiary of ACAC for the purposes of acquiring certain life settlement contracts. A life settlement contract is a contract between the policy owner of a life insurance policy and a third-party investor who obtains the ownership and beneficiary rights of the underlying life insurance policy. Tiger also acquired premium finance loans made in connection with the borrower's purchase of a life insurance policy that are secured by the policy. The premium finance loans are in default and Tiger is in the process of acquiring the underlying policies through the borrower's agreement to surrender the policy in satisfaction of the loan or foreclosure. The Company and ACAC each have a fifty percent ownership interest in Tiger. Upon formation, the Company and ACAC each contributed approximately $6,000 to purchase a portfolio of life insurance policies and premium finance loans with a follow on contribution each of approximately $5,000 during the fourth quarter of 2010. Additionally, during the nine months ended September 30, 2011 each party contributed approximately $19,000 to Tiger. A third party serves as the administrator of the life settlement contract portfolio, for which it receives an annual fee. Under the terms of the agreement, the third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met.

During 2011, the Company formed AMT Capital Alpha, LLC (formerly called AMT Capital Holdings, LLC, "AMT Alpha") with a subsidiary of ACAC for the purposes of acquiring additional life settlement contracts. The Company and ACAC each have a fifty percent ownership interest in AMT Alpha. During 2011, each party contributed approximately $1,000 to AMT Alpha.

The Company provides for certain actuarial and finance functions related to Tiger and AMT Alpha. Additionally, in conjunction with the Company's 21.25% ownership percentage of ACAC, the Company ultimately receives 60.6% of the profits and losses of Tiger and AMT Alpha. As such, in accordance with ASC 810-10, Consolidation, the Company has been deemed the primary beneficiary and, therefore, consolidates both entities.

During the three and nine months ended September 30, 2011, Tiger and AMT Alpha acquired certain life insurance policies for approximately $4,568 and $28,211 respectively. Additionally the Company converted $1,730 and $6,621 of premium finance loans to life insurance policies for the three and nine months ended September 30, 2011 respectively. 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. The Company determines fair value on a discounted cash flow basis of anticipated death benefits, incorporating 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 as no comparable market pricing is available. The Company recorded other income for the three and nine months ended September 30, 2011 of approximately $6,882 and $48,346, respectively, related to the life insurance policies. The Company's investments in life settlements and cash value loans were approximately $128,001 as of September 30, 2011 and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet.

In addition to the 223 policies disclosed in the table below, Tiger owns 53 premium finance loans, which are secured by life insurance policies and are carried at a value of $6,334. The face value amount of the related 223 life insurance policies and 53 premium finance loans is approximately $1,441,993 and $305,700, respectively. All of the premium finance loans are in default and Tiger is enforcing its rights in the collateral. Upon the voluntary surrender of the underlying life insurance policy in satisfaction of the loan or foreclosure, Tiger will become the owner of and beneficiary under the underlying life insurance policy and will have the option to continue to make premium payments on the policies or allow the policies to lapse. If a policyholder wishes to cure his or her default and repay the loan, Tiger will be repaid the total amount due under the premium finance loans, including all premium payments made by Tiger to maintain the policy in force since its acquisition of the loan.

The following table describes the Company's investment in life settlements as of September 30, 2011:

(Amounts in thousands, except Life Settlement Contracts) Remaining life expectancy as of September 30, 2011	Number of Life Settlement Contracts	Fair Value	Face Value
0-1	—	$ —	$ —
1-2	—	—	—
2-3	1	6,487	10,000
3-4	1	2,579	5,000
4-5	4	14,431	30,000
Thereafter	217	98,170	1,396,933
Total	223	$ 121,667	$ 1,441,933

Premiums to be paid for each of the five succeeding fiscal years to keep the life insurance policies in force as of September 30, 2011, are as follows:

(Amounts in thousands) (Premiums due are between October 1 and September 30)	Premiums Due on Life Settlement Contracts	Premiums Due on Premium Finance Loans	Total
2011	$ 19,525	$ 2,478	$ 22,003
2012	23,554	3,251	26,805
2013	24,942	3,421	28,363
2014	25,794	3,777	29,571
2015	29,006	4,584	33,590
Thereafter	519,561	132,121	651,682
Total	$ 642,382	$ 149,632	$ 792,014

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14. Contingent Liabilities

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 should not have a material adverse effect on the Company's financial position or results of operations.

As a result of its equity investment in ACAC, the Company made an initial investment in ACAC in the amount of approximately $53,000. In addition, the Company, the Trust and Michael Karfunkel, individually, each shall be required to make its or his proportionate share of the deferred payments payable by ACAC to GMACI pursuant to the GMACI Securities Purchase Agreement (See Note 11. "Related Party Transactions"), which are payable over a period of three years from the date of the closing of the Acquisition, to the extent that ACAC is unable to otherwise provide for such payments. As of September 30, 2011, the Company's proportionate share of such deferred payments will not exceed $15,000.

15. Segments

The Company currently operates four business segments, Small Commercial Business; Specialty Risk and Extended Warranty; Specialty Program and Personal Lines Reinsurance. 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 net 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 net 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. Ceding commission revenue 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 net 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 Company's shareholders with an understanding of the Company's business and operating performance.

The following tables summarize the results of operations of the business segments for the three and nine months ended September 30, 2011 and 2010:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Three months ended September 30, 2011:						
Gross written premium	$ 145,418	$ 256,493	$ 132,621	$ 26,690	$ -	$ 561,222
Net written premium	79,070	149,238	66,905	26,690	-	321,903
Change in unearned premium	10,807	(22,454)	(19,958)	(1,450)	-	(33,055)
Net earned premium	89,877	126,784	46,947	25,240	-	288,848
Ceding commission - primarily related party	16,312	14,928	9,492	-	-	40,732
Loss and loss adjustment expense	(55,721)	(83,102)	(30,376)	(16,153)	-	(185,352)
Acquisition costs and other underwriting expenses	(42,074)	(39,187)	(23,806)	(8,203)	-	(113,270)
	(97,795)	(122,289)	(54,182)	(24,356)	-	(298,622)
Underwriting income	8,394	19,423	2,257	884	-	30,958
Service and fee income	6,347	18,413	5	-	4,050	28,815
Investment income and realized gain (loss)	6,590	4,956	2,997	463	-	15,006
Other expenses	(7,432)	(9,857)	(6,386)	(370)	-	(24,045)
Interest expense	(1,219)	(1,556)	(1,136)	(35)	-	(3,946)
Foreign currency loss	-	(4,063)	-	-	-	(4,063)
Gain on life settlement contracts	2,096	1,705	3,358	(337)	-	6,822
Bargain purchase on Majestic transaction	2,665	-	-	-	-	2,665
Provision for income taxes	(4,205)	(7,344)	(488)	(188)	(957)	(13,182)
Equity in earnings (loss) of unconsolidated subsidiaries – related party	-	-	-	-	(447)	(447)
Non-controlling interest	(1,072)	(888)	(1,693)	166	-	(3,487)
Net income attributable to AmTrust Financial Services, Inc.	$ 12,164	$ 20,789	$ (1,086)	$ 583	$ 2,646	$ 35,096

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Three months ended September 30, 2010:						
Gross written premium	$ 107,838	$ 146,155	$ 60,568	$ 24,523	$ —	$ 339,084
Net written premium	56,386	78,377	23,551	24,523	—	182,837
Change in unearned premium	8,029	2,524	3,828	(6,333)	—	8,048
Net earned premium	64,415	80,901	27,379	18,190	—	190,885
Ceding commission - primarily related party	16,400	14,578	6,925	—	—	37,903
Loss and loss adjustment expense	(39,245)	(50,584)	(19,235)	(11,368)	—	(120,432)
Acquisition costs and other underwriting expenses	(32,899)	(29,482)	(13,860)	(5,911)	—	(82,152)
	(72,144)	(80,066)	(33,095)	(17,279)	—	(202,584)
Underwriting income	8,671	15,413	1,209	911	—	26,204
Service and fee income	9,124	9,971	—	—	3,323	22,418
Investment income and realized gain (loss)	7,390	6,356	3,645	1,021	—	18,412
Other expenses	(6,515)	(8,456)	(3,781)	(1,458)	—	(20,210)
Interest expense	(1,083)	(1,417)	(628)	(282)	—	(3,410)
Foreign currency loss	—	(141)	—	—	—	(141)
Gain on life settlement contracts	3,857	4,983	2,241	774	—	11,855
Provision for income taxes	(5,463)	(6,813)	(565)	(280)	(814)	(13,935)
Equity in earnings of unconsolidated subsidiaries – related party	—	—	—	—	4,030	4,030
Non-controlling interest	(1,928)	(2,491)	(1,121)	(387)	—	(5,927)
Net income attributable to AmTrust Financial Services, Inc.	$ 14,053	$ 17,405	$ 1,000	$ 299	$ 6,539	$ 39,296

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(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Nine months ended September 30, 2011:						
Gross written premium	$ 460,741	$ 749,743	$ 275,951	$ 77,276	$ -	$ 1,563,711
Net written premium	269,942	438,963	145,422	77,276	-	931,603
Change in unearned premium	(44,170)	(117,971)	(27,567)	(4,427)	-	(194,135)
Net earned premium	225,772	320,992	117,855	72,849	-	737,468
Ceding commission - primarily related party	48,207	41,614	22,009	-	-	111,830
Loss and loss adjustment expense	(142,411)	(216,579)	(78,443)	(46,623)	-	(484,056)
Acquisition costs and other underwriting expenses	(108,483)	(97,493)	(54,432)	(23,676)	-	(284,084)
	(250,894)	(314,072)	(132,875)	(70,299)	-	(768,140)
Underwriting income	23,085	48,534	6,989	2,550	-	81,158
Service and fee income	16,765	49,823	10	-	11,948	78,546
Investment income and realized gain (loss)	19,399	14,962	7,502	1,533	-	43,396
Other expenses	(19,457)	(29,366)	(11,549)	(2,433)	-	(62,805)
Interest expense	(3,728)	(5,627)	(2,213)	(466)	-	(12,034)
Foreign currency loss	-	(1,827)	-	-	-	(1,827)
Gain on life settlement contracts	14,978	22,605	8,890	1,873	-	48,346
Bargain purchase on Majestic transaction	2,665	-	-	-	-	2,665
Provision for income taxes	(8,932)	(16,480)	(1,601)	(508)	(1,987)	(29,508)
Equity in earnings of unconsolidated investment – related party					6,753	6,753
Non-controlling interest	(7,513)	(11,338)	(4,459)	(939)	-	(24,249)
Net income attributable to AmTrust Financial Services, Inc.	$ 37,262	$ 71,286	$ 3,569	$ 1,610	$ 16,714	$ 130,441

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(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Nine months ended September 30, 2010:						
Gross written premium	$ 338,140	$ 495,799	$ 192,935	$ 59,083	$—	$ 1,085,957
Net written premium	173,875	238,642	97,044	59,083	—	568,644
Change in unearned premium	15,404	(19,390)	2,128	(31,540)	—	(33,398)
Net earned premium	189,279	219,252	99,172	27,543	—	535,246
Ceding commission - primarily related party	50,580	35,408	17,121	—	—	103,109
Loss and loss adjustment expense	(113,680)	(135,808)	(65,061)	(17,214)	—	(331,763)
Acquisition costs and other underwriting expenses	(97,621)	(73,531)	(42,974)	(8,951)	—	(223,077)
	(211,301)	(209,339)	(108,035)	(26,165)	—	(554,840)
Underwriting income	28,558	45,321	8,258	1,378	—	83,515
Service and fee income	14,676	15,958	—	—	8,871	39,505
Investment income and realized gain (loss)	17,142	14,223	8,747	1,826	—	41,938
Other expenses	(11,640)	(15,039)	(6,764)	(2,337)	—	(35,780)
Interest expense	(3,268)	(4,222)	(1,899)	(656)	—	(10,045)
Foreign currency loss	—	(103)	—	—	—	(103)
Gain on life settlement contracts	3,857	4,983	2,241	774	—	11,855
Provision for income taxes	(14,298)	(17,718)	(3,068)	(286)	(2,572)	(37,942)
Equity in earnings of unconsolidated investment – related party	—	—	—	—	21,803	21,803
Non-controlling interest	(1,928)	(2,491)	(1,121)	(387)	—	(5,927)
Net income attributable to AmTrust Financial Services, Inc.	$ 33,099	$ 40,912	$ 6,394	$ 312	$ 28,102	$ 108,819

The following tables summarize long lived assets and total assets of the business segments as of September 30, 2011 and December 31, 2010:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and other	Total
As of September 30, 2011:						
Fixed assets	$ 17,681	$ 26,685	$ 10,494	$ 2,211	$—	$ 57,071
Goodwill and intangible assets	118,363	159,676	14,691	-	—	292,730

Total assets	2,131,828	2,286,620	868,081	132,820	—	5,419,349
As of December 31, 2010:						
Fixed assets	$ 9,839	$ 13,386	$ 5,694	$ 1,970	$—	$ 30,889
Goodwill and intangible assets	87,001	95,737	15,088	—	—	197,826
Total assets	1,581,946	1,716,980	741,835	141,692	—	4,182,453

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q.

Note on Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements that are intended to be covered by the safe harbors created by The Private Securities Litigation Reform Act of 1995. When we use words such as "anticipate," "intend," "plan," "believe," "estimate," "expect," or similar expressions, we do so to identify forward-looking statements. Examples of forward-looking statements include the plans and objectives of management for future operations, including those relating to future growth of our business activities and availability of funds, and are based on current expectations that involve assumptions that are difficult or impossible to predict accurately and many of which are beyond our control. There can be no assurance that actual developments will be those anticipated by us. Actual results may differ materially from those expressed or implied in these statements as a result of significant risks and uncertainties, including, but not limited to, non-receipt of expected payments from insureds or reinsurers, changes in interest rates, a downgrade in the financial strength ratings of our insurance subsidiaries, the effect of the performance of financial markets on our investment portfolio, development of claims and the effect on loss reserves, accuracy in projecting loss reserves, the cost and availability of reinsurance coverage, the effects of emerging claim and coverage issues, changes in the demand for our products, successful integration of acquired businesses, the effect of general economic conditions, adverse state and federal legislation, regulations and regulatory investigations into industry practices, risks associated with conducting business outside the United States, developments relating to existing agreements, disruptions to our business relationships with Maiden Holdings, Ltd., American Capital Acquisition Corporation, or third party agencies and warranty administrators, difficulties with technology, heightened competition, changes in pricing environments, and changes in asset valuations. Additional information about these risks and uncertainties, as well as others that may cause actual results to differ materially from those projected, is contained in our filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2010, and our quarterly reports on Form 10-Q. The projections and statements in this report speak only as of the date of this report and we undertake no obligation to update or revise an forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Overview

We are a multinational specialty property and casualty insurer focused on generating consistent underwriting profits. We provide insurance coverage for small businesses and products with high volumes of insureds and loss profiles that we believe are predictable. We target lines of insurance that we believe generally are underserved by the market. We have grown by hiring teams of underwriters with expertise in our specialty lines and acquiring companies and assets that, in each case, provide access to distribution networks and renewal rights to established books of specialty insurance business. We have operations in four business segments:

- Small Commercial Business. We provide workers' compensation, commercial package and other commercial insurance lines produced by wholesale agents, retail agents and brokers in the United States.

- Specialty Risk and Extended Warranty. We provide coverage for consumer and commercial goods and custom designed coverages, such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United States, United Kingdom and Europe, and certain property, casualty and specialty liability risks in the United States and Europe, including general liability, employers' liability and professional and medical liability.

- Specialty Program. We write commercial insurance for homogeneous, narrowly defined classes of insureds, requiring an in-depth knowledge of the insured's industry segment, through general and other wholesale agents.

- Personal Lines Reinsurance. We reinsure 10% of the net premiums of the GMACI personal lines business, pursuant to a quota share reinsurance agreement ("Personal Lines Quota Share") with the GMACI personal lines insurance companies.

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We transact business primarily through eleven insurance company subsidiaries:

Company	A.M. Best Rated	Coverage Type Offered	Coverage Market	Domiciled
Technology Insurance Company, Inc. (“TIC”)	A (Excellent)	Small commercial, middle market property & casualty, specialty risk & extended warranty and reinsurance for GMACI	United States	New Hampshire
Rochdale Insurance Company (“RIC”)	A (Excellent)	Small commercial, middle market property & casualty and specialty risk & extended warranty	United States	New York
Wesco Insurance Company (“WIC”)	A (Excellent)	Small commercial, middle market property & casualty and specialty risk & extended warranty	United States	Delaware
Associated Industries Insurance Company, Inc. (“AIIC”)	A (Excellent)	Workers’ compensation	United States	Florida
Milwaukee Casualty Insurance Company (“MCIC”)	A (Excellent)	Small Commercial Business	United States	Wisconsin
Security National Insurance Company (“SNIC”)	A (Excellent)	Small Commercial Business	United States	Texas
AmTrust Insurance Company of Kansas, Inc. (“AICK”)	A (Excellent)	Small Commercial Business	United States	Kansas
AmTrust Lloyd’s Insurance Company (“ALIC”)	A (Excellent)	Small Commercial Business	United States	Texas
AmTrust International Underwriters Limited (“AIU”)	A (Excellent)	Specialty Risk and Extended Warranty	European Union	Ireland
AmTrust Europe, Ltd. (“AEL”)	A (Excellent)	Specialty Risk and Extended Warranty	European Union	England
AmTrust International Insurance Ltd. (“AII”)	A (Excellent)	Reinsurance for consolidated subsidiaries	United States and European Union	Bermuda

Insurance, particularly workers’ compensation, is generally affected by seasonality. The first quarter generally produces greater premiums than subsequent quarters. Nevertheless, the impact of seasonality on our Small Commercial Business and Specialty Program segments has not been significant. We believe that this is because we serve many small businesses in different geographic locations. In addition, we believe seasonality is muted by our acquisition activity.

We evaluate our operations by monitoring key measures of growth and profitability. We measure our growth by examining our net income, return on average equity, and our loss, expense and combined ratios. The following summary provides further explanation of the key measures that we use to evaluate our results:

Gross Written Premium. Gross written premium represents estimated premiums from each insurance policy that we write during a reporting period based on the effective date of the individual policy. Certain policies that we underwrite are subject to premium audit at that policy’s cancellation or expiration. The final actual gross premiums written may vary from the original estimate based on changes to the final rating parameters or classifications of the policy.

Net Written Premium. Net written premium is gross written premium less that portion of premium that is ceded to third party reinsurers under reinsurance agreements. The amount ceded under these reinsurance agreements is based on a contractual formula contained in the individual reinsurance agreements.

Net Earned Premium. Net earned premium is the earned portion of our net written premiums. We earn insurance premiums on a pro-rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums and are earned in subsequent periods over the remaining term of the policy. Our workers' compensation insurance and commercial package policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2011 for an employer with a constant payroll during the term of the policy, we would earn half of the premiums in 2011 and the other half in 2012. We earn our specialty risk and extended warranty coverages over the estimated exposure time period. The terms vary depending on the risk and have an average duration of approximately 25 months, but range in duration from one month to 120 months.

Ceding Commission Revenues. Ceding commission is a commission we receive from ceding gross written premium to third-party reinsurers. In connection with the Maiden Quota Share, which is our primary source of ceding commission, effective April 1, 2011 we receive a ceding commission of 30% or 34.375%, based on the business ceded. Prior to April 1, 2011, we received a ceding commission of 31% or 34.375%, based on the business ceded. We allocate earned ceding commissions to our segments based on each segment's direct share of total acquisition costs and other underwriting expenses recognized during the period as well as the indirect share of the above expenses based on the proportionate share of earned premium recognized during the period.

Service and Fee Income. We currently generate service and fee income from the following sources:

- Product warranty registration and service — Our Specialty Risk and Extended Warranty business generates fee revenue for product warranty registration and claims handling services provided to unaffiliated third parties.

- Servicing carrier — We act as a servicing carrier for the Alabama, Arkansas, Illinois, Indiana, Georgia and Kansas workers' compensation assigned risk plans. In addition, we also offer claims adjusting and loss control services for fees to unaffiliated third parties.

- Management services — We provide services to insurance consumers, traditional insurers and insurance producers by offering flexible and cost effective alternatives to traditional insurance tools in the form of various risk retention groups and captive management companies, as well as management of workers' compensation and commercial property programs.

- Installment and reinstatement fees — We recognize fee income associated with the issuance of workers' compensation policies for which premium is payable in installments, in jurisdictions where it is permitted and approved, and reinstatement fees, which are fees charged to reinstate a policy after it has been cancelled for non-payment, in jurisdictions where it is permitted and approved.

- Broker services — We provide brokerage services to Maiden in connection with our reinsurance agreements for which we receive a fee.

- Asset management services — We currently manage the investment portfolios of Maiden and ACAC for which we receive a management fee.

- Information technology services — We provide information technology services to ACAC and its affiliates for a fee.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses ("LAE") incurred represent our largest expense item and, for any given reporting period, include estimates of future claim payments, changes in those estimates from prior reporting periods and costs associated with investigating, defending and servicing claims. These expenses fluctuate based on the amount and types of risks we insure. We record loss and loss adjustment expenses related to estimates of future claim payments based on case-by-case valuations and statistical analyses. We seek to establish all reserves at the most likely ultimate exposure based on our historical claims experience. It is typical for our more serious bodily injury claims to take several years to settle and we revise our estimates as we receive additional information about the condition of injured employees and claimants and the costs of their medical treatment. Our ability to estimate loss and loss adjustment expenses accurately at the time of pricing our insurance policies is a critical factor in our profitability.

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Acquisition Costs and Other Underwriting Expenses. Acquisition costs and other underwriting expenses consist of policy acquisition expenses, salaries and benefits and general and administrative expenses. These items are described below:

- Policy acquisition expenses comprise commissions directly attributable to those agents, wholesalers or brokers that produce premiums written on our behalf. In most instances, we pay commissions based on collected premium, which reduces our credit risk exposure associated with producers in case a policyholder does not pay a premium. We pay state and local taxes, licenses and fees, assessments and contributions to various state guaranty funds based on our premiums or losses in each state. Surcharges that we may be required to charge and collect from insureds in certain jurisdictions are recorded as accrued liabilities, rather than expense.
- Salaries and benefits expenses are those salaries and benefits expenses for employees that are directly involved in the origination, issuance and maintenance of policies, claims adjustment and accounting for insurance transactions. We classify salaries and benefits associated with employees that are involved in fee generating activities as other expenses.
- General and administrative expenses are comprised of other costs associated with our insurance activities, such as federal excise tax, postage, telephones and internet access charges, as well as legal and auditing fees and board and bureau charges.

Gain on Investment in Life Settlement Contracts. The gain on investment in life settlement contracts includes both the gain on acquisition of life settlement contracts and the gain realized upon a mortality event. The gain on acquisition of life settlement contracts represents the change in fair value of the investments in life settlements as evaluated at the end of each reporting period. We determine fair value based upon the discounted cash flow of the anticipated death benefits, incorporating a number of factors, such as current life expectancy assumptions, expected premium payment obligations and increased cost assumptions, credit exposure to the insurance companies that issued the life insurance policies and the rate of return that a buyer would require on the policies. The gain realized upon a mortality event is the difference between the death benefit received and the recorded fair value of that particular policy. We allocate gain on life settlement contracts to our segments based on net written premium by segment.

Net Loss Ratio. The net loss ratio is a measure of the underwriting profitability of an insurance company's business. Expressed as a percentage, this is the ratio of net losses and loss adjustment expense incurred to net premiums earned.

Net Expense Ratio. The net expense ratio is a measure of an insurance company’s operational efficiency in administering its business. Expressed as a percentage, this is the ratio of the sum of acquisition costs and other underwriting expenses less ceding commission revenue to net premiums earned. As we allocate certain acquisition costs and other underwriting expenses based on premium volume to our segments, net loss ratio on a segment basis may be impacted period over period by a shift in the mix of net written premium.

Net Combined Ratio. The net combined ratio is a measure of an insurance company's overall underwriting profit. This is the sum of the net loss and net expense ratios. If the net combined ratio is at or above 100%, an insurance company cannot be profitable without investment income, and may not be profitable if investment income is insufficient.

Net Premiums Earned less Expenses Included in Combined Ratio (Underwriting Income). Underwriting income is a measure of an insurance company’s overall operating profitability before items such as investment income, interest expense and income taxes.

Net Investment Income and Realized Gains and (Losses). We invest our statutory surplus funds and the funds supporting our insurance liabilities primarily in cash and cash equivalents, fixed maturity and equity securities. Our net investment income includes interest and dividends earned on our invested assets. We report net realized gains and losses on our investments separately from our net investment income. Net realized gains occur when we sell our investment securities for more than their costs or amortized costs, as applicable. Net realized losses occur when we sell our investment securities for less than their costs or amortized costs, as applicable, or we write down the investment securities as a result of other-than-temporary impairment. We classify equity securities and our fixed maturity securities as available-for-sale. We report net unrealized gains (losses) on those securities classified as available-for-sale separately within accumulated other comprehensive income on our balance sheet.

Return on Equity. We calculate return on equity by dividing net income by the average of shareholders' equity.

One of the key financial measures that we use to evaluate our operating performance is return on average equity. Our return on annualized average equity was 16.9% and 23.3% for the three months ended September 30, 2011 and 2010, respectively and 22.4% and 21.7% for the nine months ended September 30, 2011 and 2010, respectively. In addition, we target a net combined ratio of 95.0% or lower over the long term, while seeking to maintain optimal operating leverage in our insurance subsidiaries commensurate with our A.M. Best rating objectives. Our net combined ratio was 89.3% and 86.3% for the three months ended September 30, 2011 and 2010, respectively and 89.0% and 84.4% for the nine months ended September 30, 2011 and 2010, respectively.

Critical Accounting Policies

Our discussion and analysis of our results of operations, financial condition and liquidity are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities as of the date of the financial statements. As more information becomes known, these estimates and assumptions could change, which would have an impact on actual results that may differ materially from these estimates and judgments under different assumptions. We have not made any changes in estimates or judgments that have had a significant effect on the reported amounts as previously disclosed in our Annual Report on Form 10-K for the fiscal period ended December 31, 2010.

Life Settlement profit commission

Investments in life settlements are accounted for in accordance with ASC 325-30, Investments in Insurance Contracts, and we have elected to account for our investment in life settlements using the fair value method. We retain a third party service provider to perform certain administration functions to effectively manage these life settlement contracts and a portion of their fee is contingent on the overall profitability of the life settlement contracts. We accrue the related profit commission on life settlements at fair value, in relation to life settlements purchased prior to December 31, 2010. This profit commission is calculated based on the discounted anticipated cash flows and the provisions of the underlying contract. In addition, we accrue a best estimate in relation to profit commission due on the life settlement contracts acquired subsequent to December 31, 2010 as no contractual relationship currently exists.

Material Transactions

The following section is a summary of material transactions that occurred during the three and nine month periods ended September 30, 2011:

Majestic

We, through certain of our subsidiaries and the Insurance Commissioner of the State of California acting solely in the capacity as the statutory conservator (the “Conservator”) of Majestic Insurance Company (“Majestic”), entered into a Rehabilitation Agreement that set forth a plan for the rehabilitation of Majestic (the “Rehabilitation Plan”) by which we acquired the business of Majestic through a Renewal Rights and Asset Purchase Agreement (the “Purchase Agreement”), and a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the “Reinsurance Agreement”). In consideration, on July 1, 2011, we entered into the Purchase Agreement with the Conservator, whereby our subsidiary, AmTrust North America, Inc. (“ANA”), acquired the right to offer, quote and solicit the renewals of in-force workers’ compensation policies written by Majestic and certain assets required by Majestic to conduct its business, including intellectual property and information technology, and furniture, fixtures and equipment. In addition, ANA hired most of Majestic’s California-based employees. Additionally, one of our subsidiaries entered into the Reinsurance Agreement, which was effective June 1, 2011, and assumed all of Majestic’s liability for losses and loss adjustment expenses under workers’ compensation insurance policies of approximately $315 million on a gross basis ($167 million on a net basis), without any aggregate limit, and certain contracts related to Majestic's workers' compensation business, including leases for Majestic's California office space. In addition, we assumed 100% of the unearned premium reserve of approximately $26 million on all in-force Majestic policies. In connection with this transaction, we received from Majestic approximately $216 million related of cash and invested assets, including assignment of Majestic’s reinsurance recoverables of approximately $52 million, equal to Majestic’s loss and loss adjustment expense reserves and unearned premium reserves as of June 1, 2011, plus an additional $26 million related to a reserve deficiency. The Reinsurance Agreement also contains a profit sharing provision whereby we pay Majestic up to 3% of net earned premium related to current Majestic policies that we renew in the three year period commencing on the closing date should the loss ratio on such policies for the three year period be 65% or less. Majestic is included in our Small Commercial Business segment. As a result of this transaction, we included in our Small Commercial Business segment and consolidated results of operations approximately $13 million and $31 million in gross written premium for the three and nine months ended September 30, 2011.

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ICM Re

In June 2011, we, through our subsidiary AmTrust Holdings Luxembourg Limited (formerly AmTrust Captive Holdings Limited, "AHLL"), acquired all the issued and outstanding stock of International Crédit Mutuel Reinsurance SA ("ICM Re"), a Luxembourg domiciled captive insurance company, from Assurance du Credit Mutuel IARD SA. The purchase price of ICM Re was approximately $315 million. We recorded approximately $347 million of cash, $55.9 million of intangibles and $87.8 million of deferred tax liabilities. We classified the intangible assets as contractual use rights and will be amortized based on the actual use of the related equalization reserves. ICM Re subsequently changed its name to AmTrust Re Alpha. AHLL is included in our Specialty Risk and Extended Warranty segment. The ICM Re transaction allows us to obtain the benefit of the captive's capital and utilization of its existing and future loss reserves through a series of reinsurance arrangements with one of our subsidiaries.

Maiden Quota Share

As described in more detail in the "Reinsurance" section of our Management's Discussion and Analysis of Financial Condition and Results of Operations, we amended the Maiden Quota Share agreement effective April 1, 2011 such that we now receive a ceding commission of 30% of ceded written premiums (instead of 31%) with respect to all covered business, except retail commercial package business, for which the ceding commission remains 34.375%.

Results of Operations

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2011 and 2010 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in Thousands)	2011	2010	2011	2010
Gross written premium	$ 561,222	$ 339,084	$ 1,563,711	$ 1,085,957
Net written premium	$ 321,903	$ 182,837	$ 931,603	$ 568,644
Change in unearned premium	(33,055)	8,048	(194,135)	(33,398)
Net earned premium	288,848	190,885	737,468	535,246
Ceding commission – primarily related party	40,732	37,903	111,830	103,109
Service and fee income (related parties – three months $4,191; $3,323 and nine months $12,809; $8,871)	28,815	22,418	78,546	39,505
Net investment income	14,456	10,952	41,815	39,237
Net realized gain (loss) on investments	550	7,460	1,581	2,701
Total revenues	373,401	269,618	971,240	719,798
Loss and loss adjustment expense	185,352	120,432	484,056	331,763
Acquisition costs and other underwriting expenses	113,270	82,152	284,084	223,077
Other	24,045	20,210	62,805	35,780
Total expenses	322,667	222,794	830,945	590,620
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	50,734	46,824	140,295	129,178
Other income (expense):				
Foreign currency (loss) gain	(4,063)	(141)	(1,827)	(103)
Interest expense	(3,946)	(3,410)	(12,034)	(10,045)
Bargain purchase on Majestic transaction	2,665	—	2,665	—
Gain on investment in life settlement contracts	6,822	11,855	48,346	11,855
Total other income (expense)	1,487	8,304	37,150	1,707
Income before income taxes and equity in earnings of unconsolidated subsidiaries	52,212	55,128	177,445	130,885
Provision for income taxes				