Amtrust Financial Services, Inc.
Form 424B5
January 07, 2015
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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, nor are they soliciting offers to buy these securities, in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS SUPPLEMENT DATED JANUARY 7, 2015

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 5, 2013)

3,000,000 Shares

AmTrust Financial Services, Inc.

Common Stock

We are offering 3,000,000 shares of our common stock.

Our shares trade on the NASDAQ Global Select Market under the symbol AFSI. On January 6, 2015, the last sale price of the shares as reported on the NASDAQ Global Select Market was $53.28 per share.

Investing in our common stock involves risks. See Risk Factors on page 2 of the accompanying prospectus, as well as the risks described in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, to read about important factors you should consider before making a decision to invest in our common stock.

The underwriter has agreed to purchase 3,000,000 shares of our common stock at a price of $ per share, which will result in us receiving approximately $ of proceeds. The underwriter proposes to offer our shares of common stock from time to time for sale in one or more transactions on the NASDAQ Global Select Market, in the over-the-counter market, through negotiated transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by it and subject to its right to reject any order in whole or in part. See Underwriting.

We have granted the underwriter an option to purchase up to an additional 450,000 shares of our common stock within 30 days after the date of this prospectus supplement at the purchase price stated above, solely to cover over-allotments, if any.

Neither the Securities and Exchange Commission, any state securities commission or any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The shares are expected to be ready for delivery on or about January , 2015.

Sole Book-Running Manager

MORGAN STANLEY

The date of this prospectus supplement is January , 2015.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and in any free writing prospectus filed by us with the Securities and Exchange Commission, or the SEC, for use in connection with this offering. We have not, and the underwriter has not, authorized anyone to provide you with different or additional information and, accordingly, you should not rely on any such information if it is provided to you. We are not, and the underwriter is not, making an offer to sell, or the solicitation of an offer to buy, any of these securities in any jurisdiction where such an offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any such free writing prospectus is accurate as of any date other than the respective dates of the related documents or the incorporated documents, as the case may be.

References in this prospectus supplement and the accompanying prospectus to we, us, our, the Company or AmTr or other similar terms refer to AmTrust Financial Services, Inc. and its consolidated subsidiaries, unless we state otherwise or the context indicates otherwise. Additionally, in this prospectus supplement and the accompanying prospectus, unless otherwise stated or the context otherwise requires, references to dollars or $ are to the lawful currency of the United States.

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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. The accompanying prospectus is part of a registration statement that we filed with the SEC using a shelf registration process. Under the shelf registration process, from time to time, we may offer debt securities, common stock, preferred stock, depositary shares, warrants and units. In the accompanying prospectus, we provide you with a general description of the securities we may offer from time to time under this shelf registration statement. In this prospectus supplement, we provide you with specific information about the shares of common stock that we are selling in this offering. Both this prospectus supplement and the accompanying prospectus include, or incorporate by reference, important information about us, the securities being offered and other information you should know before making a decision to invest in our common stock. This prospectus supplement also adds to, updates and changes information contained or incorporated by reference in the accompanying prospectus. If any specific information regarding the common stock being offered by this prospectus supplement is inconsistent with the more general description of the securities in the accompanying prospectus, you should rely on the information contained in this prospectus supplement. You should read this prospectus supplement, the accompanying prospectus and any free writing prospectus we file with the SEC in connection with this offering, as well as the additional information described under Where You Can Find More Information; Incorporation by Reference in this prospectus supplement, before making a decision to invest in the common stock. In particular, you should review the information under the heading Risk Factors in the accompanying prospectus and included in our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Reports on Form 10-Q for the three months ended March 31, 2014, June 30, 2014 and September 30, 2014, each of which is incorporated by reference herein.

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SUMMARY

The information below is only a summary of more detailed information included elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all the information that you should consider before making a decision to invest in the securities in this offering. The other information is important, so please read this entire prospectus supplement and the accompanying prospectus, as well as the information incorporated by reference herein, carefully. You should pay special attention to the information under the heading Risk Factors in the accompanying prospectus and included in our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Reports on Form 10-Q for the three months ended March 31, 2014, June 30, 2014 and September 30, 2014.

OUR COMPANY

Business Overview

AmTrust Financial Services, Inc. is a Delaware corporation that was acquired by its principal shareholders in 1998 and began trading on the NASDAQ Global Select Market on November 13, 2006. We underwrite and provide property and casualty insurance in the United States and internationally to niche customer groups that we believe are generally underserved within the broader insurance market.

Our business model focuses on achieving superior returns and profit growth with the careful management of risk. We pursue these goals through geographic and product diversification, as well as an in-depth understanding of our insured exposures. Our product mix includes, primarily, workers compensation, extended warranty and other commercial property/casualty insurance products. Our workers compensation and property/casualty insurance policyholders in the United States are generally small and middle market businesses. Our extended warranty customers are manufacturers, distributors and retailers of commercial and consumer products. We have also built a strong and growing distribution of extended warranty and specialty risk products, including liability and other property/casualty products, in Europe. The majority of our products are sold through independent third-party brokers, agents, retailers or administrators. Our strategy is to target small to middle size customer markets throughout the U.S. and Europe where our proprietary technology platform enables us to efficiently manage the high volume of policies and claims that result from serving large numbers of small policyholders and warranty contract holders. The technology we have developed offers a level of service that is a competitive advantage in these high volume, lower risk markets by enhancing our ability to service, underwrite and adjudicate claims. Additionally, our ability to maintain and analyze high volumes of loss data over a long historical period allows us to better manage and forecast the underlying risk inherent in the portfolio. Since our inception in 1998, we have grown both organically and through an opportunistic acquisition strategy. We believe we approach acquisitions conservatively, and our strategy is to take relatively modest integration and balance sheet risk. Our acquisition activity has involved the purchase of companies, renewal rights to established books of insurance portfolios, access to distribution networks and the hiring of established teams of underwriters with expertise in our specialty lines.

We are committed to driving long-term shareholder value and industry-leading returns on equity by continuing to execute on our lower risk, lower volatility business model and leveraging technology to help maintain a more efficient cost structure, consistently generate solid underwriting profits and ensure strong customer service and retention rates. Additionally, we are focused on further enhancing our economies of scale by opportunistically expanding our geographic reach and product set, growing our network of agents and other distributors, developing new client relationships and executing our acquisition strategy. We are also focused on maintaining our disciplined approach to capital management while maximizing an appropriate risk-adjusted return on our growing investment portfolio. We continue to carefully monitor and maintain appropriate levels of reserves and seek to minimize our reinsurance recoverable exposure in order to maintain a strong balance sheet. We intend to expand our business and capital base to take advantage of profitable growth opportunities while

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maintaining or improving our A.M. Best ratings. Our principal operating subsidiaries are rated A (Excellent) by A.M. Best Company (A.M. Best), which is the third highest of 16 rating levels.

Competition

The insurance industry, in general, is highly competitive and there is significant competition in the commercial business insurance sector. Competition in the insurance business is based on many factors, including coverage availability, claims management, safety services, payment terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings assigned by independent rating organizations, such as A.M. Best, and reputation. Some of the insurers with which we compete have significantly greater financial, marketing and management resources than we do. In the future, we may also compete with new market entrants. Our competitors include other insurance companies, state insurance pools and self-insurance funds. We generally target niche sectors and clients where the market is not as competitive as the broader market and where we have particular expertise and provide differentiated offerings compared to our competitors.

More than one hundred insurance companies participate in the workers compensation market in the United States. The insurance companies with which we compete vary by state and by the industries we target. We believe our competitive advantages include our efficient underwriting and claims management practices and systems and our A.M. Best ratings of A (Excellent). In addition, we believe our lower processing costs allow us to competitively price our insurance products.

We believe the niche markets in the Specialty Risk and Extended Warranty sector in which we do business are less competitive than most other insurance sectors (including workers compensation insurance). We believe our Specialty Risk and Extended Warranty teams are recognized for their knowledge and expertise in the targeted markets. Nonetheless, we face significant competition, including several internationally well-known insurers that have significantly greater financial, marketing and management resources and experience than we have. We believe that our competitive advantages include our ownership of a U.S. warranty provider, which enables us to directly administer the business, the ability to provide technical assistance to non-affiliate warranty providers, experienced underwriting, resourceful claims management practices and good relations with warranty administrators in the European Union, Asia and the United States.

Our Specialty Program segment employs a niche strategy of targeting smaller businesses, which helps to differentiate our offerings from those of our competitors. Most of our competing carriers pursue larger risks. We do not compete for high exposure business and underwrite lower hazard classes of business where service and execution are the basis for attracting and retaining business as opposed to providing the lowest price. Our competitive A.M. Best ratings and financial size allow us to compete favorably for target business.

Underwriting and Claims Management Philosophy

We believe that proactive and prompt claims management is essential to reducing losses and lowering loss adjustment expenses and enables us to more effectively and accurately measure reserves. To this end, we utilize our proprietary technology and extensive database of loss history in order to appropriately price and structure policies, maintain lower levels of loss, enhance our ability to accurately predict losses, and maintain lower claims costs than the industry as a whole. We believe a strong underwriting foundation is best accomplished through careful risk selection and continuous evaluation of underwriting guidelines relative to loss experience. We are committed to a consistent and thorough review of each new underwriting opportunity and our portfolio as a whole, and, where permissible and appropriate, we customize the terms, conditions and exclusions of our coverage in order to manage risk and enhance profitability.

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Business Segments

We manage our business through three segments, Small Commercial Business, Specialty Risk and Extended Warranty and Specialty Program, which are based on the products we provide and the markets we serve.

The following table provides our gross written premium by segment for the nine months ended September 30, 2014 and 2013 and the years ended December 31, 2013, 2012 and 2011:

	Nine Months Ended September 30,		**Year Ended December 31,**		
(Amounts in Thousands)	**2014**	**2013**	**2013**	**2012**	**2011**
Small Commercial Business	$ 2,366,451	$ 1,189,088	$ 1,659,980	$ 933,740	$ 609,822
Specialty Risk and Extended Warranty	1,387,651	1,129,080	1,511,649	1,118,710	1,056,511
Specialty Program	874,215	673,612	879,455	578,735	381,541
Personal Lines Reinsurance Runoff		66,893	65,827	118,141	102,598
Total	$ 4,628,317	$ 3,058,673	$ 4,116,911	$ 2,749,326	$ 2,150,472

Additional financial information regarding our segments is presented in our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Report on Form 10-Q for the three months ended September 30, 2014, each of which is incorporated by reference herein. See Where You Can Find More Information; Incorporation by Reference in this prospectus supplement.

Distribution

We market our Small Commercial Business products and Specialty Risk and Extended Warranty products through unaffiliated third parties that typically charge us a commission. In the case of our Specialty Risk and Extended Warranty segment, in lieu of a commission, these third parties often charge an administrative fee, based on the policy amount, to the manufacturer or retailer that offers the extended warranty or accidental damage coverage plan. Accordingly, the success of our business is dependent upon our ability to motivate these third parties to sell our products and support them in their sales efforts. The Specialty Program business is distributed through a limited number of qualified general and wholesale agents who charge us a commission. We restrict our agent network to experienced, professional agents that have the requisite licensing to conduct business with us. We incentivize the sales organizations through profit sharing arrangements to assure the profitability of the business written.

Acquisitions and Strategic Investments

We have grown at an above-industry average rate through a combination of organic growth and strategic acquisitions of other companies or selected books of businesses. We have balanced our opportunistic acquisition strategy with a conservative approach to risk. We will continue to evaluate the acquisition of companies, distribution networks and renewal rights, and other alternative types of transactions as they present themselves. We seek transactions that we believe can be accretive to earnings and return on equity.

For a more detailed description of our major acquisition and strategic investment activity during 2012 and 2013, and our investment in National General Holdings Corp., see Item 1. Business Acquisitions and Strategic Investments and Item 13. Certain Relationships and Related Transactions, and Director Independence in our Annual Report on

Form 10-K for the year ended December 31, 2013, and Note 12. Acquisitions in our Quarterly Report on Form 10-Q for the three months ended September 30, 2014, each of which is incorporated by reference herein.

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Geographic Diversity

Our insurance subsidiaries domiciled in the United States are collectively licensed to provide workers compensation insurance and commercial property and casualty insurance, including service contract reimbursement coverages related to our Specialty Risk and Extended Warranty segment, in 50 states, the District of Columbia and Puerto Rico, and in the year ended December 31, 2013, we wrote commercial property and casualty in 49 states and the District of Columbia.

Through our insurance subsidiaries, we are licensed to provide specialty risk and extended warranty coverage in 50 states and the District of Columbia, and in Ireland and the United Kingdom, and pursuant to European Union law, certain other European Union member states.

Based on coverage plans written or renewed in 2013, 2012 and 2011, the European Union accounted for approximately 72%, 72% and 68%, respectively, of our Specialty Risk and Extended Warranty business and in 2013, the United Kingdom, Italy and France accounted for approximately 43%, 26% and 6%, respectively, of our European Specialty Risk and Extended Warranty business.

Reinsurance

We believe reinsurance is a valuable tool to appropriately manage the risk inherent in our insurance portfolio as well as to enable us to reduce earnings volatility and generate stronger returns. We also utilize reinsurance agreements to increase our capacity to write a greater amount of profitable business. Our insurance subsidiaries utilize reinsurance agreements to transfer portions of the underlying risk of the business we write to various affiliated and third-party reinsurance companies. Reinsurance does not discharge or diminish our obligation to pay claims covered by the insurance policies we issue; however, it does permit us to recover certain incurred losses from our reinsurers and our reinsurance recoveries reduce the maximum loss that we may incur as a result of a covered loss event.

The total amount, cost and limits relating to the reinsurance coverage we purchase may vary from year to year based upon a variety of factors, including the availability of quality reinsurance at an acceptable price and the level of risk that we choose to retain for our own account. For a more detailed description of our reinsurance arrangements, including our quota share reinsurance agreement with Maiden Insurance Company Ltd., see Reinsurance in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 13. Certain Relationships and Related Transactions, and Director Independence in our Annual Report on Form 10-K for the year ended December 31, 2013 and in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Quarterly Report on Form 10-Q for the three months ended September 30, 2014, each of which is incorporated by reference herein.

Ratings

Our principal insurance subsidiaries are each rated A (Excellent) by A.M. Best. An A rating is the third highest of the 16 categories used by A.M. Best, and is assigned to companies that have, in A.M. Best s opinion, an excellent ability to meet their ongoing obligations to policyholders. Many insurance buyers, agents and brokers use the ratings assigned by A.M. Best and other agencies to assist them in assessing the financial strength and overall quality of the companies from which they are considering purchasing insurance.

These ratings were derived from an in-depth evaluation of these subsidiaries balance sheet strengths, operating performances and business profiles. A.M. Best evaluates, among other factors, the company s capitalization, underwriting leverage, financial leverage, asset leverage, capital structure, quality and appropriateness of reinsurance, adequacy of reserves, quality and diversification of assets, liquidity, profitability, spread of risk, revenue composition, market position, management, market risk and event risk. A.M. Best ratings are intended to provide an independent opinion of an insurer s ability to meet its obligations to policyholders and are not an evaluation directed at investors.

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CORPORATE AND OTHER INFORMATION

Our principal executive offices are located at 59 Maiden Lane, 43rd Floor, New York, New York 10038, and our telephone number at that location is (212) 220-7120.

Our website address is *http://www.amtrustgroup.com.* Our internet website and the information contained therein or connected thereto are not intended to be incorporated by reference into this prospectus supplement and the accompanying prospectus.

This prospectus supplement refers to brand names, trademarks, service marks and trade names of us and other companies and organizations, and these brand names, trademarks, service marks and trade names are the property of their respective holders.

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THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of our common stock, see Description of Common Stock in the accompanying prospectus.

Issuer	AmTrust Financial Services, Inc. (AmTrust).
Securities offered	We are offering 3,000,000 shares (or 3,450,000 shares if the underwriter exercises its over-allotment option in full) of common stock, par value $0.01 per share.
Approximate Number of Shares of Common Stock to Be Outstanding Immediately After this Offering	80,739,000 shares (or 81,189,000 shares if the underwriter exercises its over-allotment option in full) of common stock.
Voting Rights	Each share of our common stock entitles its holder to one vote on all matters to be voted upon by the stockholders. See Description of Common Stock in the accompanying prospectus.
Use of Proceeds	We estimate that the net proceeds to us from the sale of the common stock issued in this offering will be approximately $ (or $ if the underwriter exercises its over-allotment option in full) after deducting our estimated offering expenses. We intend to use the net proceeds of this offering for general corporate purposes, which may include working capital, capital expenditures and/or strategic acquisitions. See Use of Proceeds in this prospectus supplement.
Transfer Agent	American Stock Transfer & Trust Company, LLC.
Risk Factors	See Risk Factors in the accompanying prospectus and in our Annual Report on Form 10-K for the year ended December 31, 2013 and our Quarterly Reports on Form 10-Q for the three months ended March 31, 2014, June 30, 2014 and September 30, 2014, each of which is incorporated by reference herein, for the risks you should consider carefully before deciding to invest in our common stock.

The number of shares of common stock to be outstanding immediately after this offering that appears above is based on the number of shares of common stock outstanding as of September 30, 2014, and excludes:

- an aggregate of approximately 2,250,887 shares of common stock issuable pursuant to outstanding employee stock options;

outstanding restricted stock units and performance share units issuable into a maximum of 1,750,133 shares of common stock; and

4,587,941 additional shares of common stock available for grant under our share based compensation plans.

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SUMMARY HISTORICAL FINANCIAL DATA

The following tables set forth our selected historical consolidated financial and operating information for the periods ended and as of the dates indicated, which is derived from our audited consolidated financial statements and the notes thereto. Our consolidated balance sheet data as of September 30, 2014 and our consolidated statements of operations data for the nine months ended September 30, 2014 and 2013 are derived from our unaudited condensed consolidated financial statements. In the opinion of our management, our unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation of the financial information. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The following information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, which appear in Part II, Items 7 and 8, respectively, of our Annual Report on Form 10-K for the year ended December 31, 2013 and Management s Discussion and Analysis of Financial Condition and Results of Operations and the condensed consolidated financial statements and related notes, which appear in Part I, Items 2 and 1, respectively, of our Quarterly Report on Form 10-Q for the three months ended September 30, 2014, each of which is incorporated by reference herein. For more details on how you can obtain our SEC reports and other information, you should read the section entitled Where You Can Find More Information; Incorporation by Reference in this prospectus supplement.

	Nine Months Ended September 30,		Year Ended December 31,				
	2014	2013	2013	2012	2011	2010	2009
	(Amounts in Thousands)						
Selected Income Statement Data[(1)]							
Gross written premium	$ 4,628,317	$ 3,058,673	$ 4,116,911	$ 2,749,326	$ 2,150,472	$ 1,560,822	$ 1,198,946
Ceded gross written premium	(1,570,170)	(1,157,774)	(1,551,238)	(1,101,289)	(873,875)	(733,596)	(555,520)
Net written premium	$ 3,058,147	$ 1,900,899	$ 2,565,673	$ 1,648,037	$ 1,276,597	$ 827,226	$ 643,426
Change in unearned premium	(439,746)	(342,471)	(299,683)	(229,185)	(239,736)	(81,567)	(69,544)
Net earned premium	$ 2,618,401	$ 1,558,428	$ 2,265,990	$ 1,418,852	$ 1,036,861	$ 745,659	$ 573,882
Service and fee income	308,083	238,596	331,559	172,174	108,660	62,067	30,690
Net investment income	95,673	64,019	84,819	68,167	55,515	50,517	55,287
	14,431	20,463	15,527	8,981	2,768	5,953	(33,579)

Net realized gain (loss) on investments							
Total revenues	$ 3,036,588	$ 1,881,506	$ 2,697,895	$ 1,668,174	$ 1,203,804	$ 864,196	$ 626,280
Loss and loss adjustment expense	1,755,155	1,046,945	1,517,361	922,675	678,333	471,481	327,771
Acquisition costs and other underwriting expenses(2)	620,181	367,417	533,162	356,005	271,367	157,711	130,348
Other(3)	278,672	223,332	291,617	177,709	117,090	56,403	22,232
Total expenses	$ 2,654,008	$ 1,637,694	$ 2,342,140	$ 1,456,389	$ 1,066,790	$ 685,595	$ 480,351
Income before other income (expense) income taxes and equity in earnings (loss) of unconsolidated subsidiaries	$ 382,580	$ 243,812	$ 355,755	$ 211,785	$ 137,014	$ 178,601	$ 145,929
Other income (expense):							
Interest expense	(35,885)	(24,089)	(34,691)	(28,508)	(16,079)	(12,902)	(16,884)
Net gain (loss) on investment in life settlement contracts	(5,180)	80	3,800	13,822	46,892	11,855	
Foreign currency (loss) gain	25,826	2,423	(6,533)	(242)	(2,418)	684	2,459
Acquisition gain on purchase(4)		48,715	48,715		5,850		
Gain on sale	6,631						
Total other (expense) income	$ (8,608)	$ 27,129	$ 11,291	$ (14,928)	$ 34,245	$ (363)	$ (14,425)

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	Nine Months Ended September 30,		Year Ended December 31,				
	2014	2013	2013	2012	2011	2010	2009
	(Amounts in Thousands)						
Income before income taxes and equity in earnings (loss) of unconsolidated subsidiaries	$ 373,972	$ 270,941	$ 367,046	$ 196,857	$ 171,259	$ 178,238	$ 131,504
Provision for income taxes	37,746	67,391	98,019	21,292	(15,023)	53,890	27,459
Income before equity in earnings (loss) of unconsolidated subsidiaries and minority interest	336,226	203,550	269,027	175,565	186,282	124,348	104,045
Equity in earnings (loss) of unconsolidated subsidiaries-related parties	26,847	10,537	11,566	9,295	4,882	23,226	(822)
Net income	363,073	214,087	280,593	184,860	191,164	147,574	103,223
Non-controlling interest	7,029	1,474	1,633	(6,873)	(20,730)	(5,109)	
Net income attributable to AmTrust Financial Services, Inc.	370,102	215,561	282,226	177,987	170,434	142,456	103,223
Dividends on preference stock							