Amtrust Financial Services, Inc.
Form 10-Q
August 09, 2013

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

FORM 10-Q

(Mark One)

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013

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

For the transition period from ___________________ to ___________________

Commission file no. 001-33143

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

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

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

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

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

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

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

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

As of August 2, 2013, the Registrant had one class of Common Stock ($.01 par value), of which 67,673,906 shares were issued and outstanding.

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

ASSETS	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $2,731,738; $1,947,644)	$2,730,830	$2,065,226
Equity securities, available-for-sale, at market value (cost $24,815; $20,943)	25,895	20,465
Short-term investments	15,209	10,282
Equity investment in unconsolidated subsidiaries – related party	87,659	96,153
Other investments	24,779	11,144
Total investments	2,884,372	2,203,270
Cash and cash equivalents	449,634	414,370
Restricted cash and cash equivalents	163,868	78,762
Accrued interest and dividends	21,185	18,536
Premiums receivable, net	1,444,848	1,251,262
Reinsurance recoverable (related party $942,360; $789,519)	1,560,286	1,318,395
Prepaid reinsurance premium (related party $657,615; $547,128)	928,613	754,844
Prepaid expenses and other assets (recorded at fair value $208,694; $193,927)	517,052	421,163
Federal income tax receivable	3,414	16,609
Deferred policy acquisition costs	410,522	349,126
Property and equipment, net	92,531	75,933
Goodwill	246,719	229,780
Intangible assets	357,294	285,187
	$9,080,338	$7,417,237
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$3,065,792	$2,426,400
Unearned premiums	2,385,190	1,773,593
Ceded reinsurance premiums payable (related party $409,990; $333,962)	524,000	528,322
Reinsurance payable on paid losses	17,207	13,410
Funds held under reinsurance treaties	32,717	33,946
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	—	56,711
Securities sold under agreements to repurchase, at contract value	205,161	234,911
Accrued expenses and other current liabilities (recorded at fair value $12,513; $11,750)	758,061	406,447
Deferred income taxes	188,483	225,484
Debt	309,150	301,973
Total liabilities	7,653,736	6,169,172
Commitments and contingencies		
Redeemable non-controlling interest	600	600
Stockholders' equity:		
Common stock, $.01 par value; 150,000 shares authorized, 91,335 and 91,216 issued in 2013 and 2012, respectively; 67,618 and 67,192 outstanding in 2013 and 2012, respectively	912	912

Preferred stock, $.01 par value; 10,000 shares authorized, 4,600 and 0 issued and outstanding in 2013 and 2012, respectively	115,000	—
Additional paid-in capital	760,474	761,105
Treasury stock at cost; 23,716 and 24,024 shares in 2013 and 2012, respectively	(289,305)	(293,791)
Accumulated other comprehensive (loss) income	(26,620)	64,231
Retained earnings	756,916	611,664
Total AmTrust Financial Services, Inc. equity	1,317,377	1,144,121
Non-controlling interest	108,625	103,344
Total stockholders' equity	1,426,002	1,247,465
	$9,080,338	$7,417,237

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Premium income:				
Net written premium	$639,997	$391,589	$1,172,103	$751,366
Change in unearned premium	(103,458)	(57,595)	(227,570)	(103,348)
Net earned premium	536,539	333,994	944,533	648,018
Ceding commission – primarily related party	67,157	44,550	131,115	90,824
Service and fee income (related parties – three months $14,414; $6,932 and six months $24,921; $13,024)	88,102	33,011	148,615	73,549
Net investment income	22,634	16,344	40,729	30,862
Net realized gain (loss) on investments	2,067	2,703	19,351	1,555
Total revenues	716,499	430,602	1,284,343	844,808
Expenses:				
Loss and loss adjustment expense	364,110	211,787	636,366	411,716
Acquisition costs and other underwriting expenses	192,559	129,713	349,379	253,738
Other	80,985	32,320	133,137	67,959
Total expenses	637,654	373,820	1,118,882	733,413
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	78,845	56,782	165,461	111,395
Other income (expense):				
Interest expense	(7,608)	(6,994)	(14,969)	(14,085)
Gain on investment in life settlement contracts net of profit commission	1,080	1,961	4	2,051
Foreign currency gain (loss)	783	(2,455)	2,055	(2,034)
Acquisition gain on purchase	31,956	—	58,023	—
Total other income (expense)	26,211	(7,488)	45,113	(14,068)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	105,056	49,294	210,574	97,327
Provision for income taxes	31,993	11,742	55,910	22,919
Income before equity in earnings of unconsolidated subsidiaries	73,063	37,552	154,664	74,408
Equity in earnings of unconsolidated subsidiary – related party	7,059	3,088	8,610	5,452
Net income	80,122	40,640	163,274	79,860
Net (income) loss attributable to non-controlling interest of subsidiaries	—	(282)	877	(416)
Net income attributable to AmTrust Financial Services, Inc.	$80,122	$40,358	$164,151	$79,444
Earnings per common share:				
Basic earnings per share	$1.19	$0.60	$2.44	$1.20
Diluted earnings per share	$1.14	$0.59	$2.34	$1.16
Dividends declared per common share	$0.14	$0.10	$0.28	$0.19

Net realized gain on investments:				
Total other-than-temporary impairment loss	$—	$(1,208)	$—	$(1,208)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	—	(1,208)	—	(1,208)
Other net realized gain (loss) on investments	2,067	3,911	19,351	2,763
Net realized investment gain	$2,067	$2,703	$19,351	$1,555

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$80,122	$40,640	$163,274	$79,860
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	166	(7,057)	(15,565)	(2,860)
Change in fair value of interest rate swap	716	(570)	936	(627)
Unrealized gains on securities:				
Unrealized holding (loss) gain arising during period	(64,197)	2,358	(79,483)	33,117
Reclassification adjustment for (losses) gains included in net income	(275)	(2,232)	3,261	(4,676)
Other comprehensive (loss) income, net of tax	$(63,590)	$(7,501)	$(90,851)	$24,954
Comprehensive income	16,532	33,139	72,423	104,814
Less: Comprehensive income (loss) attributable to non-controlling interest	—	282	(877)	416
Comprehensive income attributable to AmTrust Financial Services, Inc.	$16,532	$32,857	$73,300	$104,398

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$163,274	$79,860
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,294	17,419
Equity earnings on investment in unconsolidated subsidiaries	(8,610)	(5,452)
Gain on investment in life settlement contracts, net	(4)	(2,051)
Realized gain on marketable securities	(19,351)	(2,763)
Non-cash write-down of marketable securities	—	1,208
Discount on notes payable	1,454	1,515
Stock based compensation	4,781	2,746
Bad debt expense	9,754	2,479
Foreign currency (gain) loss	(2,055)	2,034
Acquisition gain	(58,023)	—
Dividend received from equity investment	12,203	—
Changes in assets - (increase) decrease:		
Premiums and note receivables	(121,384)	(41,556)
Reinsurance recoverable	(180,905)	(36,866)
Deferred policy acquisition costs, net	(61,396)	(54,707)
Prepaid reinsurance premiums	(173,769)	(70,009)
Prepaid expenses and other assets	(11,982)	(8,147)
Changes in liabilities - increase (decrease):		
Reinsurance premium payable	(7,752)	(13,043)
Loss and loss expense reserve	372,019	187,280
Unearned premiums	392,570	171,004
Funds held under reinsurance treaties	(1,229)	(10,062)
Accrued expenses and other current liabilities	207,122	4,122
Deferred tax liability	(49,408)	(510)
Net cash provided by operating activities	496,603	224,501
Cash flows from investing activities:		
Net (purchases) sales of securities with fixed maturities	(363,514)	(296,352)
Net (purchases) sales of equity securities	21,904	12,199
Net (purchases) sales of other investments	(3,289)	(332)
Acquisition of and capitalized premiums for life settlement contracts	(18,546)	(23,719)
Receipt of life settlement contract proceeds	6,047	10,074
Acquisition of subsidiaries, net of cash obtained	(72,867)	(3,822)
Increase in restricted cash and cash equivalents	(85,106)	(22,229)
Purchase of property and equipment	(23,355)	(14,701)
Net cash used in investing activities	(538,726)	(338,882)
Cash flows from financing activities:		
Preferred share issuance, net of fees	111,130	—
Common share issuance	472	—
Repurchase agreements, net	(29,750)	40,201
Convertible senior notes proceeds	—	25,000

Secured loan agreements payments	(777	)	(482	)

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Promissory notes payments	—	(2,500)
Financing fees	—	(750)
Capital contribution to subsidiaries	6,158	9,831
Stock option exercise and other	2,472	4,102
Dividends distributed on common stock	(9,463)	(10,824)
Net cash provided by financing activities	80,242	64,578
Effect of exchange rate changes on cash	(2,855)	716
Net increase (decrease) in cash and cash equivalents	35,264	(49,087)
Cash and cash equivalents, beginning of the period	414,370	406,847
Cash and cash equivalents, end of the period	$449,634	$357,760
Supplemental Cash Flow Information		
Income tax payments	$4,836	$7,769
Interest payments on debt	10,602	10,706

See accompanying notes to unaudited condensed consolidated financial statements.

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

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by GAAP for complete financial statements. These interim statements should be read in conjunction with the financial statements and notes thereto included in the AmTrust Financial Services, Inc. (“AmTrust” or the “Company”) Annual Report on Form 10-K for the year ended December 31, 2012, previously filed with the Securities and Exchange Commission (“SEC”) on March 1, 2013. The balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

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

A detailed description of the Company’s significant accounting policies and management judgments is located in the audited consolidated financial statements for the year ended December 31, 2012, included in the Company’s Form 10-K filed with the SEC.

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

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

2. Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2013, as compared to those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, that are of significance, or potential significance, to the Company.

In June 2013, the Financial Accounting Standards Board ("FASB") issued Exposure Draft Insurance Contracts Topic 834. The exposure draft would impact all entities that write insurance contracts. If adopted, the guidance would supersede the requirements in ASC Topic 944, Financial Services - Insurance which currently apply to insurance entities. The guidance in the exposure draft would require a property and casualty insurer to measure its insurance contracts under the premium allocation approach, which would require an entity to record revenue over the coverage period on the basis of the expected timing of incurred claims. Comments on the exposure draft are due on October 25, 2013. If adopted, entities would be required to adopt this standard retrospectively. The Company is currently studying this exposure draft and the impact on the Company's results of operations, financial position or liquidity.

In March 2013, the FASB issued Accounting Standards Update ("ASU") 2013-05, Parent’s Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a

Foreign Entity or of an Investment in a Foreign Entity to standardize the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary. ASU 2013-05 will be applied prospectively and is effective for annual reporting periods beginning after December 15, 2013, and interim periods within those years. The standard is not expected to have a material impact on the Company's results of operations, financial position or liquidity.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income ("ASU 2013-02"). ASU 2013-02 supersedes and replaces the presentation requirements for the reclassifications out of accumulated other comprehensive income. None of the other requirements of previously issued ASUs related to comprehensive income are affected by ASU 2013-02. The Company adopted ASU 2013-02 on January 1, 2013 and the implementation of the standard did not have a material impact on the Company's results of operations, financial position or liquidity.

In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosure about Offsetting Assets and Liabilities ("ASU 2013-01"). ASU 2013-01 relates to derivatives, repurchase agreements and reverse repurchase agreements, and secured borrowings and lending transactions that are either offset or subject to a master netting arrangement. The amendment provides a user of financial statements with comparable information as it relates to certain reconciling differences between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company adopted ASU 2013-02 on January 1, 2013 and the implementation of the standard did not have a material impact on the Company's results of operations, financial position or liquidity.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles - Goodwill and Other (Topic 350) Testing Indefinite Lived Intangible Assets for Impairment ("ASU 2012-02"). ASU 2012-02 updated guidance regarding the impairment test applicable to indefinite-lived intangible assets that is similar to the impairment guidance applicable to goodwill. Under the updated guidance, an entity may assess qualitative factors (such as changes in management, strategy, technology or customers) that may impact the fair value of the indefinite-lived intangible asset and lead to the determination that it is more likely than not that the fair value of the asset is less than its carrying value. If an entity determines that it is more likely than not that the fair value of the intangible asset is less than its carrying value, an impairment test must be performed. The impairment test requires an entity to calculate the estimated fair value of the indefinite-lived intangible asset. If the carrying value of the indefinite-lived intangible asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess. The Company adopted this guidance on January 1, 2013 and it did not have any effect on the Company's results of operations, financial position or liquidity.

3. Investments

(a) Available-for-Sale Securities

The amortized cost, estimated market value and gross unrealized appreciation and depreciation of available-for-sale securities as of June 30, 2013 and December 31, 2012, are presented in the table below:

(Amounts in Thousands) As of June 30, 2013	Original or amortized cost	Gross unrealized gains	Gross unrealized losses		Market value
Preferred stock	$3,303	$90	$(118	)	$3,275
Common stock	21,512	1,670	(562	)	22,620
U.S. treasury securities	91,578	2,211	(106	)	93,683
U.S. government agencies	8,594	206	(19	)	8,781
Municipal bonds	447,303	7,188	(15,272	)	439,219
Foreign government	75,486	548	(1,680	)	74,354
Corporate bonds:					
Finance	916,406	34,182	(15,199	)	935,389
Industrial	570,658	12,429	(26,071	)	557,016
Utilities	71,213	1,279	(1,738	)	70,754
Commercial mortgage backed securities	24,836	28	(296	)	24,568
Residential mortgage backed securities:					
Agency backed	511,293	10,114	(8,506	)	512,901
Non-agency backed	7,422	—	(194	)	7,228
Asset-backed securities	6,949	—	(12	)	6,937
	$2,756,553	$69,945	$(69,773	)	$2,756,725

Investments in foreign government securities include securities issued by national entities as well as instruments that are unconditionally guaranteed by such entities. As of June 30, 2013, the Company's foreign government securities were issued or guaranteed primarily by France, the European Investment Bank, Israel and the United Kingdom.

(Amounts in Thousands) As of December 31, 2012	Original or amortized cost	Gross unrealized gains	Gross unrealized losses		Market value
Preferred stock	$5,092	$112	$(20	)	$5,184
Common stock	15,851	596	(1,166	)	15,281
U.S. treasury securities	62,502	3,694	(4	)	66,192
U.S. government agencies	39,594	707	—		40,301
Municipal bonds	287,361	12,833	(752	)	299,442
Corporate bonds:					
Finance	830,101	68,190	(4,603	)	893,688
Industrial	387,980	20,914	(1,094	)	407,800
Utilities	45,320	2,611	(5	)	47,926
Commercial mortgage backed securities	10,065	135	—		10,200
Residential mortgage backed securities:					
Agency backed	276,895	16,373	(654	)	292,614
Non-agency backed	7,826	—	(763	)	7,063
	$1,968,587	$126,165	$(9,061	)	$2,085,691

A summary of the Company's available-for-sale fixed securities as of June 30, 2013 and December 31, 2012, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2013		December 31, 2012	
(Amounts in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$77,110	$77,711	$20,786	$21,945
Due after one through five years	449,566	455,158	400,865	414,016
Due after five through ten years	1,310,304	1,310,966	966,158	1,044,510
Due after ten years	344,258	335,361	265,049	274,878
Mortgage and asset backed securities	550,500	551,634	294,786	309,877
Total fixed maturities	$2,731,738	$2,730,830	$1,947,644	$2,065,226

Proceeds from the sale of investments in available-for-sale securities during the six months ended June 30, 2013 and 2012 were approximately $1,198,185 and $380,614, respectively.

(b) Investment Income

Net investment income for the three months ended June 30, 2013 and 2012 was derived from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2013	2012	2013	2012
Fixed maturity securities	$18,316	$16,059	$35,588	$29,723
Equity securities	3,887	100	4,289	498
Cash and short term investments	704	385	1,748	976
	22,907	16,544	41,625	31,197
Less:				
Investment expenses and interest expense on securities sold under agreement to repurchase	(273)	(200)	(896)	(335)
	$22,634	$16,344	$40,729	$30,862

(c) Other-Than-Temporary Impairment

The table below summarizes the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized position as of June 30, 2013 and December 31, 2012:

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) June 30, 2013	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$9,712	$(680)	101	$—	$—	—	$9,712	$(680)
U.S. treasury securities	8,261	(106)	23	—	—	—	8,261	(106)
U.S. government agencies	4,143	(19)	9	—	—	—	4,143	(19)
Municipal bonds	271,039	(15,229)	322	2,013	(43)	1	273,052	(15,272)
Foreign government	63,677	(1,675)	10	994	(5)	1	64,671	(1,680)
Corporate bonds:								
Finance	418,558	(13,805)	288	56,957	(1,394)	8	475,515	(15,199)
Industrial	475,247	(26,071)	300	—	—	—	475,247	(26,071)
Utilities	48,414	(1,738)	34	—	—	—	48,414	(1,738)
Commercial mortgage backed securities	9,999	(296)	14	—	—	—	9,999	(296)
Residential mortgage backed securities:								
Agency backed	279,975	(8,506)	143	—	—	—	279,975	(8,506)
Non-agency backed	340	(5)	7	6,887	(189)	2	7,227	(194)
Asset-backed securities	6,937	(12)	13	—	—	—	6,937	(12)
Total temporarily impaired securities	$1,596,302	$(68,142)	1,264	$66,851	$(1,631)	12	$1,663,153	$(69,773)

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) December 31, 2012	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$7,643	$(1,138)	25	$1,978	$(48)	1	$9,621	$(1,186)
U.S. treasury securities	997	(4)	1	—	—	—	997	(4)
Municipal bonds	63,577	(752)	19	—	—	—	63,577	(752)
Corporate bonds:								
Finance	52,398	(899)	20	95,992	(3,704)	13	148,390	(4,603)
Industrial	82,066	(881)	28	9,105	(213)	4	91,171	(1,094)
Utilities	5,860	(5)	3	—	—	—	5,860	(5)
Residential mortgage backed securities:								
Agency backed	24,554	(654)	2	—	—	—	24,554	(654)
Non-agency backed	—	—	—	7,062	(763)	2	7,062	(763)
Total temporarily impaired securities	$237,095	$(4,333)	98	$114,137	$(4,728)	20	$351,232	$(9,061)

There are 1,276 and 118 securities at June 30, 2013 and December 31, 2012, respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company’s determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security’s cost, the nature of the investment and management’s intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company’s cost basis.

(d) Derivatives

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

The Company records changes in valuation on its hedge positions as a component of other comprehensive income. As of June 30, 2013 and December 31, 2012, the Company had two interest rate swaps designated as hedges that were recorded as a liability in the total amount of $3,195 and $4,636, respectively, and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's interest rate swaps as of June 30, 2013:

	Remaining Life of Notional Amount [(1)]				
(Amounts in Thousands)	One Year	Two Through Five Years	Six Through Ten Years	After Ten years	Total
Interest rate swaps	$—	$70,000	$—	$—	$70,000

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

(e) Restricted Cash and Investments

The Company, in order to conduct business in certain states, is required to maintain letters of credit or assets on deposit to support state mandated regulatory requirements and certain third party agreements. The Company also utilizes trust accounts to collateralize business with its reinsurance counterparties. These assets are primarily in the form of cash and certain high grade securities. The fair values of our restricted assets as of June 30, 2013 and December 31, 2012 are as follows:

(Amounts in Thousands)	2013	2012
Restricted cash	$163,868	$78,762
Restricted investments	329,634	251,082
Total restricted cash and investments	$493,502	$329,844

(f) Other

The Company entered into repurchase agreements that are subject to a master netting arrangement, which are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities that it invests or holds in short term or fixed income securities. As of June 30, 2013, the Company had sixteen repurchase agreements with a market value of $205,161 principal amount outstanding at interest rates between .00% and .53%. The sixteen agreements are with one counter-party. Interest expense associated with these repurchase agreements for the three months ended June 30, 2013 and 2012 was $214 and $200, respectively, of which $0 was accrued as of June 30, 2013. The Company has approximately $266,399 of collateral pledged in support of these agreements. Interest expense related to repurchase agreements is recorded as a component of investment income. Additionally, during the three months ended June 30, 2013, the Company closed its reverse repurchase agreement and did not incur any gain or loss as a result of this agreement.

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4. Fair Value of Financial Instruments

The following tables present the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of June 30, 2013 and December 31, 2012:

(Amounts in Thousands) As of June 30, 2013	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$93,683	$93,683	$—	$—
U.S. government agencies	8,781	—	8,781	—
Municipal bonds	439,219	—	439,219	—
Foreign government	74,354	—	74,354	—
Corporate bonds and other bonds:				
Finance	935,389	—	935,389	—
Industrial	557,016	—	557,016	—
Utilities	70,754	—	70,754	—
Commercial mortgage backed securities	24,568	—	24,568	—
Residential mortgage backed securities:				
Agency backed	512,901	—	512,901	—
Non-agency backed	7,228	—	7,228	—
Asset-backed securities	6,937	—	6,937	—
Equity securities	25,895	25,895	—	—
Short term investments	15,209	15,209	—	—
Other investments	24,779	—	—	24,779
Life settlement contracts	208,694	—	—	208,694
	$3,005,407	$134,787	$2,637,147	$233,473
Liabilities:				
Securities sold under agreements to repurchase, at carrying value	205,161	—	205,161	—
Life settlement contract profit commission	12,513	—	—	12,513
Derivatives	3,195	—	3,195	—
	$220,869	$—	$208,356	$12,513

(Amounts in Thousands) As of December 31, 2012	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$66,192	$66,192	$—	$—
U.S. government agencies	40,301	—	40,301	—
Municipal bonds	299,442	—	299,442	—
Corporate bonds and other bonds:				
Finance	893,688	—	893,688	—
Industrial	407,800	—	407,800	—
Utilities	47,926	—	47,926	—
Commercial mortgage backed securities	10,200	—	10,200	—
Residential mortgage backed securities:				
Agency backed	292,614	—	292,614	—
Non-agency backed	7,063	—	7,063	—
Equity securities	20,465	20,465	—	—
Short term investments	10,282	10,282	—	—
Other investments	11,144	—	—	11,144
Life settlement contracts	193,927	—	—	193,927
	$2,301,044	$96,939	$1,999,034	$205,071
Liabilities:				
Equity securities sold but not yet purchased, market	$11	$11	$—	$—
Fixed maturity securities sold but not yet purchased, market	56,700	56,700	—	—
Securities sold under agreements to repurchase, at carrying value	234,911	—	234,911	—
Life settlement contract profit commission	11,750	—	—	11,750
Derivatives	4,636	—	4,636	—
	$308,008	$56,711	$239,547	$11,750

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

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

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

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

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

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

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

For additional discussion regarding techniques used to value the Company's investment portfolio, refer to Note 2. "Significant Accounting Policies" in Item 8. "Financial Statements and Supplementary Data" in its 2012 Form 10-K.

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities for the three and six months ended June 30, 2013 and 2012:

(Amounts in Thousands)	Balance as of March 31, 2013	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2013
Other investments	$16,052	$(17)	$ —	$9,770	$(1,026)	$—	$24,779
Life settlement contracts	199,824	10,889	—	—	(2,019)	—	208,694
Life settlement contract profit commission	(12,237)	(276)	—	—	—	—	(12,513)
Total	$203,639	$10,596	$ —	$9,770	$(3,045)	$—	$220,960

(Amounts in Thousands)	Balance as of December 31, 2012	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2013
Other investments	$ 11,144	$677	$ —	$14,881	$(1,923)	$—	$24,779
Life settlement contracts	193,927	20,815	—	—	(6,048)	—	208,694
Life settlement contract profit commission	(11,750)	(763)	—	—	—	—	(12,513)
Total	$ 193,321	$20,729	$ —	$14,881	$(7,971)	$—	$220,960

(Amounts in Thousands)	Balance as of March 31, 2012	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2012
Other investments	$14,865	$(403)	$ —	$677	$(36)	$—	$15,103
Life settlement contracts	142,575	7,456	—	11,135	(10,074)	—	151,092
Life settlement contract profit commission	(12,050)	585	—	—	—	—	(11,465)
Derivatives	(3,595)	—	(877)	—	—	—	(4,472)
Total	$141,795	$7,638	$ (877)	$11,812	$(10,110)	$—	$150,258

(Amounts in Thousands)	Balance as of December 31, 2011	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2012
Other investments	$14,588	$(4,352)	$ 4,535	$747	$(415)	$—	$15,103
Life settlement contracts	131,387	15,416	—	14,363	(10,074)	—	151,092
	(12,022)	557	—	—	—	—	(11,465)

Life settlement contract profit commission							
Derivatives	(3,508)	—	(964)	—	—	—	(4,472)
Total	$130,445	$11,621	$ 3,571	$15,110	$(10,489)	$—	$150,258

The Company had no transfers between levels during the three and six months ended June 30, 2013 and 2012.

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

- Equity and Fixed Income Investments: Fair value disclosures for these investments are disclosed above in this note. The carrying values of cash, short term investments and investment income accrued approximate their fair values and are classified as Level 1 in the financial hierarchy.
- Premiums Receivable: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset and are classified as Level 1 in the financial hierarchy.
- Other Investments: The Company has less than 1% percent of its investment portfolio in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy.
- Equity Investment in Unconsolidated Subsidiaries - Related Party: The Company has an approximate ownership percentage of 15.4% in National General Holding Corp., which completed a 144A offering during the three months ended June 30, 2013. The Company accounts for this investment under the equity method of accounting as it has the ability to exert significant influence. The fair value of the equity investment was approximately $129,900 as of June 30, 2013. The Company includes the estimate in the amount disclosed in Level 2 hierarchy.
- Subordinated Debentures and Debt: The current fair value of the Company's convertible senior notes and subordinated debentures was $279,800 and $69,816 as of June 30, 2013, respectively. These financial liabilities are classified as Level 3 in the financial hierarchy. The fair value of the convertible senior notes was determined using a binomial lattice model. The fair value of the subordinated debentures was determined using the Black-Derman-Toy interest rate lattice model.
- Derivatives: The Company classifies interest rate swaps as Level 2 hierarchy. The Company uses these interest rate swaps to hedge floating interest rates on its debt, thereby changing the variable rate exposure to a fixed rate exposure for interest on these obligations. The estimated fair value of the interest rate swaps, which is obtained from a third party pricing service, is measured using discounted cash flow analysis that incorporates significant observable inputs, including the LIBOR forward curve and a measurement of volatility.
- Repurchase Agreements: The carrying value of repurchase agreements in the accompanying balance sheets represents their fair values and are classified as Level 2 in the financial hierarchy.

The fair value of life settlement contracts as well as life settlement profit commission is based on information available to the Company at the end of the reporting period. The Company considers the following factors in its fair value estimates: cost at date of purchase, recent purchases and sales of similar investments, financial standing of the issuer, and changes in economic conditions affecting the issuer, maintenance cost, premiums, benefits, standard actuarially developed mortality tables and industry life expectancy reports. The fair value of a life insurance policy is estimated by applying an investment discount rate based on the cost of funding the Company's life settlement contracts as compared to returns on investments in asset classes with comparable credit quality, which the Company has determined to be 7.5%, to the expected cash flow generated by the policies in the Company's life settlement portfolio (death benefits less premium payments), net of policy specific adjustments and reserves. The Company adjusts the standard mortality for each insured for the insured's life expectancy based on reviews of the insured's medical records. The Company establishes policy specific reserves for the following uncertainties: improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to the Company, and the future expenses related to the administration of the portfolio. The application of the investment discount rate to the expected cash flow generated by the portfolio, net of the policy specific reserves, yields the fair value of the portfolio. The effective discount rate reflects the relationship between the fair value and the

expected cash flow. The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies as of June 30, 2013 and December 31, 2012 and, as described in Note 5. "Investments in Life Settlements", only includes data for policies to which the Company assigned value at those dates:

	June 30, 2013		December 31, 2012	
Average age of insured	79.3 years		78.8 years	
Average life expectancy, months [1]	135		139	
Average face amount per policy	$6,748,000		$6,770,000	
Effective discount rate	17.3	%	17.7	%

[1] Standard life expectancy as adjusted for specific circumstances.

These assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The fair value measurements used in estimating the present value calculation are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonably vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value amount. If the life expectancies were increased or decreased by 4 months and the discount factors were increased or decreased by 1% while all other variables were held constant, the carrying value of the investment in life insurance policies would increase or (decrease) by the unaudited amounts summarized below as of June 30, 2013 and December 31, 2012:

	Change in life expectancy	
(Amounts in Thousands)	Plus 4 Months	Minus 4 Months
Investment in life policies:		
June 30, 2013	$(27,995)	$30,488
December 31, 2012	$(27,160)	$29,285
	Change in discount rate	
(Amounts in Thousands)	Plus 1%	Minus 1%
Investment in life policies:		
June 30, 2013	$(17,835)	$20,168
December 31, 2012	$(17,591)	$19,926

5. Investment in Life Settlements

A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. During 2010, the Company formed Tiger Capital LLC (“Tiger”) with a subsidiary of National General Holdings Corp. ("NGHC"), which changed its name from American Capital Acquisition Corporation, or ACAC, in April 2013, for the purposes of acquiring life settlement contracts. In 2011, the Company formed AMT Capital Alpha, LLC (“AMT Alpha”) with a subsidiary of NGHC and AMT Capital Holdings, S.A. (“AMTCH”) with ACP Re, Ltd., an entity controlled by the Michael Karfunkel 2005 Grantor Retained Annuity Trust, for the purposes of acquiring additional life settlement contracts. The Company has a 50% ownership interest in each of Tiger, AMT Alpha and AMTCH (collectively, the “LSC Entities”). The LSC Entities may also acquire premium finance loans made in connection with the borrowers’ purchase of life insurance policies that are secured by the policies, which are in default at the time of purchase. The LSC Entities acquire the underlying policies through the borrowers’ voluntary surrender of the policy in satisfaction of the loan or foreclosure. A third party serves as the administrator of the Tiger life settlement contract portfolio, for which it receives an annual fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company provides certain actuarial and finance functions related to the LSC Entities. Additionally, in conjunction with the Company’s 15.4% ownership percentage of NGHC, the Company ultimately receives 57.7% of the profits and losses of the LSC Entities. As such, in accordance with ASC 810-10, Consolidation, the Company has been deemed the primary beneficiary and, therefore, consolidates the LSC Entities. On March 28, 2013, ACP Re, Ltd. sold its interest in AMTCH to NGHC.

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 based upon its estimate of the discounted cash flow related to policies (net of the reserves for

improvements in mortality, the possibility that the high net worth individuals represented in its portfolio may have access to better health care, the volatility inherent in determining the life expectancy of insureds with significant reported health impairments, the possibility that the issuer of the policy or a third party will contest the payment of the death benefit payable to the Company, and the future expenses related to the administration of the portfolio), which incorporates current life expectancy assumptions, premium payments, the credit exposure to the insurance company that issued the life settlement contracts and the rate of return that a buyer would require on the contracts as no comparable market pricing is available.

Total capital contributions of approximately $10,797 and $20,642 were made to the LSC Entities during the six months ended June 30, 2013 and 2012, respectively, for which the Company contributed approximately $5,388 and $10,321 in those same periods. The LSC Entities used the contributed capital to pay premiums. The Company's investments in life settlements and premium finance loans were approximately $208,694 and $193,927 as of June 30, 2013 and December 31, 2012, respectively, and are included in Prepaid expenses and other assets on the Consolidated Balance Sheet. The Company recorded a gain on investment in life settlement contracts net of profit commission for the three months ended June 30, 2013 and 2012 of approximately $1,080 and $1,961, respectively, and $4 and $2,051 for the six months ended June 30, 2013 and 2012 of, respectively, related to the life settlement contracts.

In addition to the 261 policies disclosed in the table below as of June 30, 2013, Tiger owned 2 premium finance loans as of the six months ended June 30, 2013, which were secured by life insurance policies and were carried at a value of $0. As of June 30, 2013, the face value amounts, of the related 261 life insurance policies and 2 premium finance loans were approximately $1,701,909 and $0, respectively. 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 policy or allow the policy 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 June 30, 2013:

(Amounts in Thousands, except number of Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value [(1)]	Face Value
0-1	—	$—	$—
1-2	6	35,177	58,000
2-3	3	8,062	15,000
3-4	3	11,691	30,000
4-5	2	3,345	10,000
Thereafter	247	150,419	1,588,909
Total	261	$208,694	$1,701,909

(1) The Company determined the fair value as of June 30, 2013 based on 176 policies out of 261 policies, as the Company assigned no value to 85 of the policies as of June 30, 2013. The Company estimated the fair value of a policy using present value calculations. If the estimate fair value is determined to be less than zero, then no value is assigned to that policy.

Premiums to be paid for each of the five succeeding fiscal years to keep the life insurance policies in force as of June 30, 2013, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts	Premiums Due on Premium Finance Loans	Total
2013	$30,318	$208	$30,526
2014	32,799	273	33,072
2015	34,487	283	34,770

2016	52,034	392	52,426
2017	31,479	265	31,744
Thereafter	522,233	3,209	525,442
Total	$703,350	$4,630	$707,980

6. Debt

The Company’s borrowings consisted of the following at June 30, 2013 and December 31, 2012:

(Amounts in Thousands)	2013	2012
Revolving credit facility	$—	$—
Subordinated debentures	123,714	123,714
Convertible senior notes	162,672	161,218
Secured loan agreements	8,264	9,041
Promissory notes	14,500	8,000
	$309,150	$301,973

Aggregate scheduled maturities of the Company’s borrowings at June 30, 2013 are:

(Amounts in Thousands)		
2013	$516	
2014	1,068	
2015	1,116	
2016	1,167	
2017	1,220	
Thereafter	304,063	(1)

(1) Amount reflected in balance sheet for convertible senior notes is net of unamortized original issue discount of $37,328.

Revolving Credit Agreement

In August 2012, the Company entered into a four-year, $200,000 credit agreement (the “Credit Agreement”), among JPMorgan Chase Bank, N.A., as Administrative Agent, KeyBank National Association and SunTrust Bank, as Co-Syndication Agents, Associated Bank, National Association and Lloyds Securities Inc., as Co-Documentation Agents and the various lending institutions party thereto. The credit facility is a revolving credit facility with a letter of credit sublimit of $100,000 and an expansion feature not to exceed $100,000. Fees associated with the Credit Agreement were approximately $989. The Credit Agreement contains certain restrictive covenants customary for facilities of this type (subject to negotiated exceptions and baskets), including restrictions on indebtedness, liens, acquisitions and investments, restricted payments and dispositions. There are also financial covenants that require the Company to maintain a minimum consolidated net worth, a maximum consolidated leverage ratio, a minimum fixed charge coverage ratio, a minimum risk-based capital and a minimum statutory surplus. The Company was in compliance with all covenants as of June 30, 2013.

As of June 30, 2013, the Company had no outstanding borrowings under this Credit Agreement. The Company had outstanding letters of credit in place under this Credit Agreement at June 30, 2013 for $49,163, which reduced the availability for letters of credit to $50,837 as of June 30, 2013, and the availability under the facility to $150,837 as of June 30, 2013.

Borrowings under the Credit Agreement bear interest at (x) the greatest of (a) the Administrative Agent’s prime rate, (b) the federal funds effective rate plus 0.5 percent or (c) the adjusted LIBO rate for a one month interest period on such day plus 1 percent, plus (y) a margin that is adjusted on the basis of the Company’s consolidated leverage ratio. Eurodollar borrowings under the Credit Agreement will bear interest at the adjusted LIBO rate for the interest period

in effect plus a margin that is adjusted on the basis of the Company's consolidated leverage ratio. The interest rate on the credit facility as of June 30, 2013 was 1.75%. The Company recorded total interest expense of approximately $616 and $508 for the three months ended June 30, 2013 and 2012, respectively, and $1,176 and $1,018 for the six months ended June 30, 2013 and 2012, respectively, under revolving credit agreements.

Fees payable by the Company under the Credit Agreement include a letter of credit participation fee (which is the margin applicable to Eurodollar borrowings and was 1.50% at June 30, 2013), a letter of credit fronting fee with respect to each letter of credit (.125%) and a commitment fee on the available commitments of the lenders (a range of .20% to .30% based on the Company's consolidated leverage ratio and was .25% at June 30, 2013).

Junior Subordinated Debt

The Company has established four special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated debentures issued by the Company. In accordance with FASB ASC 810-10-25, the Company does not consolidate such special purpose trusts, as the Company is not considered to be the primary beneficiary. The equity investment, totaling $3,714 as of June 30, 2013 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years. The Company recorded $2,049 and $2,035 of interest expense for the three months ended June 30, 2013 and 2012, respectively, and $4,048 and $4,226 of interest expense for the six months ended June 30, 2013 and 2012, related to these trust preferred securities.

The table below summarizes the Company's trust preferred securities as of June 30, 2013:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate % of Notes	
AmTrust Capital Financing Trust I	$25,000	$774	$25,774	3/17/2035	8.275	(1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710	(1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	3.573	(2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	3.273	(3)
Total trust preferred securities	$120,000	$3,714	$123,714			

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

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

Convertible Senior Notes

In December 2011, the Company issued $175,000 aggregate principal amount of its 5.5% convertible senior notes due 2021 (the “Notes”) to certain initial purchasers in a private placement. In January 2012, the Company issued an additional $25,000 of the Notes to cover the initial purchasers’ overallotment option. The Notes bear interest at a rate equal to 5.5% per year, payable semiannually in arrears on June 15th and December 15th of each year.

The Notes will mature on December 15, 2021 (the “Maturity Date”), unless earlier purchased by the Company or converted into shares of the Company’s common stock, par value $0.01 per share (the “Common Stock”). Prior to September 15, 2021, the Notes will be convertible only upon satisfaction of certain conditions, and thereafter, at any time prior to the close of business on the second scheduled trading day immediately preceding the Maturity Date. The conversion rate at June 30, 2013 is equal to 34.5759 shares of Common Stock per $1,000 principal amount of Notes, which corresponds to a conversion price of approximately $28.92 per share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the notes. Upon conversion of the Notes, the Company will, at its election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

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

The Company separately allocated the proceeds for the issuance of the Notes to a liability component and an equity component, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount ("OID"). The OID of $41,679 and deferred origination costs relating to the liability component of $4,750 will be amortized into interest expense over the term of the loan of the Notes. After considering the contractual interest payments and amortization of the original discount, the Notes effective interest rate was 8.57%. Transaction costs of $1,250 associated with the equity component were netted in paid-in-capital. Interest expense, including amortization of deferred origination costs, recognized on the Notes was $3,600 and $3,329 for the three months ended June 30, 2013 and 2012, respectively, and $7,192 and $6,873 for the six months ended June 30, 2013 and 2012, respectively.

The following table shows the amounts recorded for the Notes as of June 30, 2013 and December 31, 2012:

(Amounts in Thousands)	June 30, 2013	December 31, 2012
Liability component		
Outstanding principal	$200,000	$200,000
Unamortized OID	(37,328)	(38,782)
Liability component	162,672	161,218
Equity component, net of tax	27,092	27,092

Secured Loan Agreement

During 2011, the Company, through a wholly-owned subsidiary, entered into a seven-year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10,800 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $117 commencing on March 25, 2011 and ending on February 25, 2018, and a balloon payment of $3,240 at the maturity date. The Company recorded interest expense of approximately $97 and $109 for the three months ended June 30, 2013 and 2012, respectively, and approximately $198 and $221 of interest expense for the six months ended June 30, 2013 and 2012, respectively, related to this agreement. The loan is secured by the aircraft.

The agreement contains certain covenants that are similar to the Company's revolving credit facility. Additionally, subsequent to February 25, 2012, but prior to payment in full, if the outstanding balance of this loan exceeds 90% of the fair value of the aircraft, the Company is required to pay the lender the entire amount necessary to reduce the outstanding principal balance to be equal to or less than 90% of the fair value of the aircraft. During the three months ended June 30, 2013, the Company paid an additional $270 to reduce the outstanding principal balance as required by these terms. The agreement allows the Company, under certain conditions, to repay the entire outstanding principal balance of this loan without penalty.

Promissory Notes

In September 2012, as part of its participation in the New Market Tax Credit Program discussed in Note 13. "New Market Tax Credit", the Company entered into two promissory notes totaling $8,000. The loans are for a period of 15 years and have an average interest rate of 1.7% per annum. The Company recorded interest expense of approximately

$44 and $141 for the three and six months ended June 30, 2013 related to the notes. Additionally, the Company recorded approximately $1,430 of deferred financing fees.

In May 2013, as part of its acquisition of Mutual Insurers Holding Company ("MIHC") as discussed in Note 12. "Acquisitions", the Company assumed two promissory notes totaling $6,500 for which the principal is due in 2034 and 2035. The notes require the payment of interest on a quarterly basis and have an interest rate of 3.8% plus the three month libor per annum, which was 4.1% as of June 30, 2013. The Company recorded $23 of interest expense related to these notes for the three months ended June 30, 2013.

Other Letters of Credit

The Company, through one of its subsidiaries, has a secured letter of credit facility with Comerica Bank. The Company utilizes this letter of credit facility to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for the Company's obligations to workers' compensation and Federal Longshore and Harbor Workers' Compensation Act policyholders. The credit limit is for $75,000 and was utilized for $49,634 as of June 30, 2013. The Company is required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

The Company, through certain subsidiaries, has additional existing stand-by letters of credit with various lenders in the amount of $50,476 as of June 30, 2013.

7. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2013	2012	2013	2012
Policy acquisition expenses	$120,630	$85,857	$222,318	$171,049
Salaries and benefits	65,982	40,832	111,111	76,617
Other insurance general and administrative expenses	5,947	3,024	15,950	6,072
	$192,559	$129,713	$349,379	$253,738

8. Earnings Per Share

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

The Company paid a 10% stock dividend on September 20, 2012. As such, the weighted average number of shares used for basic and diluted earnings per share have been adjusted retroactively in the prior period. The impact on basic and diluted earnings per share was a decrease of $0.07 and $0.05, respectively, for the three months ended June 30, 2012. For the six months ended June 30, 2012, the impact on basic and diluted earnings per share was a decrease of $0.12 and $0.11, respectively.

The following table is a summary of the elements used in calculating basic and diluted earnings per share for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands, except for earnings per share)	2013	2012	2013	2012
Basic earnings per share:				
Net income attributable to AmTrust Financial Services, Inc. shareholders	$80,122	$40,358	$164,151	$79,444
Less: Net income allocated to participating securities and redeemable non-controlling interest	105	182	173	197
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$80,017	$40,176	$163,978	$79,247
Weighted average common shares outstanding – basic	67,399	66,728	67,258	66,424
Less: Weighted average participating shares outstanding	71	273	71	150
Weighted average common shares outstanding - basic	67,328	66,455	67,187	66,274
Net income per AmTrust Financial Services, Inc. common share - basic	$1.19	$0.60	$2.44	$1.20
Diluted earnings per share:				
Net income attributable to AmTrust Financial Services, Inc. shareholders	$80,122	$40,358	$164,151	$79,444
Less: Net income allocated to participating securities and redeemable non-controlling interest	105	182	173	197
Net income allocated to AmTrust Financial Services, Inc. common shareholders	$80,017	$40,176	$163,978	$79,247
Weighted average common shares outstanding – basic	67,328	66,455	67,187	66,274
Plus: Dilutive effect of stock options, convertible debt, other	2,807	2,124	2,824	2,086
Weighted average common shares outstanding – dilutive	70,135	68,579	70,011	68,360
Net income per AmTrust Financial Services, Inc. common shares – diluted	$1.14	$0.59	$2.34	$1.16

As of June 30, 2013, there were less than 20,000 anti-dilutive securities excluded from diluted earnings per share.

9. Share Based Compensation

The Company’s 2010 Omnibus Incentive Plan (the “Plan”), which permits the Company to grant to its officers, employees and non-employee directors incentive compensation directly linked to the price of the Company’s stock, authorizes up to an aggregate of 6,650,062 shares of Company stock for awards of options to purchase shares of the Company’s common stock, restricted stock, restricted stock units (“RSU”), performance shares units ("PSU") or

appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 6,650,062 shares, subject to the authority of the Company's board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company's common stock. As of June 30, 2013, approximately 5,000,000 shares of Company common stock remained available for grants under the Plan.

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

The Company paid a ten percent stock dividend on September 20, 2012. At the dividend date, all options outstanding were adjusted by ten percent and their respective exercise prices were reduced by ten percent, which ultimately resulted in each outstanding share having the same fair value immediately prior to and subsequent to the dividend date. Therefore, the Company did not record any additional compensation expense as a result of the stock dividend. The Company also adjusted outstanding RSUs, unvested restricted stock and PSUs, resulting in no additional compensation expense.

The following information and tables below for stock options, restricted stock and RSUs have been adjusted retroactively in all periods presented. The following schedule shows all options granted, exercised, and expired under the Plan for the six months ended June 30, 2013 and 2012:

	2013		2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,341,543	$10.35	4,136,466	$9.96
Granted	60,000	31.76	38,500	25.91
Exercised	(301,558)	8.00	(338,235)	8.26
Cancelled or terminated	—	—	(86,966)	12.98
Outstanding end of period	3,099,985	$11.00	3,749,765	$10.21

The weighted average grant date fair value of options granted during the six months ended June 30, 2013 and 2012 was approximately $8.94 and $8.47, respectively.

A summary of the Company's restricted stock and RSU activity for the six months ended June 30, 2013 and 2012 is shown below:

	2013		2012	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	807,357	$22.95	320,334	$16.65
Granted	219,900	33.17	579,329	25.34
Vested	(230,444)	22.05	(84,755)	16.32

Forfeited	—	—	—	—
Non-vested at end of period	796,813	$26.03	814,908	$22.86

The Company has 420,180 PSUs granted as of June 30, 2013. PSUs are conditional grants of a specified maximum number of common shares. In general, grants are earned, subject to the attainment of pre-specified performance goals at the end of the pre-determined period. The fair value of these PSUs on the date of the grants was $12,052.

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $2,673 and $1,565 for the three months ended June 30, 2013 and 2012, respectively, and $4,781 and $2,746 for the six months ended June 30, 2013 and 2012, respectively.

The intrinsic value of stock options exercised during the six months ended June 30, 2013 and 2012 was $7,485 and $6,341, respectively. The intrinsic value of stock options that were outstanding as of June 30, 2013 and 2012 was $76,580 and $73,133, respectively.

Cash received from options exercised was $2,472 and $4,102 during the six months ended June 30, 2013 and 2012, respectively. The excess tax benefit from award exercises was approximately $2,419 and $1,097, respectively, for the six months ended June 30, 2013 and 2012.

10. Income Taxes

The following table is a reconciliation of the Company's statutory income tax expense to its effective tax rate for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2013	2012	2013	2012
Income before equity in earnings of unconsolidated subsidiaries	$105,056	$49,294	$210,574	$97,327
Tax at federal statutory rate of 35%	$36,770	$17,253	$73,701	$34,064
Tax effects resulting from:				
Net income of non-includible foreign subsidiaries	(10,605)	(5,697)	(25,169)	(10,265)
Other, net	5,828	186	7,378	(880)
	$31,993	$11,742	$55,910	$22,919
Effective tax rate	30.5%	23.8%	26.6%	23.5%

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 earnings of certain of the Company's foreign subsidiaries have been indefinitely reinvested in foreign operations. Therefore, no provision has been made for any U.S. taxes or foreign withholding taxes that may be applicable upon any repatriation or disposition. The determination of any unrecognized deferred tax liability for temporary differences related to investments in certain of the Company's foreign subsidiaries is not practicable. At June 30, 2013 and December 31, 2012, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $347,000 and $296,000, respectively.

The Company's major taxing jurisdictions include the U.S. (federal and state), the United Kingdom and Ireland. The years subject to potential audit vary depending on the tax jurisdiction. Generally, the Company's statute of limitation is open for tax years ended December 31, 2009 and forward. As permitted by FASB ASC 740-10, the Company has an accounting policy to prospectively classify accrued interest and penalties related to any unrecognized tax benefits in its income tax provision. At June 30, 2013, the Company does not have any 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, 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 June 30, 2013, our principal shareholders, Michael Karfunkel, Leah Karfunkel (wife of Michael Karfunkel and sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind, own or control approximately 6.2%, 7.6%, 9.4% and 5.1%, respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden's board of directors. Maiden Insurance Company, Ltd ("Maiden Insurance"), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

Reinsurance Agreements with Maiden Holdings, Ltd.

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

On March 5, 2013, after receipt of approval from each of the Company's and Maiden's Audit Committee, the Company and Maiden executed an amendment to the Maiden Quota Share. The amendment provides that, effective January 1, 2013, AII receives a ceding commission of 31% of ceded written premiums with respect to all Covered Business other than retail commercial package business, for which the ceding commission remains 34.375%. With regards to the Specialty Program portion of Covered Business only, excluding workers' compensation business included in the Company's Specialty Program segment from July 1, 2007 through December 31, 2012, the Company will be responsible for ultimate net loss otherwise recoverable from Maiden Insurance to the extent that the loss ratio to Maiden Insurance, which shall be determined on an inception to date basis from July 1, 2007 through the date of calculation, is between 81.5% and 95%.

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

Effective April 1, 2011, the Company, through its subsidiaries AEL and AIU, entered into a reinsurance agreement with Maiden Insurance by which the Company cedes to Maiden Insurance 40% of its European medical liability business, including business in force at April 1, 2011. The quota share had an initial term of one year and was renewed through March 31, 2014. The agreement can be terminated by either party on four months' prior written notice. Maiden Insurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

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 had an initial term of one year and has been extended to August 31, 2013, 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.

Excess of Loss Reinsurance with Maiden Reinsurance Company

In 2012, the Company, through its insurance company subsidiaries, entered into an excess of loss reinsurance arrangement with Maiden Reinsurance Company applicable to select automobile liability and general liability policies

written in conjunction with a for-hire commercial automobile insurance program. This reinsurance arrangement allows the Company's insurance company subsidiaries to offer $2,000 limits, with the first $1,000 of ultimate net loss from any one policy and any one loss occurrence to be retained by the Company. Maiden Reinsurance Company would be responsible for the amount of ultimate net loss from any one policy and any one loss occurrence over $1,000, but not to exceed $2,000. There is no aggregate limit on this reinsurance arrangement. During the six months ended June 30, 2013, the Company wrote approximately $500 of gross written premium related to this arrangement.

The following is the effect on the Company's results of operations for the three months ended June 30, 2013 and 2012 related to Maiden Reinsurance agreements:

(Amounts in Thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Results of operations:				
Premium written – ceded	$(283,052)	$(196,380)	$(588,838)	$(387,281)
Change in unearned premium – ceded	31,060	26,378	109,156	50,961
Earned premium - ceded	$(251,992)	$(170,002)	$(479,682)	$(336,320)
Ceding commission on premium written	$82,511	$50,858	$172,010	$105,269
Ceding commission – deferred	(15,354)	(6,308)	(40,895)	(14,445)
Ceding commission – earned	$67,157	$44,550	$131,115	$90,824
Incurred loss and loss adjustment expense – ceded	$154,453	$125,970	$307,418	$248,780

Fronting Arrangement with Maiden Specialty Insurance Company

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. 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 has obtained surplus lines authority for two of its insurance company subsidiaries, which has significantly decreased the need for the Surplus Lines Facility. As a result of this agreement, the Company assumed approximately $429 and $300 of written premium during the six months ended June 30, 2013 and 2012, respectively. The Company recorded earned premium of approximately $198 and $679 and incurred losses of approximately $16 and $314 for the three and six months ended June 30, 2013. The Company recorded earned premium of approximately $600 and $4,000 and incurred losses of approximately $700 and $2,800 for the three and six months ended June 30, 2012.

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

In conjunction with the Maiden Quota Share, as described above, AII entered into a loan agreement with Maiden Insurance during the fourth quarter of 2007, whereby Maiden Insurance loaned to AII the amount equal to its quota share of the obligations of the AmTrust Ceding Insurers that AII was then obligated to secure. The loan agreement provides for interest at a rate of LIBOR plus 90 basis points and is payable on a quarterly basis. Advances under the loan are secured by a promissory note and totaled $167,975 as of June 30, 2013. The Company recorded $772 and $914 of interest expense during the three months ended June 30, 2013 and 2012, respectively, and $1,471 and $1,542 of interest expense during the six months ended June 30, 2013 and 2012, respectively. Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportional share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of June 30, 2013 was approximately $947,581. Maiden retains ownership of the collateral in the trust account.

Reinsurance Brokerage Agreement

Effective July 1, 2007, the Company, through a subsidiary, entered into a reinsurance brokerage agreement with Maiden. Pursuant to the brokerage agreement, the Company provides brokerage services relating to the Maiden Quota Share for a fee equal to 1.25% of reinsured premium. The Company recorded $6,783 and $2,151 of brokerage

commission (recorded as a component of service and fee income) during the three months ended June 30, 2013 and 2012, respectively, and $10,442 and $4,345 of brokerage commission during the six months ended June 30, 2013 and 2012, 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. As of June 30, 2013, the Company managed approximately $2,830,000 of assets related to this agreement. The investment management services fee is an annual rate of 0.20% for periods in which average invested assets are $1,000,000 or less and an annual rate of 0.15% for periods in which the average invested assets exceeds $1,000,000. As a result of this agreement, the Company earned approximately $1,061 and $830 of investment management fees (recorded as a component of service and fee income) for the three months ended June 30, 2013 and 2012, respectively, and $2,102 and $1,660 of investment management fees for the six months ended June 30, 2013 and 2012, 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. The Company had an unrealized gain of $307 on the senior notes as of June 30, 2013.

National General Holding Corp.

The Company has a strategic investment in National General Holding Corp. (“NGHC”), which was formally known as American Capital Acquisition Corporation, or ACAC. NGHC 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”). From the time of the acquisition in 2010 until June 2013, Michael Karfunkel, individually, and the Trust owned 100% of NGHC’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 NGHC.

Pursuant to the Amended Stock Purchase Agreement, NGHC 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 NGHC, 53,054 shares of Series A Preferred Stock, which provided an 8% cumulative dividend, was non-redeemable and was convertible, at the Company’s option, into 21.25% of the issued and outstanding common stock of NGHC (the “Preferred Stock”). The Company had pre-emptive rights with respect to any future issuances of securities by NGHC and the Company’s conversion rights were subject to customary anti-dilution protections. The Company had the right to appoint two members of NGHC’s board of directors, which consists of up to six members. Subject to certain limitations, the board of directors of NGHC could not take any action at a meeting without at least one of the Company’s appointees in attendance and NGHC could not take certain corporate actions without the approval of a majority of its board of directors (including the Company’s two appointees).

On June 5, 2013, the Company converted its 53,054 shares of Series A Preferred Stock of NGHC into 42,958 shares of NGHC common stock, par value $0.01 per share, which became 12,295,430 shares of common stock after NGHC effected a 286.22:1 stock split on June 6, 2013. In addition, on June 5, 2013, NGHC declared the Company's

cumulative dividend of approximately $12,203 on the Series A Preferred Stock payable through that date. On June 6, 2013, NGHC issued 21,850,000 shares in a 144A offering, which resulted in the Company owning 15.4% of the issued and outstanding common stock of NGHC. In accordance with ASC 323-10-15, Investments-Equity Method and Joint Ventures, the Company continues to account for its investment in NGHC under the equity method as it has the ability to exert significant influence on NGHC's operations. The Company recorded a gain on the sale of its investment of $8,644 as a result of the stock issuance, which is included in equity in earnings of unconsolidated subsidiary.

In total, the Company recorded $7,059 and $3,088 of income during the three months ended June 30, 2013 and 2012, respectively, and $8,610 and $5,452 of income during the six months ended June 30, 2013 and 2012, respectively, related to its equity investment in NGHC.

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Personal Lines Quota Share

The Company reinsures 10% of the net premiums of the GMACI Business, pursuant to a 50% quota share reinsurance agreement (“Personal Lines Quota Share”) among Integon National Insurance Company, lead insurance company on behalf of 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, as amended on October 1, 2012, provides that the reinsurers pay a provisional ceding commission equal to 32.0% 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 60.0% or less and a minimum of 30.0% 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 the Company to $146,410 during calendar year 2013 to the extent the Company was to determine, in good faith, that it could not assume additional premium. The premium cap increases by 10% per annum. As a result of this agreement, the Company assumed $28,975 and $28,823 of business from the GMACI Insurers during the three months ended June 30, 2013 and 2012, respectively, and $59,627 and $59,432 of business from the GMACI Insurers during the six months ended June 30, 2013 and 2012, respectively.

Accident and Health Portfolio Transfer and Quota Share

Effective January 1, 2013, the Company, through one of its subsidiaries, entered into a Portfolio Transfer and Quota Share Agreement (the “A&H Quota Share”) with National Health Insurance Company (“NHIC”), a subsidiary of NGHC, related to the assumption by NHIC of the Company's book of A&H business. Pursuant to the A&H Quota Share, NHIC assumed 100% of the Company's loss and unearned premium reserves related to the book of A&H business, which total approximately $2,544. For the existing book of business, NHIC paid the Company a ceding commission equal to the Company's acquisition costs and reinsurance costs of $474. In addition, the Company agreed to continue to issue policies with respect to certain programs assumed by NHIC and certain new A&H programs for such new policies, for which the Company will cede 100% of the premiums related to such policies subject to a ceding commission of five percent plus its acquisition costs and reinsurance costs. The Company recorded approximately $115 and $210 of ceding commission for the three and six months ended June 30, 2013, related to the A&H Quota Share.

Master Services Agreement

The Company provides NGHC and its affiliates information technology development services in connection with the development and licensing of a policy management system at a cost which is currently 1.25% of gross written premium of NGHC and its affiliates plus the Company’s costs for development and support services. In addition, the Company provides NGHC and its affiliates printing and mailing services at a per piece cost for policy and policy related materials, such as invoices, quotes, notices and endorsements, associated with the policies the Company processes for NGHC and its affiliates on the policy management system. The Company recorded approximately $5,996 and $3,577 of fee income for the three months ended June 30, 2013 and 2012, respectively, and $11,372 and $6,039 of fee income for the six months ended June 30, 2013 and 2012, respectively, related to this agreement.

Asset Management Agreement

The Company manages the assets of NGHC 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. The Company managed approximately $856,000 of assets as of June 30, 2013 related to this agreement. As a result of this agreement, the Company earned approximately $490 and $373 of investment management fees for the three months ended June 30, 2013 and 2012, respectively, and $853 and $746 of investment management fees for the six months ended June 30, 2013 and 2012, respectively.

As a result of the above service agreements with NGHC, the Company recorded fees totaling approximately $6,486 and $3,950 for the three months ended June 30, 2013 and 2012, respectively, and $12,225 and $6,785 for the six months ended June 30, 2013 and 2012, respectively. As of June 30, 2013, the outstanding balance payable by NGHC related to these service fees and reimbursable costs was approximately $10,011.

800 Superior

In August 2011, the Company formed 800 Superior, LLC with a subsidiary of NGHC for the purposes of acquiring an office building in Cleveland, Ohio. The Company and NGHC each have a fifty percent ownership interest in 800 Superior, LLC. The cost of the building was approximately $7,500. The Company has been appointed managing member of the LLC. Additionally, in conjunction with the Company’s 15.4% ownership percentage of NGHC, the Company ultimately receives 57.7% of the profits and losses of the LLC. As such, in accordance with ASC 810-10, Consolidation, the Company has been deemed the primary beneficiary and, therefore, consolidates this entity.

Additionally in 2012, NGHC entered into an office lease with 800 Superior, LLC for approximately 134,000 square feet. The lease period is for fifteen years and NGHC paid 800 Superior, LLC $1,071 and $345 for the six months ended June 30, 2013 and 2012. As discussed in Note 13. "New Market Tax Credit," 800 Superior, LLC, the Company and NGHC participated in a financing transaction related to capital improvements on the office building. As part of that transaction, NGHC and the Company entered into an agreement related to the payment and performance guaranties provided by the Company to the various parties to the financing transaction whereby NGHC has agreed to contribute 50% toward any payments the Company is required to make pursuant to the guaranties.

Lease Agreements

The Company has an office lease for its office space at 59 Maiden Lane in New York, New York from 59 Maiden Lane Associates, LLC, an entity that is wholly-owned by Michael Karfunkel and George Karfunkel. The Company currently leases 39,992 square feet of office space and the lease term is through May 2023. The Company paid approximately $163 and $181 for the leased office space for the three months ended June 30, 2013 and 2012, respectively, and $364 and $363 for the six months ended June 30, 2013 and 2012, respectively.

In November 2012, the Company entered into an agreement for its office space in Chicago, Illinois. The lease is with 135 LaSalle Property, LLC, an entity that is wholly-owned by entities controlled by Michael Karfunkel and George Karfunkel. The lease term is through November 30, 2022. The aforementioned lease replaced an existing lease with another entity wholly-owned by the Karfunkels. The Company paid approximately $109 and $67 for these leases for the three months ended June 30, 2013 and 2012, respectively, and $253 and $134 for the six months ended June 30, 2013 and 2012, respectively.

Asset Management Agreement with ACP Re, Ltd.

The Company provides investment management services to ACP Re, Ltd. at (i) an annual rate of 0.20% of the average value of ACP Re, Ltd.’s invested assets, excluding investment in AmTrust stock, for the preceding calendar quarter if the average value of such assets for the quarter was $1,000,000 or less, or (ii) an annual rate of 0.15% of the average value of ACP Re, Ltd.’s invested assets, excluding investment in AmTrust stock, for the preceding calendar quarter if the average value of such assets for the quarter was greater than $1,000,000. During the three months ended March 31, 2012, the Company also provided accounting and administrative services to ACP Re, Ltd. for a monthly fee of $10. The Company managed approximately $109,000 of assets as of June 30, 2013. The Company recorded approximately $58 and $0 for these services for the three months ended June 30, 2013 and 2012, respectively, and $110 and $233 for the six months ended June 30, 2013 and 2012, respectively.

Use of the Company Aircraft

The Company’s wholly-owned subsidiary, AmTrust Underwriters, Inc. (“AUI”), is a party to an aircraft time share agreement with each of Maiden and NGHC. The agreements provide for payment to AUI for usage of its

company-owned aircraft and covers actual expenses incurred and permissible under federal aviation regulations, including travel and lodging expenses of the crew, in-flight catering, flight planning and weather contract services, ground transportation, fuel, landing and hanger fees, airport taxes, among others. AUI does not charge Maiden or NGHC for the fixed costs that would be incurred in any event to operate the aircraft (for example, aircraft purchase costs, insurance and flight crew salaries). During the three and six months ended June 30, 2013, and 2012, Maiden paid AUI $32 and NGHC paid AUI $109 for the use of AUI's aircraft under these agreements. In addition, during the three and six months ended June 30, 2012, Maiden paid AUI $1 and $20, respectively, and NGHC paid AUI $29 and $96, 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 and Michael Karfunkel, the Chairman of the Board, each 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 their personal use of AUI's aircraft. Mr. Zyskind reimbursed the Company $57 for his personal use of AUI's aircraft during the three and six months ended June 30, 2013, respectively, and reimbursed the Company $36 and $89 for his personal use during the three and six months ended June 30, 2012, respectively.

12. Acquisitions

Mutual Insurers Holding Company

On May 13, 2013, the Company completed the acquisition of Mutual Insurers Holding Company ("MIHC") and its subsidiaries. MIHC's primary operating subsidiary, First Nonprofit Insurance Company ("FNIC"), is the third largest provider of property and casualty insurance products to nonprofit organizations in the U.S. In 2012, FNIC wrote approximately $70,000 of premium in 27 states. Immediately prior to the acquisition, MIHC converted from a mutual form to a stock form of ownership in a transaction "sponsored" by the Company. As required by the plan of conversion and applicable Delaware law, the Company offered shares of its common stock, at a discount to the market price, to the members of MIHC who held policies as of December 31, 2012 and the directors, officers and employees of MIHC and its subsidiaries. The Company received subscriptions for approximately $472, resulting in the issuance by the Company of 18.052 shares of its common stock at a discounted price of 20% from the Company's market trading price, or approximately $118. Pursuant to the stock purchase agreement, after the expiration of the offering, the Company purchased all of the authorized shares of capital stock of MIHC at a purchase price equal to the greater of the gross proceeds received by the Company in the offering, and $8,000. The Company made a payment to MIHC of $48,500 for the stock of FNIC, which included the $472 in proceeds the Company received in the offering. Additionally, the Company as part of the transaction, was required to make a contribution to First Nonprofit Foundation, a tax exempt corporation principally funded by FNIC's predecessor and managed for the benefit of nonprofit organizations, in the amount of $7,882, which represented $8,000, as discussed above, less the discount of approximately $118 on the shares issued by the Company in the transaction. The remaining $40,618 of cash contributed to MIHC was retained by the Company. Additionally, the Company assumed $6,500 of debt in the transaction. In accordance with FASB ASC 805-10 Business Combinations, the Company recorded an acquisition price of approximately $14,500.
A summary of the preliminary assets acquired and liabilities assumed for MIHC are as follows:

(Amounts in Thousands)	
Assets	
Cash and investments	$134,780
Premium receivables	23,085
Other assets	42,151
Deferred tax asset	5,358
Property and equipment	2,684
Intangible assets	6,132
Total assets	$214,190
Liabilities	
Loss and loss expense reserves	$89,267
Unearned premium	27,760
Accrued liabilities	19,830
Deferred tax liability	2,146
Notes payable	6,500

Total liabilities	$145,503
Cash paid	$48,500
Acquisition gain	$20,187

The intangible assets consisted of state licenses and have an indefinite life. The intangible assets, as well as FNIC's results of operations, are included as a component of the Small Commercial Business segment.

In accordance with FASB ASC 944-805 Business Combinations, the Company adjusted to fair value FNIC's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout pattern using a current risk free rate. This risk free interest rate was then 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 and was approximately $4,531.

As a result of this transaction, the Company recorded approximately $280 of fee income during the three months ended June 30, 2013. Additionally, the Company recorded approximately $2,238 of written premium for the three months ended June 30, 2013 related to FNIC. The Company anticipates completing its acquisition accounting by the end of the third quarter of 2013.

CPPNA Holdings, Inc.

On May 3, 2013, the Company, through its wholly-owned subsidiary AMT Warranty Corp., completed the acquisition of CPPNA Holdings, Inc. (“CPPNA”) from CPP Group LLC, a company based in the United Kingdom, for approximately $40,000. CPPNA provides administrative services for consumer protection products in the United States, including identity theft protection and warranties related to credit card purchases, to customers of CPPNA's financial services partners. In accordance with FASB ASC 805-10 Business Combinations, the Company recorded a purchase price of approximately $40,000, which consisted primarily of goodwill and intangible assets of approximately $17,327 and $34,700, respectively, and a deferred tax liability of $12,145. The intangible asset consists of customer relationships and has a life of 12 years. The goodwill and intangibles, as well as CPPNA's results of operations, are included as a component of the Specialty Risk and Extended Warranty segment.

As a result of this transaction, the Company recorded approximately $11,367 of fee income during the three months ended June 30, 2013. The Company anticipates completing its acquisition accounting by the end of the third quarter of 2013.

Sequoia Insurance Company

On April 19, 2013, the Company completed the acquisition of all the issued and outstanding shares of common stock of Sequoia Insurance Company and its subsidiaries, Sequoia Indemnity Company and Personal Express Insurance Company (“Sequoia”) for approximately $60,000. Sequoia offers low hazard, property/casualty insurance products, including workers' compensation and commercial package insurance, to small businesses in several western states, with California representing Sequoia's largest market.

A summary of the preliminary assets acquired and liabilities assumed for Sequoia are as follows:
(Amounts in Thousands)

Assets	
Cash and investments	$215,473
Premium receivables	32,870
Reinsurance recoverables	43,793
Other assets	4,014
Deferred tax asset	7,780
Property and equipment	1,022
Intangible assets	11,848
Total assets	$316,800
Liabilities	
Loss and loss expense reserves	165,487
Unearned premium	59,773
Accrued liabilities	15,624
Deferred tax liability	4,147
Total liabilities	$245,031
Purchase price	60,000
Acquisition gain	$11,769

The intangible assets consists primarily of licenses and trademarks and have an indefinite life. The intangible assets, as well as Sequoia's results of operations, are included as a component of the Small Commercial Business segment.

In accordance with FASB ASC 944-805 Business Combinations, the Company adjusted to fair value Sequoia's loss and LAE reserves by taking the acquired loss reserves recorded and discounting them based on expected reserve payout pattern using a current risk free rate. This risk free interest rate was then 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 and was approximately $7,448.

As a result of this transaction, the Company recorded approximately $21,457 of written premium for the three months ended June 30, 2013 related to Sequoia. The Company anticipates completing its acquisition accounting by the end of the third quarter of 2013.

Car Care

On February 28, 2013, the Company, through its wholly-owned subsidiary IGI Group Limited, acquired all of the issued and outstanding shares of capital stock of Car Care Plan (Holdings) Limited ("CCPH") from Ally Insurance Holdings, Inc. CCPH is an administrator, insurer and provider of auto extended warranty, guaranteed asset protection (GAP), Wholesale Floorplan Insurance and other complementary insurance products. CCPH underwrites its products and the products of third-party administrators through its subsidiary Motors Insurance Company Limited, a UK insurer authorized by the Financial Services Authority. CCPH has approximately 350 employees and is headquartered in Thornbury, West Yorkshire in England with operations in the United Kingdom, Europe, China, North America and Latin America. The Company paid $70,420 for the purchase of CCPH. In connection with the closing of the transaction, the parties (or their affiliates) have agreed to enter into certain other agreements, including a transition services agreement, pursuant to which the Seller will provide certain transitional services to IGI Group Limited and the Company, and two reinsurance agreements, pursuant to which affiliates of the Seller will reinsure certain insurance contracts of such affiliates with affiliates of IGI Group Limited. The Company initially recorded approximately $39,986 of goodwill and intangible assets, which related to dealer relationships, trademarks and non-compete agreements. During the three months ended June 30, 2013, the Company adjusted certain assumed assets and liabilities as of the acquisition date. As a result, the Company recognized a retrospective gain on the acquisition of approximately $26,067. The primary adjustments related to the reduction of an assumed liability for a pension plan of approximately $34,000 and the write-down of goodwill of approximately $7,739.

As a result of this transaction, the Company recorded approximately $12,595 of fee income during the six months ended June 30, 2013. Additionally, the Company recorded approximately $37,620 of written premium for the six months ended June 30, 2013 related to Car Care. The Company anticipates completing its acquisition accounting by the end of the third quarter of 2013.

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

(Amounts in Thousands)	
Assets	
Cash and investments	$253,257
Premium receivables	26,001
Reinsurance recoverables	12,186
Other assets	2,979
Property and equipment	589
Intangible assets	34,337
Total assets	$329,349
Liabilities	
Loss and loss expense reserves	$12,619
Unearned premium	131,494
Deferred tax liability	6,215
Accrued liabilities	82,534
Total liabilities	$232,862
Purchase price	70,420
Acquisition gain	$26,067

Additionally, certain employees, former employees and retirees of CCPH participate in a defined benefit pension plan. The plan was frozen and curtailed in 2007. The impact of the plan on the Company's results of operations was immaterial for the three and six months ended June 30, 2013.

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First Nonprofit Companies, Inc.

On December 31, 2012, the Company completed the acquisition of First Nonprofit Companies, Inc. ("FNC") for approximately $55,000. FNC serves approximately 1,500 nonprofit and government entities covering approximately $5,000,000 of annual payroll. FNC offers unique services as well as insurance programs that are designed to allow nonprofit and government entities to economically manage their unemployment tax obligations. In accordance with FASB ASC 805-10 Business Combinations, the Company recorded a purchase price of approximately $55,000, which consisted primarily of goodwill and intangible assets of $28,210 and $40,500, respectively. The intangible assets consist of customer relationships and have a life of 18 years. The goodwill and intangibles are included as a component of the Small Commercial Business segment. As a result of this transaction, the Company recorded approximately $5,320 and $10,775 of fee income for the three and six months ended June 30, 2013.

CNH Capital’s Insurance Agencies

In July 2012, the Company completed the acquisition of CNH Capital Insurance Agency Inc. and CNH Capital Canada Insurance Agency, Ltd., collectively known as “CNH Capital Insurance Agencies,” from CNH Capital, the financial services business of CNH Global N.V., for approximately $34,000. The acquisition allows the Company to enhance and expand CNH Capital Insurance Agencies' offering of equipment extended service contracts and other insurance products to Case IH, Case Construction, New Holland Agriculture and New Holland Construction equipment dealers in the United States and Canada. Additionally, the Company entered into service and license agreements with CNH Capital whereby the Company will make future payments based on gross revenues of the CNH Capital Insurance Agencies. In accordance with FASB ASC 805-10, Business Combinations, the Company recorded a purchase price of $34,000, which consisted primarily of goodwill and intangible assets of approximately $21,340 and $19,400, respectively. The intangible assets consist of renewal rights and licenses and have asset lives of between 5 and 10 years. The goodwill and intangibles are included as a component of the Specialty Risk and Extended Warranty segment. As a result of this transaction, the Company recorded approximately $8,987 and $14,309 of fee income during the three and six months ended June 30, 2013. Additionally, the Company recorded approximately $6,022 and $26,513 of written premium for the three and six months ended June 30, 2013 related to the CNH Capital Insurance Agencies.

13. New Market Tax Credit

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

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

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

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

The Company has determined that the Investment Funds are variable interest entities ("VIEs"). The ongoing activities of the Investment Funds - collecting and remitting interest and fees and NMTC compliance - were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Investment Funds. When determining whether to consolidate the Investment Funds, Company management considered the contractual arrangements that obligate it to deliver tax benefits and provide various other guarantees to the structure, KCDC's lack of a material interest in the underling economics of the project, and the fact that the Company is obligated to absorb losses of the Investment Funds. Also, the Company has a 15.4% ownership in NGHC. The Company concluded that it was the primary beneficiary and consolidated the Investment Funds, as VIEs, in accordance with the accounting standard for consolidation. KCDC's contribution, net of syndication fees, is included as accrued liability in the accompanying condensed consolidated balance sheets. Direct costs incurred in structuring the financing arrangement are deferred and will be recognized as expense over the term of the loans. Incremental costs to maintain the structure during the compliance period are recognized as incurred.

14. Stockholder Equity and Accumulated Other Comprehensive Income

The following tables summarize accumulated other comprehensive income for the six months ended June 30, 2013 and 2012:

(Amounts in Thousands)	Foreign Currency Items	Unrealized Gains (Losses) on Investments	Interest Rate Swap Hedge	Accumulated Other Comprehensive Income
Balance, December 31, 2011	$(17,091)	$9,372	$(2,280)	$(9,999)
Other comprehensive income before reclassifications	(2,860)	33,117	(627)	29,630
Amounts reclassed from accumulated other comprehensive income	—	(4,676)	—	(4,676)
Net current-period other comprehensive income	(2,860)	28,441	(627)	24,954
Balance, June 30, 2012	$(19,951)	$37,813	$(2,907)	$14,955
Balance, December 31, 2012	$(10,361)	$77,605	$(3,013)	$64,231
Other comprehensive income before reclassifications	(15,565)	(79,483)	936	(94,112)
Amounts reclassed from accumulated other comprehensive income	—	3,261	—	3,261

Net current-period other comprehensive (loss) income	(15,565)	(76,222)	936	(90,851)
Balance, June 30, 2013	$(25,926)	$1,383	$(2,077)	$(26,620)

During the six months ended June 30, 2013 and 2012 amounts reclassed from accumulated other comprehensive income into net income were included in realized gain on investments.

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The following table summarizes the ownership components of total stockholders' equity for the six months ended June 30, 2013 and 2012:

	2013			2012		
(Amounts in Thousands)	AmTrust	Non-Controlling Interest	Total	AmTrust	Non-Controlling Interest	Total
Beginning Balance	$1,144,121	$ 103,344	$1,247,465	$890,563	$ 69,098	$959,661
Net income (loss)	164,151	(877)	163,274	79,444	416	79,860
Unrealized holding (loss) gain	(79,483)	—	(79,483)	33,117	—	33,117
Reclassification adjustment	3,261	—	3,261	(4,676)	—	(4,676)
Foreign currency translation	(15,565)	—	(15,565)	(2,860)	—	(2,860)
Unrealized gain (loss) on interest rate swap	936	—	936	(627)	—	(627)
Share exercises, compensation and other	7,253	—	7,253	5,834	—	5,834
Dividends	(18,899)	—	(18,899)	(11,512)	—	(11,512)
Preferred share issuance, net of fees	111,130	—	111,130	—	—	—
Common share issuance	472	—	472	—	—	—
Capital contribution	—	6,158	6,158	—	9,831	9,831
Equity component of convertible senior notes, net of income tax and issue costs	—	—	—	3,306	—	3,306
Acquisition of non-controlling interest	—	—	—	6,900	(6,900)	—
Ending Balance	$1,317,377	$ 108,625	$1,426,002	$999,489	$ 72,445	$1,071,934

On June 10, 2013, the Company issued 4,600,000 shares of 6.75% Non-Cumulative Preferred Stock. Dividends on the Series A Preferred Stock when, as and if declared by the Company's Board of Directors or a duly authorized committee of the Board will accrue and be payable on the liquidation preference amount, on a non-cumulative basis, quarterly in arrears on the 15th day of March, June, September and December of each year (each, a "dividend payment date"), commencing on September 15, 2013, at an annual rate of 6.75%.

Dividends on the Series A Preferred Stock are not cumulative. Accordingly, in the event dividends are not declared on the Series A Preferred Stock for payment on any dividend payment date, then those dividends will not accumulate and will not be payable. If the Company has not declared a dividend before the dividend payment date for any dividend period, the Company will have no obligation to pay dividends for that dividend period, whether or not dividends on the Series A Preferred Stock are declared for any future dividend payment.

On May 10, 2013, the Company issued 18.052 shares of common stock at a price of $26.17 per share in connection with the purchase of MIHC as described more fully in Note 12. "Acquisitions".

15. Contingent Liabilities

Litigation

The Company’s insurance subsidiaries are named as defendants in various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company’s management believes the resolution of those actions will not have a material adverse effect on the Company’s financial position or results of operations.

16. Segments

The Company currently operates 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 gross written premium by segment. In determining cash and invested assets by segment, the Company matches certain identifiable liabilities such as unearned premium and loss and loss adjustment expense reserves by segment. The remaining cash and invested assets are then allocated based on gross written premium by segment. Investment income and realized gains (losses) are determined by calculating an overall annual return on cash and invested assets and applying that overall return to the cash and invested assets by segment. 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 gross written premium by segment. Income taxes are allocated on a pro-rata basis based on the Company’s effective tax rate. Additionally, management reviews the performance of underwriting income in assessing the performance of and making decisions regarding the allocation of resources to the segments. Underwriting income excludes, primarily, service and fee revenue, investment income and other revenues, other expenses, interest expense and income taxes. Management believes that providing this information in this manner is essential to providing Company’s shareholders with an understanding of the Company’s business and operating performance.

During the six months ended June 30, 2013, the Company's Specialty Risk and Extended Warranty segment derived over ten percent of its total revenue from two brokers or customers. During the six months ended June 30, 2013, the Company's Specialty Program segment derived over ten percent of its revenue from one broker.

The following tables summarize the results of operations of the business segments for the three and six months ended June 30, 2013 and 2012:

(Amounts in Thousands)	Small Commercial Business	Specialty Risk and Extended Warranty	Specialty Program	Personal Lines Reinsurance	Corporate and Other	Total
Three months ended June 30, 2013:						
Gross written premium	$ 389,911	$ 447,885	$173,843	$ 28,975	$—	$1,040,614